

2016 Macroeconomic Situation and 2017 Outlook

All multilateral development organizations view 2016 as a year of economic slowdown around the globe that was caused by trade stagnation, diminished investment, and political uncertainties. Moderate recovery is expected for 2017 with fewer obstacles to the business of exporters of basic products and to the domestic demand by importers of those goods.

BRIEF OVERVIEW OF THE GLOBAL AND REGIONAL MACROECONOMIC SITUATION

The forecasts of the International Monetary Fund (IMF)¹ indicate that the global economy's growth was 3.1% in 2016 and that there will be a modest improvement in 2017 to 3.4%, primarily driven by the dynamism of emerging markets. Advanced economies grew by 1.6% in 2016 and will inch up to 1.9% in 2017, in light of the uncertain effects of Great Britain's exit from the European Union (Brexit) and hampered growth in the United States.

The IMF predicts that emerging economies will have a brighter outlook, with growth at 4.1% in 2016 and a projected increase to 4.5% in 2017. This is the result of reduced interest rates in advanced economies, except in the United States, which raised the short-term interest rate in December 2016. It is also a sign of relief given China's growth forecast and the weak entrenchment of the price of raw materials. In the Latin America and Caribbean region, economic activity fell to -0.7% in 2016 as a consequence of the recession experienced in various countries, but their economies are expected to recover in 2017 with growth projected at 1.2%. The forecasts for Ecuador call for a downward turn in the medium term, as explained further below.

In its forecasts, the IMF points to the following risks: **a)** political discord and inward-looking policies (Brexit and outcome of the U.S. elections) have highlighted a fraying consensus about the benefits of cross-border economic integration and that would impact on global trade flows; **b)** the risk of stagnation in advanced economies; **c)** the adjustments underway in China for redirecting its economy towards consumption and

¹ IMF, *World Economic Outlook: Subdued Demand Symptoms and Remedies*, October 2016 and *World Economic Outlook UPDATE, Covers Key Projections*, January 16, 2017.

services, and **d)** the persisting vulnerabilities in certain economies of large emerging markets.

Finally, the IMF warned about "the demographic and labor-market trends, experienced in advanced economies and some emerging economies, but also an ill-understood protracted slowdown in productivity, which is hampering income growth and contributing to political discontent." The IMF's latest document on this subject states that global activity could accelerate if the stimulus policy produces greater effects in the United States or China. Notable negative risks to activity include a possible shift toward inward-looking policy platforms and protectionism, a sharper tightening in global financial conditions, increased geopolitical tensions, and a more severe slowdown in China.

On the other hand, the analyses by the World Bank (WB)² determined that global economic growth in 2016 was 2.3% and forecasts that it will 2.7% in 2017. The analyses state that, "Although fiscal stimulus in major economies, if implemented, may boost global growth above expectations, risks to growth forecasts remain tilted to the downside because of the heightened policy uncertainty in major economies."

WB's predictions for growth in advanced economies coincide with those of the IMF. For emerging markets and developing economies, the WB predicted growth at 3.4% in 2016 and 4.2% for 2017, with a moderate increase in the price of basic products. For Latin America and the Caribbean, growth was -1.4% in 2016 and is expected to jump up to 1.2% in 2017. These forecasts do not share the same magnitude as the IMF predictions. In particular, the WB underlines that, in South America, with the bulk of its countries exporting basic goods, the GDP shrunk by 2.8% in 2016. The 2017 forecasts by country indicate that the economies of our neighbors—Peru and Colombia—will climb by 4.2% and 2.5%, respectively, and Bolivia 3.5%, while Ecuador will experience a decline to -2.9%.

The results of the studies by the Economic Commission for Latin America and the Caribbean (ECLAC)³ show that the global economy's growth in 2016 was 2.2% and will reach 2.7% in 2017. Developed economies will pick up from 1.5% to 1.7%, and emerging markets and developing economies from 3.6% to 4.4%. The GDP for the

² World Bank Group, *Global Economic Prospects: Weak Investment in Uncertain Times*, January 2017.

³ ECLAC, *Preliminary Overview of the Economies of Latin America and the Caribbean*, December 2016.

Latin America and the Caribbean (LAC) region contracted to -1.1% in 2016, while the GDP of the South American subregion dropped to -2.4%. These results are the consequence of the end of the "super cycle" of raw materials that hampered the revenue from exportations and reduced fiscal revenue, accompanied by a negative cycle in the dynamics of investment and a slower pace in consumption.

The 2017 forecast for growth in LAC is 1.3% and in South America 0.9%. They are expected to benefit from heightened external demand and recovery in intraregional trade; nonetheless, the uncertainties in the international arena will produce differentiated effects in the region's countries that will add to widening subregional differences, in view of the productive and commercial direction of the economies, as stated by ECLAC.

ECUADOR'S MACROECONOMIC SITUATION

Real Sector

Evolution of the GDP. In 2016, the Ecuadorian economy had to continue to deal with falling oil prices and a stronger dollar, besides the impact by the April 2016 earthquake. In addition, it had to cope with a higher level of foreign debt but then saw relative recovery in the price of oil in the last four months of 2016. In 2012, the economy started to gradually tilt downwards, only to fall deeper in the last two years; growth was 0.16% in 2015 and then contracted to -1.7% in 2016, based on the provisional numbers and projections published by the Central Bank of Ecuador (BCE). The average GDP growth in the last five years has been 2.61% (*Graph 1*).

Evolution of GDP (millions of \$ and percentages)

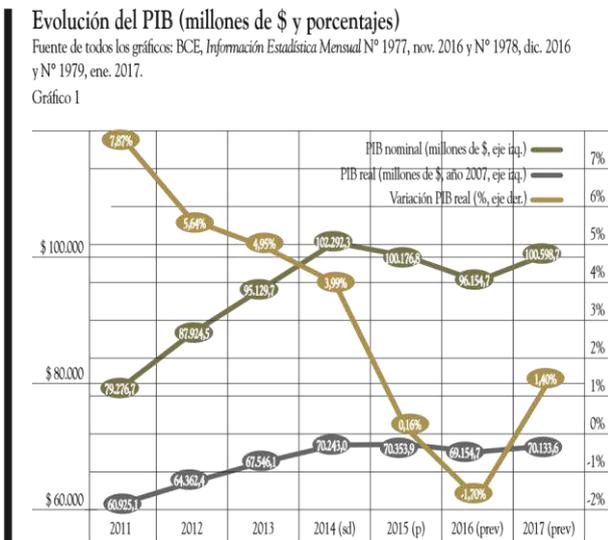
Source of all graphs: BCE. Monthly Statistics Report No. 1977, Nov 2016; No. 1978, Dec. 2016; and No. 1979, Jan. 2017

Graph 1

Nominal GDP (millions of \$, left axis)

Real GDP (millions of \$, left axis)

Real GDP variation (millions of \$, right axis)



According to the same source, the forecast for 2017 is that the GDP will reach 1.4%, an optimistic percentage compared to the projections by the multilateral organizations. The calculations of the IMF and the WB show that the country's GDP dropped to -2.3% and for 2017 will continue to decline to -2.7% (IMF) or -2.9% (WB). ECLAC estimated that growth would be minus 2.5% in 2016, while projecting a modest increase to 0.7% for 2017, in view of the hypothesis that "oil prices will recover at the global level at about 20%, which will bear a positive impact on the local economy as well as on the economy of all producing countries."

The regional organization predicts that the price of Ecuadorian oil will recover in 2017 to over \$40 the barrel—at December 2016 Oriente oil was \$46.30 the barrel and WTI \$52.02—and that there will be more local production. Together with increased production, exportation of hydroelectric power, and a higher level of foreign investment, this year's GDP could slightly ascend.

Based on the most recent publication by the BCE,⁴ in the third quarter of 2016 the country experienced an inter-annual reduction of 1.6% compared to the same period

⁴ Central Bank of Ecuador, *Estadísticas macroeconómicas. Presentación coyuntural*, January 2017.

in 2015, and the quarterly variation was 0.5% with respect to the second quarter that year. In the inter-annual period, the petroleum gross value added (GVA) reported an increase to 3% while the nonpetroleum GVA fell to -2.5%. This situation reflects both improved production and prices of the oil business, as indicated above, as well as the decline in general production industry.

Oil Production. The annual average rate of variation in the country's oil production in the last five years has been 1.98%, with a rising trend since 2011, reaching its greatest volume in 2014: 203.14 million barrels. Starting that year, production has been falling and the level achieved in 2016 is almost the same as that reported in 2011. During the period under analysis, production by state-owned enterprises grew at an average annual rate of 4.0%, in contrast to the annual decline of 3.83% in production by private enterprise. The production of derivatives, which has been diminishing since 2013, enjoyed a 12.68% growth in 2016, thanks to the repowering of the Esmeraldas refinery. At present, production by the state-owned enterprises—Petroamazonas EP in particular— has improved due to the inclusion of Block 43-ITT (*Graph 2*).

Domestic production of crude oil and derivatives
(thousands of barrels)

Graph 2

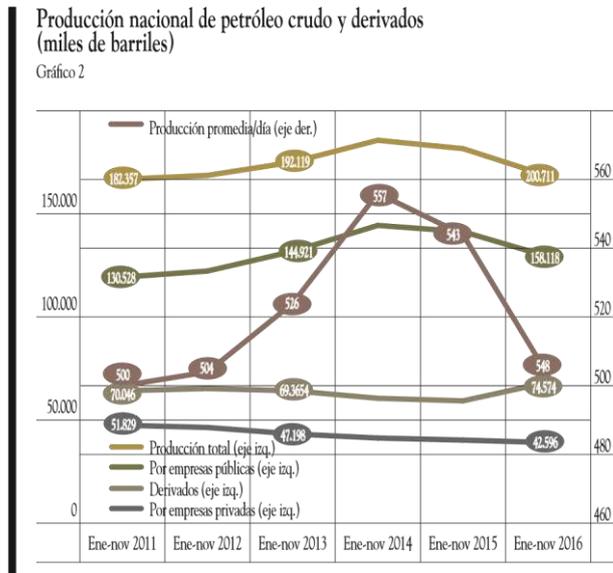
Average/daily production (right axis)

By state-owned enterprises (left axis)

Derivatives (left axis)

By private enterprise (left axis)

Jan-Nov 2011 Jan-Nov 2012 Jan-Nov 2013 Jan-Nov 2014 Jan-Nov 2015 Jan-Nov 2016



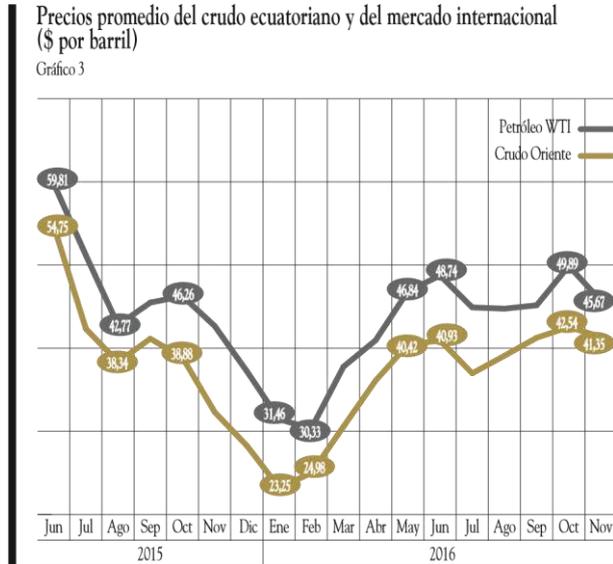
At the end of 2016, the Organization of the Petroleum Exporting Countries (OPEC) agreed to restrain oil production in order to stabilize oil prices at the international market, applying its decision in the first six months of 2017. The agreement, which 11 countries outside the group —such as Russia, Mexico, and Kazakhstan— jumped into, triggered a 20% increase in the price per barrel of the OPEC at December 2016, sold at an average of \$51.67. Oriente and WTI oil prices have improved since January last year and more sharply in the last four months (*Graph 3*).

Average prices of Ecuadorian oil and International Market Prices (\$ per barrel)

Graph 3

WTI Oil

Oriente Oil



With regard to oil prices, the IMF predicted that the average price of the barrel of oil will climb from \$43 in 2016 to \$51 in 2017. Premised on the latest commodity report by the WB⁵, the price will reach \$55, in light of the restraint on supply decided by the OPEC. The WB concluded, however, that “commodity agreements have limited ability to influence global prices over extended periods of time and will be tested in the presence of unconventional oil suppliers.” In addition, the report points out that metal prices are projected to rise more sharply in 2017 across the globe, as a result of faster-than-expected mine closures, and that energy prices will tend to rise more than 3 percent in the third quarter of 2016.

Job Market. The employment figures published by the National Institute of Statistics and Census (INEC)⁶ show that the nationwide rate of adequate work and full employment was 41.2% at December 2016, representing a drop of 5.3 percentage points compared to last year's numbers. Depressed employment is more drastic than the 2.8 decline in percentage points reported between 2014 and 2015, though both numbers are statistically significant. The inadequate employment rate, which

⁵ World Bank Group, *Commodity Markets Outlook, OPEC in Historical Context*, October 2016.

⁶ INEC, *Reporte de economía laboral*, December 2016.

encompasses underemployment, uncompensated employment, and non-full employment, ascended from 46.7% in 2014 to 48.1% in 2015, and then to 53.4% at December 2016. All these variations are statistically significant. During 2016, the unemployment rate remained stable and was 5.2% in December. This percentage bears no statistically significant difference with regard to the 4.8% at December 2015, but does compared to 2014 when the rate was 3.8% (*Graph 4*).

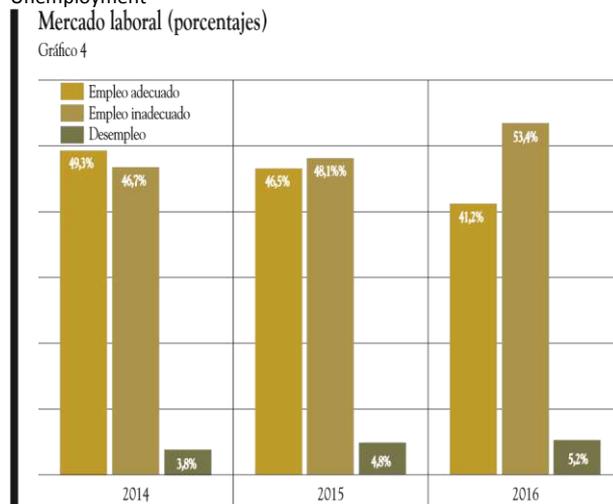
Job Market (percentages)

Graph 4

Adequate employment

Inadequate employment

Unemployment



Inflación anual (a diciembre de cada año, porcentajes)

Gráfico 5



Annual Inflation (at December of each year, percentages)

Graph 5

The evolution of job market indexes in the last three years confirms the deterioration in the quality of employment, sparked by the downward shift in production and economic growth. The production sector and various multilateral

organizations have pointed to the urgency for public policy to be directed at pushing for economic reactivation as a source for creating job opportunities.

Inflation. The annual inflation reported in December each year has contracted since 2014, when it reached 3.67%, and closed at 1.12% in 2016. According to the data of the BCE (Central Bank of Ecuador), the level that the country reported in December 2016 is way below the 4.05% average of a group of 16 countries under analysis, most of which are Latin American nations. Considering the divisions in consumption, the highest level of inflation reported concerns alcoholic beverages, tobacco, and drugs, at 15.06%, resulting from the safeguards and taxes on these products. On the other hand, deflation was reported for the following categories: clothing and footwear (-4.70%), communications (-0.52%), and furniture and household items (-0.21%) (*Graph 5*).

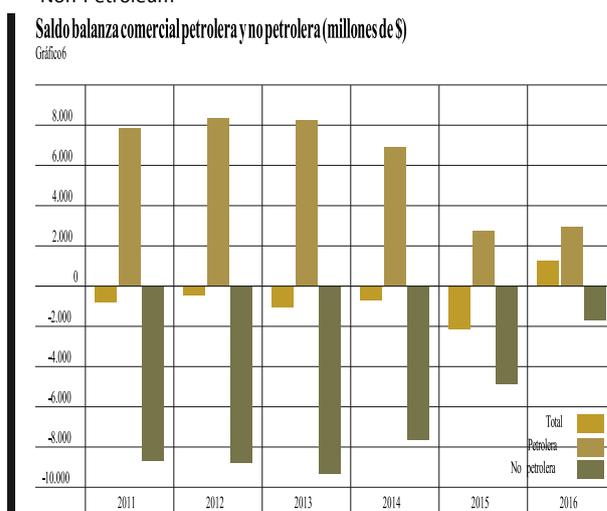
The reduced inflation reported in the last two years is a reflection of the subdued aggregate demand resulting from the country's economic decline, combined with the shrinking consumption of tradable goods from the basic basket of goods that has been impaired by the application of safeguards and taxes, as indicated above.

External Sector

Balance of Trade. The historically wide deficits in the balance of trade continued to the end of 2013 and then for another two years. Based on the data for January to December, the deficit narrowed greatly in 2014, closing at -\$723.16 million, only to escalate to -\$2.12962 billion in 2015. In contrast, in 2016 there was a surplus of \$1.24704 billion, mainly because of the 23.97% reduction in total importations reported in the period comprising January and December 2016. This was the result of the safeguards placed on the importation sector and because of the economic slowdown—compared to 2015, with more than double the reported 8.36% reduction in total exports. The surpluses in the petroleum balance of trade experienced in the era of bonanza of oil prices plummeted by 60.14% in 2015 and stabilized in 2016 at \$2.96906 billion.

Not only has the price cut of imported derivatives contributed to this stability, but also the better oil prices seen in the second semester of 2016, the inclusion of new oilfields, and the increased production of derivatives, which are analyzed above. The nonpetroleum balance of trade continued to show widening deficits and its most elevated value was seen in 2013, closing at -\$9.31244 billion (*Graph 6*). From thence, the deficit has tightened, basically because of the application of import restrictions—duties and safeguards—and closed at \$1.72202 billion in December 2016, representing a 64.76% drop compared to the level reported in 2015. Therefore, it may be concluded that the objective of correcting the expanding deficit in the balance of trade due to declining oil prices has been satisfactorily accomplished by applying trade restrictions.

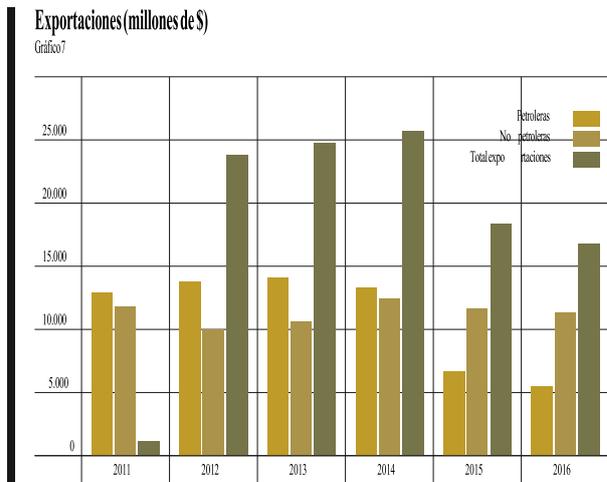
Balance of Balance of Trade: Petroleum and Non-Petroleum (millions of \$)
 Graph 6
 Total
 Petroleum
 Non-Petroleum



Exportations. The FOB price of the country's exports fell in the last two years, reaching a total of \$16.79767 billion between January and December 2016. This number represents an 8.36% reduction compared to that of the same period in 2015. There was a 18.03% decline in the price of petroleum exportations and a 2.42% drop in the price of nonpetroleum exportations compared to last year. The annual average variation rate in the price of exportations in the last five years considered was -4,51% (*Graph 7*).

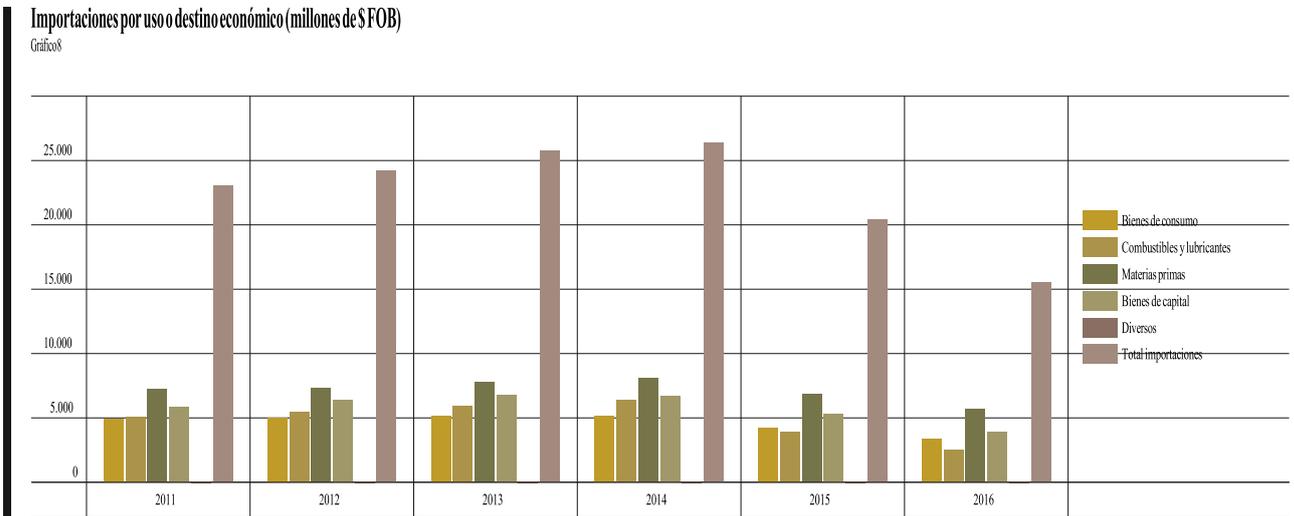
Exportations (millions of \$)

Graph 7
 Petroleum
 Non-Petroleum
 Total Exportations



Importations. The FOB price of the country's total importations in the last five years shows the same behavior as that of the price of exportations. Between January and December 2016, importations totaled \$15.54516 billion, which is 23.97% lower than the amount reported in 2015. The annual average rate of variation in the price of importations was -6.55%. Considering the price of importations by economic use or destination, the greatest declines compared to the same period last year were seen in fuel and lubricants (-36.95%), capital goods (-26.23%), consumer goods (-20.13%), and raw materials (-17.31%) (Graph 8).

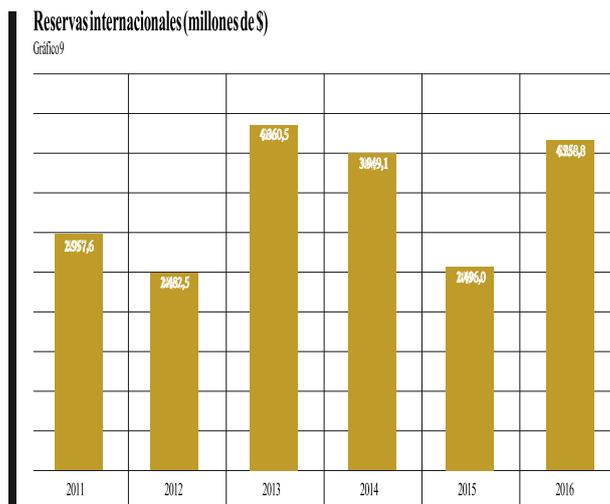
Importations by economic use or destination (millions of \$FOB)
 Graph 8
 Consumer goods
 Fuel and Lubricants
 Raw Materials
 Capital Goods
 Miscellaneous
 Total Importations



Monetary Sector and Financial System

International Reserves (IR), Money Supply, and Total Liquidity. Due to the nature of international reserves, they tend to be variable with time. In the last five years, after a palpable increase in 2013, the level of reserves shifted downward the next two years. Then in 2016, it bounced back to almost the same level seen 2013, totaling \$4.25885 billion (*Graph 9*).

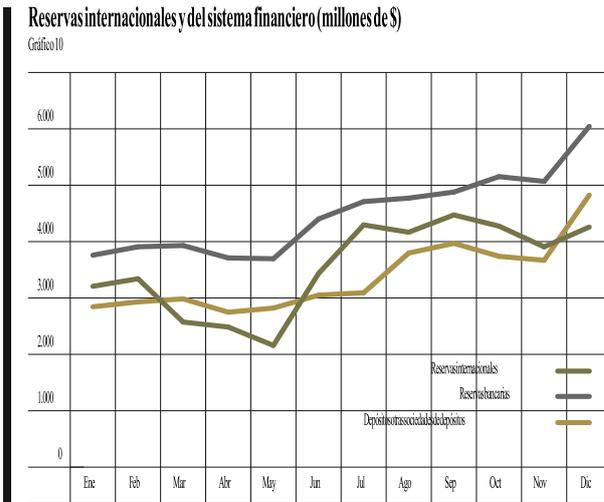
International Reserves (millions of \$)
Graph 9



The purpose of the international reserve (IR) is to ascribe liquidity coverage to the monetary base (coins put into circulation, plus sight deposits, both public and private); in other words, to cover the banking system's reserves. When analyzing the monthly behavior of these two variables in 2016, the IR level was actually below the banking system's level throughout the year. The IR level fell even below the deposits made at the BCE by the private financial system and the National Development Bank (BNF), now called BanEcuador, between March and mid-June, and again declined in December last year. (Graph 10).

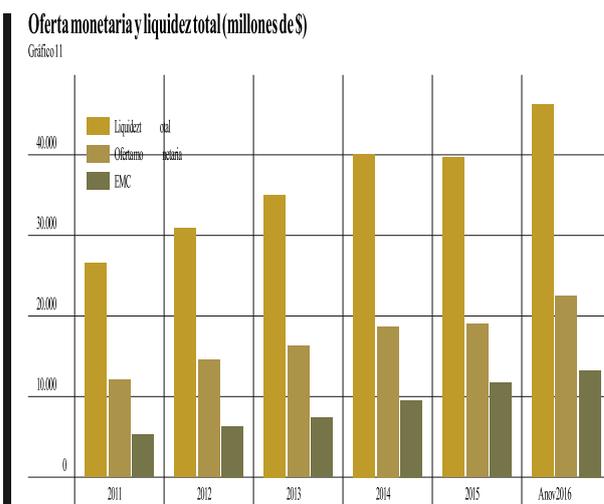
International Reserves and Financial System Reserves (millions of \$)
Graph 10
International Reserves
Banking System's Reserves

Deposits other deposit companies



There has been a rising trend in money supply and total liquidity, at an average rate of 9.17% and 9.46%, respectively, in the last five years under analysis. Only in 2015 did these two variables decline: money supply grew by only 1.85% while total liquidity contracted by 1.13%. Within money supply, money in circulation (MIC) escalated higher in the period to 17.86%, with an average growth of 26.35% in 2014 and 2015. The trend in society to have more MIC on hand shifted downwards in 2016, with a modest increase of 2.28% compared to 2015 (*Graph 11*).

Money Supply and Total Liquidity (millions of \$)
Graph 11
Total Liquidity
Money Supply
MIC



Total liquidity in the Ecuadorian economy which, as indicated above, fell in 2015, experienced a major recovery in 2016. This is thanks to the issuance of bonds for \$1 billion between July and

September and another issuance for \$750 million in December, in addition to a net disbursement resulting foreign loans of \$4.3 billion at September. Furthermore, disbursements under foreign loans directly impact the flow of international reserves. In short, to keep up an adequate level of liquidity there must be more consumption and aggregate demand in the economy. The level achieved, however, stems from bonds placed at the international financial market and an increase in foreign debt. This strategy is not sustainable in the medium term; therefore, when these money flows stop, the economy may get into trouble once again. At the end of the year, the Monetary and Financial Policy and Regulation Board (JPRMF) issued resolutions aimed at recovering liquidity in a conjuncture that should rather support general economic recovery. This topic is analyzed further below.

Money Raised by the Financial System, Portfolio, and Credit Volume. Based on the figures available at December 2016, total deposits and the maturing portfolio of the financial system saw an increase to 19.46% and 5.81%, respectively, compared to the numbers reported in 2015. In that year, deposits fell by 10.59% and the maturing portfolio by 4.24%. The two variables, which had tilted upwards years ago, had been contracting since 2013, fell in 2015, and then recovered in 2016. The average annual rate of growth in the last five years was 11.43% for deposits and 8.42% for maturing portfolio (*Graph 12*).

Deposits and Maturing Portfolio of the Financial System (millions of \$)

Graph 12

Maturing Portfolio (millions of \$, left axis)

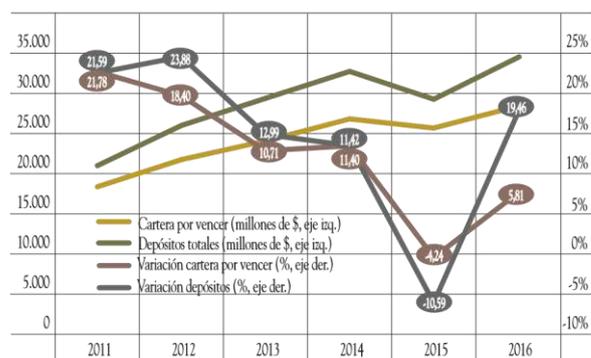
Total Deposits (millions of \$, left axis)

Variation Maturing Portfolio (millions of \$, right axis)

Variation Deposits (millions of \$, right axis)

Depósitos y cartera por vencer del sistema financiero
(millones de \$ y porcentajes)

Gráfico 12



The credit restriction applied by the financial system is clear when looking at the portfolio/deposits ratio of 77.71% reported in 2016, compared to the 87.74% achieved in 2015, a reduction of more than 10 percentage points. It is also important to note that the demand for credit experienced a decline in all segments. Per the latest BCE Situational Indicators Bulletin,⁷ after six quarters in which the demand for credit had fallen, the fourth quarter of 2016 saw an increase in the demand in the Micro-Loan, Consumer, and Production segments.

The largest chunk of credit, 55.94% in total, was placed in the Commercial segment.

Volume of Loans Granted. In the period comprising January and December 2016, loans totaled \$23.12567 billion.⁷ This amount represents an 18.76% increase with respect to the volume granted in 2015.

Volume of Credit by Segment. Based on the change in the portfolio segmentation applied since September 2015, in the period comprising January and December 2016, the segment placing the largest volume of loans granted by the financial system was

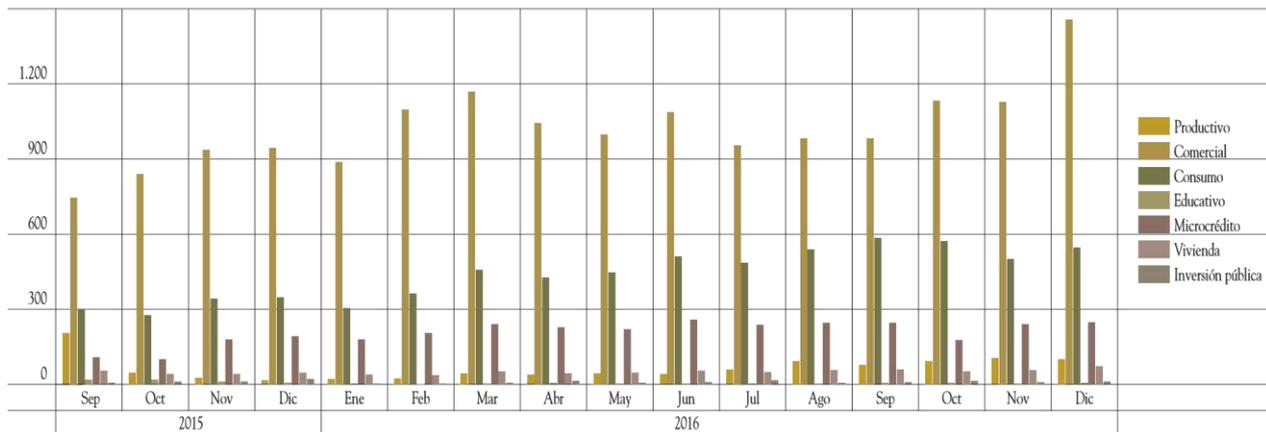
⁷ BCE, *Reporte trimestral de oferta y demanda de crédito*, fourth quarter 2016.

the Commercial segment, with \$12.9113 billion in loans representing 55.94% of the total. Within this segment, the Corporate Priority Commercial is the most significant, followed by Business Priority Commercial, while the SME Priority Commercial was the same or even exceeded Regular Commercial.

The segment after the Commercial segment is the Consumer Segment, with \$5.7344 billion, 24.85% of the total; the Priority Consumer segment accounted for practically 95% of Consumer loans. The last is the Micro-Loan segment, which received \$2.9317 billion, representing 12.7% of the total; in this segment, simple accumulated Micro-Loans are the most representative. The other segments have single-digit percentages with respect to money placement; for instance, Housing is situated at \$619.2 million, 2,68% of the total, and Production \$742.5 million, representing 3.22% (*Graph 13*).

Volume of Loans by Consolidated Segments (millions of \$)
 Graph 13
 Production
 Commercial
 Consumer
 Educational
 Micro-Loans
 Housing
 Public Investment

Volumen de crédito por segmentos consolidados (millones de \$)
 Gráfico 13



Results of Private Banking and the Portfolio's Nonperforming Loan Rate: The return on equity (ROE) and return on assets (ROA) of private banks operating in the Ecuadorian financial system continued to contract in the years 2012 and 2013. These indexes picked up slightly in 2014 only to decline once again in 2015 and 2016. At December 2016, the ROE reached 6.72% and ROA 0.62%. The nonperforming loan rate, which remained relatively stable at an annual average of 2.76% in 2012-2015, escalated to 3.66% in 2015 and then went down a notch to 3.54% in December 2016.

Private Banks: Return and Nonperforming Loan Rates (percentages)
 Source: Superintendency of Banks, Monthly bulletins
 Graph 14
 Total nonperforming loans (left axis)

ROA (left axis)
ROE (right axis)

Bancos privados: índices de rentabilidad y morosidad de la cartera (porcentajes)

Fuente: Superintendencia de Bancos, boletines mensuales.

Gráfico 14



The nonperforming loan rate by segment, which in 2015 rose in all the segments under analysis, declined modestly in the Consumer segment in 2016, while rising in all other segments in comparison with 2015. The greatest increase was in the Housing portfolio, with the nonperforming loan rate climbing from 2.17% to 2.99%, followed by the Microenterprise portfolio from 6.10% to 6.57%. The decline in the job market indexes caused by the economic deceleration likely impacted the increases noted above.

Fiscal Sector

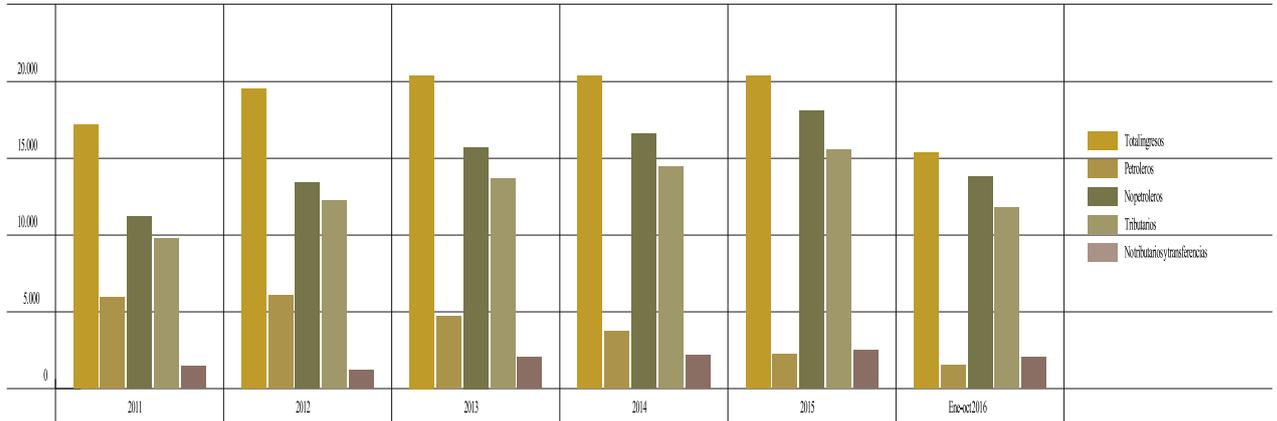
Revenue of the Central Government. The available figures published by the BCE on Central Government's spending in 2016 have significantly fallen behind. In January 2017, the only numbers available date back to October 2016. With data from January to October in the last two years, it may be concluded that the Central Government's revenue totaled \$15.3713 billion, which is 12.25% less than the revenue attained in the same period in 2015. Petroleum revenue dropped by 18.42% and tax revenue by 12.39%, the former because of falling oil prices and the latter due to the recession in production and the slack in consumption. (Graph 15).

Central Government Operations: revenue (accrued base – millions of \$)
Graph 15
Total Revenue

Petroleum
 Non-Petroleum
 Tax
 Non-Tax and Transfers

Operaciones del Gobierno central: ingresos (base devengado - millones de \$)

Gráfico 15



The total of the Central Government's spending in the same period in 2016 was \$17.9605 billion, thus resulting in a \$2.5891 billion deficit (*Graph 16*). The total reported spending represents a 4.99% reduction compared to public expenses in 2015. The key items under spending are current expenditure, which contracted by a mere 1.12%, and capital expenses, by 10.93%, mirroring the policy implemented for not reducing current expenditure and for prioritizing capital expenses. In fact, among the first mentioned, salaries increased by 2.14% as compared with the preceding year, while the second item declined in the percentage stated above. With regard to current expenditure, it is important to note that interest boosted by about 10% as a result of more debt promoted by the Government and because of the 8.95% increase in fund transfers.

Deficit from the Domestic Sales of Petroleum Derivatives. One of the effects that could be categorized as "beneficial" for the country as a result of the reduction in oil prices at the international market is the narrowing of the gap of the elevated deficit. This means coverage of the differential in petroleum derivatives sold locally at subsidized prices. The 2014 deficit of \$3.6481 billion shrunk to \$627.7 million in 2016. This value represented a 63.36% reduction in the deficit reported for 2015.

The smaller deficit also stems from the drop in imported fuel for thermoelectric generation because of the entry of new hydroelectric power stations into operation and the repowering of the Esmeraldas refinery. Other elements bearing an impact on the reduction are the monthly increases of the *Super* gasoline sold by Petrocomercial gas stations, as well as the removal of the fuel oil subsidy for commercial and industrial use (*Graph 17*).

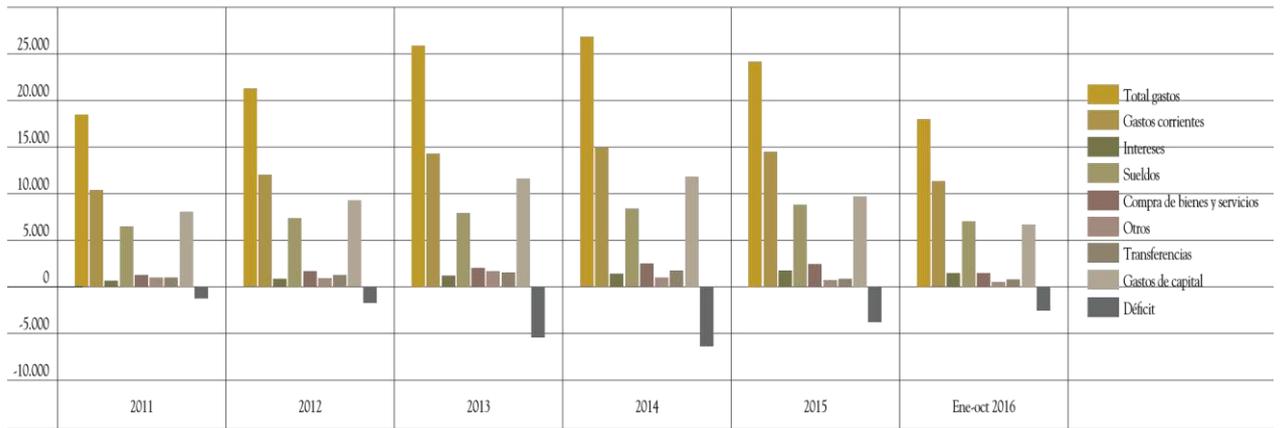
Central Government Operations: spending and deficit (millions of \$)

Graph 16

- Total Spending
- Current Expenditure
- Interest
- Salaries
- Purchase of Goods and Services
- Other
- Transfers
- Capital Expenses
- Deficit

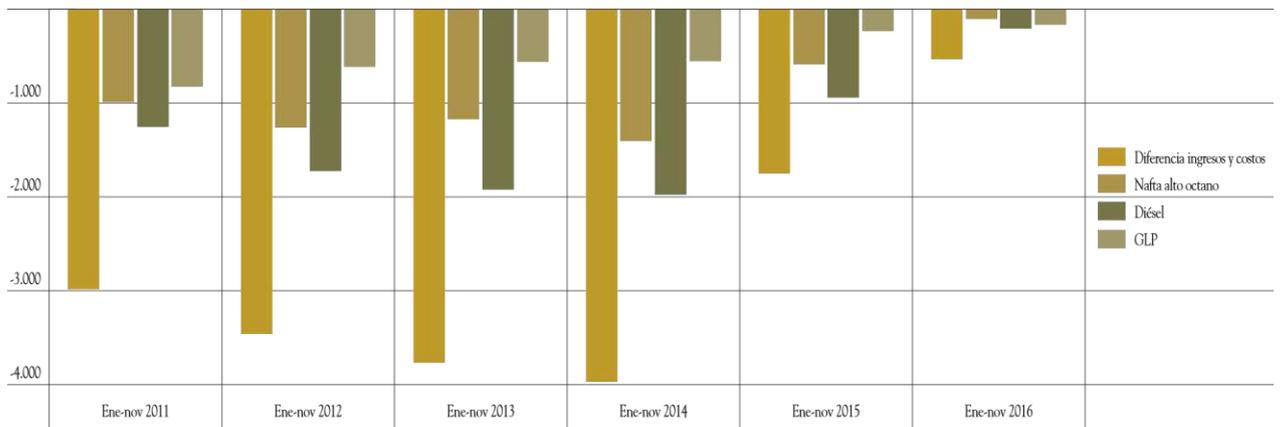
Operaciones del Gobierno central: gastos y déficit (millones de \$)

Gráfico 16



Déficit comercialización derivados (millones de \$)

Gráfico 17



Deficit Sales of Derivatives (millions of \$)

Graph 17

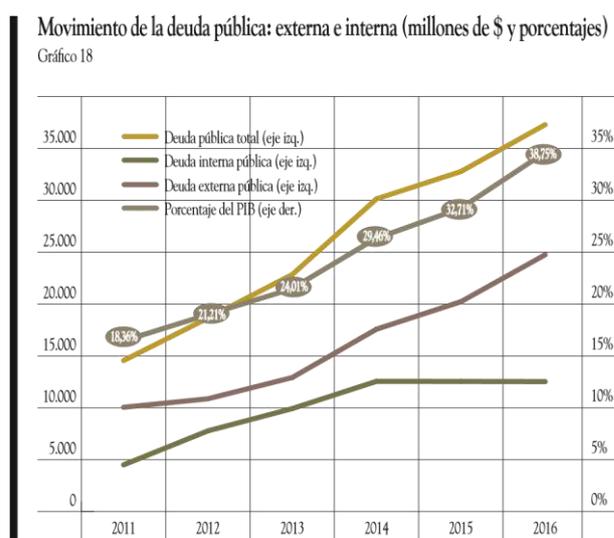
- Difference Revenue and Costs
- High-Octane Gasoline
- Diesel
- LPG

Jan-Nov 2011 Jan-Nov 2012 Jan-Nov 2013 Jan-Nov 2014 Jan-Nov 2015 Jan-Nov 2016

Movement of the Public Debt. The level of total public spending between December 2012 and December 2016 more than doubled, soaring from \$18.6523 billion to

\$38.2129 billion. The annual average rate of growth of total public spending in that period was 19.94%. The public foreign debt totaled \$25.6799 billion, aggressively escalating at a rate of 24.23% in the period. Domestic public debt reached a level of \$12.53297 billion, with a 13.47% increase in the period (*Graph 18*).

Movement of Public Debt: Internal and External (millions of \$ and in percentages)
 Graph 18
 Total Public Debt (left axis)
 Internal Public Debt (left axis)
 External Public Debt (left axis)
 Percentage of GDP (right axis)



Increased public spending, showing a stronger impulse in the last three years, is explained by the government policy in place for overcoming a conjuncture of reduced revenue. It is not the result of fiscal adjustments, but rather stems from more debt and the issuance of bonds at the international market. The Government's thesis in place is that a drastic cut in public investment and current expenditure (by downsizing Government) would result in a steeper deceleration of the economy.

The applied policy is pushing public spending to gradually reach the 40% debt-GDP ratio set by the Constitution. This percentage has been slowly increasing: from 21.21% of the GDP in 2012 to now 38.75%, based on the limited data at 2016 noted above (*Graph 19*). It is important to pause here to look at Executive Decree 1218 of October 20, 2016. The Decree states that consolidated debt, as opposed to aggregate debt, is considered for calculating the debt ceiling. Consolidated debt excludes the State's liabilities to public entities. This accounting ploy lowered the debt-to-GDP ratio to 26.7% at October 2016, which would allow to raise the country's debt level.

Public Debt: variation rate (percentages)

Graph 19

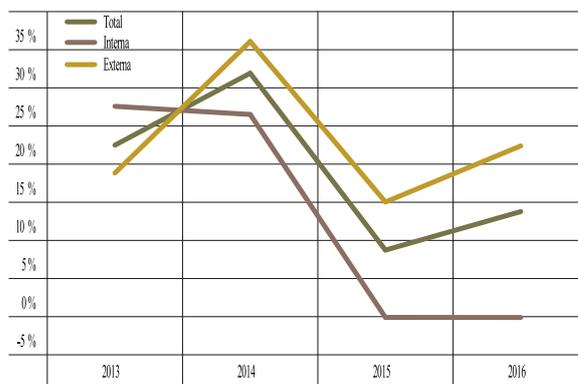
Total

Internal

External

Deuda pública: tasa de variación (porcentajes)

Gráfico 19



General Outlook for 2017

In this year's forecasts by the multilateral organizations, the IMF stated that countries should take advantage of the favorable global financial environment due to beefed up economic activity in the second half of 2016 and the fiscal stimulus foreseen in the U.S. for building up its fiscal defenses, though keeping up capital expenses and social expenditures bearing critical importance.

For the country, the first measure should be put into place when positive synergy is achieved in the private sector and foreign investment, in view of subdued tax collection. For countries in which the currency exchange rate cannot be used as a buffer mechanism and that depend on one or more raw materials—such as Ecuador—the IMF recommends making the right fiscal consolidation that is the most adequate possible for growth and, in the longer term, diversifying their exportation bases.

To improve equity, the IMF recommends combating tax evasion and preventing fiscal collusion practices—the country has greatly progressed in these aspects—which rather require a change in the tax policy not applied to business activities per se, but to earnings, shifting the burden to indirect taxes. The need to carry out structural reforms is heightened for stimulating production capacity, although the IMF points out that such reforms will take some time to reap their fruits.

For the World Bank, the growth and continued improvement of the economy of Latin America and the Caribbean (LAC) in 2017 will depend on the strength of foreign markets and their ability to address macroeconomic challenges. The WB finds that domestic markets and local demand are no longer enough to achieve growth, in view of the exhausted windfall revenue from raw materials. Therefore, these countries need foreign demand and the transfer of resources to their exporting economies, completing regional integration in an endeavor for global integration. This transfer will demand tremendous efforts in light of the current global environment in which demand is scarce, international trade moves at a slower pace (especially in East Asia), and protectionist threats are made (in particular, the United States). The latter could turn into an opportunity for countries, such as Ecuador. Supposedly, specific bilateral

agreements—for trade and investment—will be signed. The United States is our main trading partner, but we have not signed this kind of agreement with it.

The WB also states that, for maintaining social conquests and reducing the persistent inequality prevailing in LAC, investment should be made in people—especially the poorest—and in quality education. Finally, it concludes that "Additional emphasis should be placed on building skills, and reducing obstacles to economic activity, such as poor infrastructure and inflexible labor or financial regulations." Since the country has already significantly improved its infrastructure in the last 10 years, what needs to be done now is to actively promote economic activity based on quality structural reforms.

ECLAC agrees that there is a need to make investment dynamic—with coordinated public and private investment policies for redefining energy, production, and consumption patterns with environmental sustainability—and adds that there should also be a boost in production. It states that resuming the path of regional growth requires a reversal of the investment process dynamics, which will demand a significant mobilization of financial resources.

Within the local sphere, it is important to note that 2017 is an election year with voting taking place in February and a change of government in May. This conjuncture bears an impact on the postponement and/or suspension of investments and projects among economic agents. That uncertainty will go on until the economic engine adapts to the changes the new Government decides to implement and that will bear an impact on the results of this fiscal year.

As stated above, this reality, together with the forecasts under analysis, lead us to anticipate that 2017 will also experience an economic slowdown, although ECLAC predicts that the GDP will slightly increase to 0.7%, while the BCE's optimistic forecast doubles that percentage to 1.4% for expected growth. This optimism is grounded on increased oil production, now subject to the restraint decided by OPEC, the possibility of exporting hydroelectric power, and the expectation of attracting foreign investment, added to the inclusion of large-scale mining presently in its initial stages, but that will have to solve environmental conflicts that have arisen and could arise in the future.

Furthermore, the need for financing the 2017 State budget should be considered. According to the Finance Ministry, the amount required is between \$5.72 and \$6.72 billion. The Fiscal Policy Observatory believes it could go as high as \$11 billion, if the \$4 billion for debt repayment is taken into account. This money will be hard to raise from the domestic market without further compromising the solvency of the Ecuadorian Social Security Institute (IESS) or placing the financial system's liquidity at risk. These needs will have to be satisfied by the foreign market, in hardly advantageous conditions in light of the country's credit rating and risk level. On this point, the country's risk rating in February 2016 was 1,733 points and then dropped to 607 points in January 25, 2017. This could translate to the possibility of achieving better conditions in terms of time periods and interest rates, whether for the issuance of bonds or for the grant of loans.

Another favorable conjuncture for this year is the consensus achieved in the meeting of employer representatives, workers, and the Labor Ministry to raise the unified base salary to \$375 a month in 2017. The kind of consensus had not been secured in 16 years. There is now optimism about a real chance of reaching public-private agreements and synergies resulting from constructive dialogue and from defining clear objectives to face the economic decline and resume a faster growth pace.

The country's foreign trade outlook for 2017 could be described as bright, if the full entry into force of the Multi-Party Trade Agreement with the European Union (including Colombia and Peru) is considered. This market, representing the possibility of reaching a population of 614 million people, will create opportunities for exportations linked to the agro-industrial, fisheries, and manufacturing sectors, plus the integration of global value chains. In addition, the effects of the gradual and complete removal of the safeguards from the balance of trade that had been put into place, and stronger commercial ties with the huge Chinese market—over 1.3 billion consumers—, should be taken into account.

Within the general macroeconomic panorama described above, the private financial system in 2017 should, in the first place, remain focused on keeping up the positive evolution of its solvency and liquidity indexes, by continuing to apply its proven responsible management of credit risk and concentrating on the pursuit of efficiency. In the uncertain environment that will characterize at least the first half of the year, it

will be important to keep credit channels open, even if no significant surge in demand is anticipated. Once the public policies to prevail in upcoming years are defined and there is certainty about the road to economic development, the right combination of promoting financial services and managing risks will steer the direction of the Ecuadorian banking system.

Grupo Financiero Pichincha

The year 2016 kicked off in similar circumstances as last year: low oil prices, higher international interest rates, and the appreciation of the dollar. The first quarter of the year saw a slight decline in global growth due to subdued activity in advanced economies, while emerging economies experienced moderate growth. Likewise, inflation feebly rose in advanced economies, while remaining at the same levels in the majority of developing economies.

In view of the economic conjuncture and global policy, Grupo Pichincha faced a year filled with challenges and hard work to offer its customers the stability they want, given the conditions of 2016.

Grupo Pichincha has international subsidiaries, such as Banco Pichincha España and Banco Pichincha Colombia, and is present in the United States with its Miami Branch. At the local level, it is formed by Banco Pichincha C.A., Almesa, PAGUE-YA, Vaserum, CREDI FE, and BPAC.

In January 2016, it sold 7.31% of the shares in Banco Financiero del Perú (BFP), leaving it with its current 49.07% stake in ordinary stock. For this reason, BFP no longer is part of Grupo Pichincha. This change triggers differences in the annual comparison of financial statements, since BFP represented 19% of the group's assets at December 2015. Furthermore, it is important to note that the rules were changed regarding the provisions for risk assets at Banco Pichincha España, producing negative results for the year.

On these premises, the group's total assets fell by 11% compared to 2015. The maturing portfolio experienced a 7% decline, while the nonperforming loan ratio closed at 4.3%. The group's coverage was kept at conservative levels with a rising trend compared to last year; at December 2016, the provisions for the nonperforming loan portfolio ascended to 214.4% and the provision for the total portfolio was 9.25%, compared to the 8.79% reported for 2015.

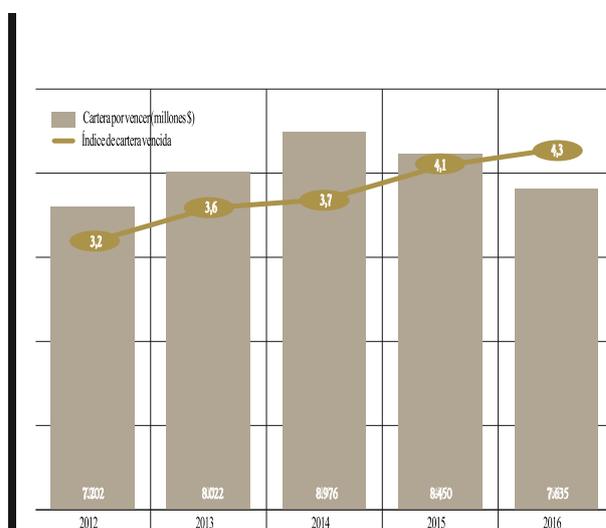
With respect to portfolio placement, Banco Pichincha C.A. holds 81.47% of the total for Grupo Pichincha, followed by Banco Pichincha Colombia with 11.27%. Banco Pichincha España and the Miami Branch have smaller shares, 5.67% and 1.6%,

respectively. Every one of these subsidiaries adapts and responds to the reality of each market and puts its business strategies to work, enabling it to reap better results. The level of liabilities also contracted to a total of \$10.865 billion compared to the \$12.144 billion reported in 2015. This reduction can be easily appreciated in sight and time deposits. It is important to note that Banco Financiero del Perú represented 13% of sight deposits totaling \$1.356 billion and 22% of time deposits amounting to \$848 million at December 2015.

Concerning the funding structure of Banco Pichincha C.A., 85.01% is supported by the Colombia and Spanish subsidiaries, with 6.42% and 5.33%, respectively, and the Miami Branch with 3.24%, of liabilities to the public.

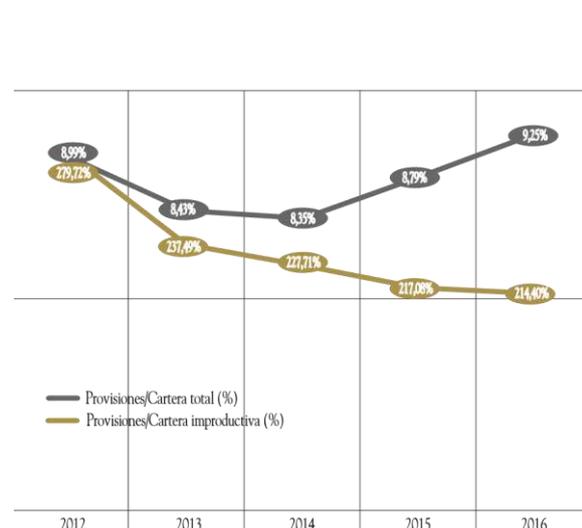
The common denominator of the businesses is their endeavor to optimize costs. For this reason, Banco Pichincha C.A. defined the initiatives for reducing costs, while maintaining its capacity for growth and the quality of its services. The economic trends of the first semester of 2016, characterized by surplus liquidity and customers' lack of appetite for credit, resulted in lower revenue translating to a deterioration in the efficiency index. At the group level, the efficiency index went from 71.14% to 76.34%. For 2017, the plan is to improve this indicator by implementing expense optimization and greater revenue generation strategies.

Portfolio Grupo Pichincha
 Source of Graphs: Financial Statements Grupo Pichincha
 Graph 1
 Maturing Portfolio (millions of \$)
 Past-Due Portfolio Rate



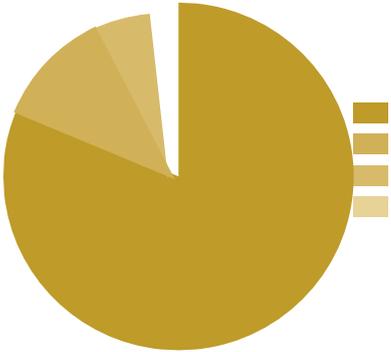
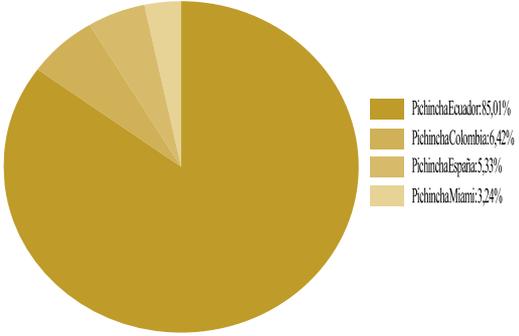
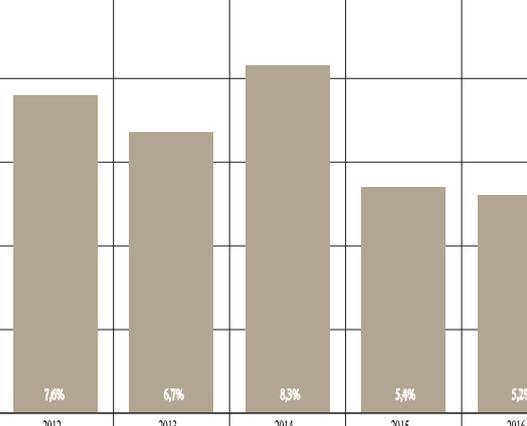
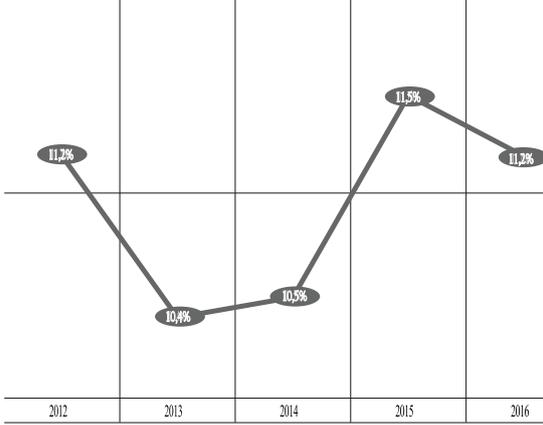
The group's earnings in 2016 totaled

Coverage
 Graph 2
 Provisions/Total portfolio (%)
 Provisions/Nonperforming Loan Rate (%)



\$50.482 billion, which is \$6.148 billion or 10.9% less compared to last year. The return on equity (ROE) was 5.17%, 0.26 percentage points below that in 2015, and the return on assets (ROA) 0.45%, compared to the 0.41% reported the year before.

In terms of solvency, the GFP equity was kept at the levels required by the law, amounting to 11.2% at the close of 2016.

<p>Total Portfolio by Subsidiary Graph 3 Pichincha Ecuador: 81.74% Pichincha Colombia: 11.27% Pichincha Spain: 5.67% Pichincha Miami: 1.6%</p>	<p>Deposits by Subsidiary Graph 4 Pichincha Ecuador: 85.01% Pichincha Colombia: 6.42% Pichincha Spain: 5.33% Pichincha Miami: 3.24%</p>
<p>Cartera total por subsidiaria Gráfico 3</p> 	<p>Depósitos por subsidiaria Gráfico 4</p> 
<p>Rentabilidad sobre patrimonio Grupo Pichincha Gráfico 5</p> 	<p>Patrimonio técnico Grupo Pichincha Gráfico 6</p> 
<p>Return on Equity Grupo Pichincha Graph 5</p>	<p>Technical Equity Grupo Pichincha Graph 6</p>

Despite the challenges faced in 2016 due to the complex economic, political, and social behavior, Grupo Pichincha continued to work on meeting the objectives it set out, creating learning processes and initiatives for ongoing improvement. Furthermore, it is ready to take on the challenges anticipated for 2017, with the commitment and seriousness that characterize it, by efficiently using resources and adapting to the market and to customer needs in the different environments where it does business.

The next section delves into more detail about the results of Grupo Pichincha's subsidiaries, as well as the challenges and projects lying ahead for 2017.

BANCO PICHINCHA

Financial Evolution

Despite the economic contraction experienced since 2015 in the majority of the country's economic and productive sectors, Banco Pichincha has taken measures necessary to maintain its solvency, liquidity, and solid coverage so as to mitigate credit and market risks for keeping up consumer confidence and security, while weighing the Bank's profitability.

In April 2016, the country was taken by surprise by a strong earthquake that struck the area of Manabí and the south of Esmeraldas and found itself in the wake of the evident economic and social consequences produced by a disaster of this scale. Fortunately, the Ecuadorian people's solidarity and strength shined through, and the earthquake victims were able to gradually get their lives back on track and move forward.

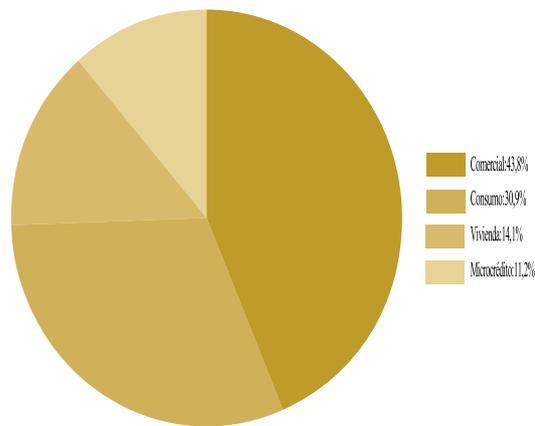
Banco Pichincha did not act indifferently; it immediately reacted by implementing a series of measures in favor of the 167,000 customers who were earthquake victims from the different communities affected. The initiatives included forgiving \$16.8 million in debt of more than 40,000 micro-business owners and low-income individuals. Additionally, special loan products were designed to support the area's economic reserves and reactivation, thus allowing customers to restructure their debts or to have access to new loans under special conditions. In all, 49,892 loans were granted for a total of \$247 million. The prudence and protection policies permanently in place for creating sufficient reserves and provisions once again allowed for facing this kind of unforeseen event in the best way. The offshore affiliates (Banco Pichincha España, Banco Pichincha Colombia, and Banco Financiero del Perú) promoted actions, such as remittance service without cost, to make it easier for customers to send money to their families. The solidarity of officers and employees translated to a voluntary contribution of over \$400,000 as direct support for earthquake victims.

Portfolio Diversification 2016
Source of All Graphs: Financial Statements Banco Pichincha
Graph 1
Commercial: 43.8%
Consumer: 30.9%
Housing: 14.1%
Micro-Loans: 11.2%

Diversificación de cartera 2016

Fuente de todos los gráficos: Balances Banco Pichincha.

Gráfico 1



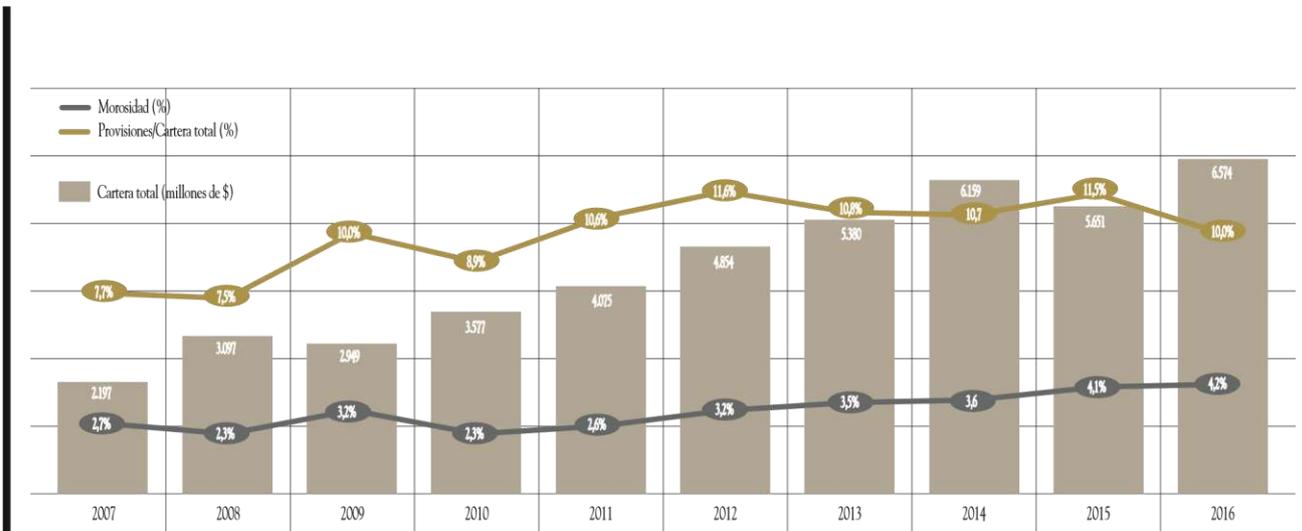
Total Portfolio: Provisions and Nonperforming Loan >ate (millions of \$ and percentages)

Graph 2

Nonperforming Loan Rate (%)

Provisions/Total Portfolio (%)

Total portfolio (millions of \$)



Given this environment, the domestic demand for loans contracted due to increased unemployment, the effects of the earthquake, and the uncertainty sparked by the arrival of an election year. Nonetheless, Banco Pichincha beefed up its credit and investment placement strategy, especially in the second semester. As a result, in December 2016, its assets experienced a 13.3% growth, escalating from \$8.9283 billion in 2015 to \$10.1161 billion, with a 28.5% share in the banking system. When analyzing the total portfolio, we see that it grew by 16.3% (\$923 million). Diversification among the different sectors was maintained by segment, turning into one of the Bank's strengths: commercial 43.8%, consumer 30.9%, housing 14.1%, and micro-loans 11.2%.

Deposits also increased, particularly in the last months of 2016. They jumped by 15.4% (\$1.1221 billion), in other words, to levels similar to those of 2014, for a total of \$8.3926 billion, mirroring a market share of 29.3%. This growth is due mainly to the Government's injection of liquidity into the economy through internal debt, bond placement in international markets, recovery of oil prices, and the safeguards in place. Sight deposits augmented by 21.5% (\$1.0763 billion), closing the year with \$6.0797 billion. Time deposits inched up by 1.8% for a total of \$2.0046 billion.

Another consequence of the country's economic situation is seen in the nonperforming loan rate, which at the banking sector level dropped 0.2 percentage points from 3.7% to 3.5%. Banco Pichincha grew 0.1% compared to 2015, closing at

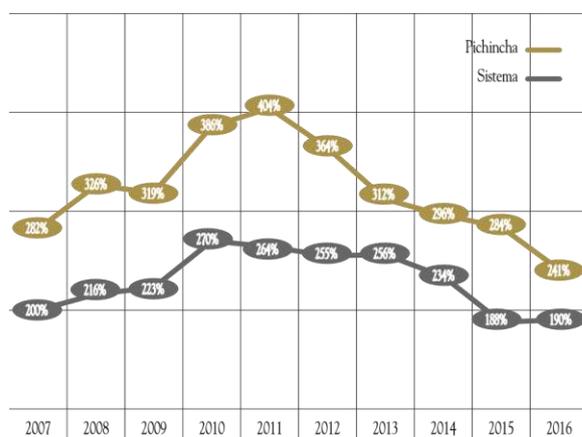
4.2% in 2016. In line with the Bank's policy on credit risks, the provision coverage index was 10% over total portfolio and 241.4% over past-due portfolio.

During 2016, Banco Pichincha maintained its resource austerity and optimization policy in all spheres. On those lines, the Correction Action Plan Committees (COPAC), formed in 2015 to analyze improvements and execute initiatives warranting positive results for the Bank, played a key role and achieved a significant level of savings in terms of the automation, improvement, and efficiency of processes and use of resources in each line of business. The outcome of COPAC, as well as other savings initiatives, resulted in expenses being slashed by about \$50 million; however, given the new measures in place because of the April earthquake, such as the VAT increase from 12% to 14%, a contribution of 3% over 2015 earnings, the reconstruction of offices, and so on, the actual reduction in expenses was \$35 million.

Provisions/Nonperforming Loan Portfolio (percentages)
Graph 3

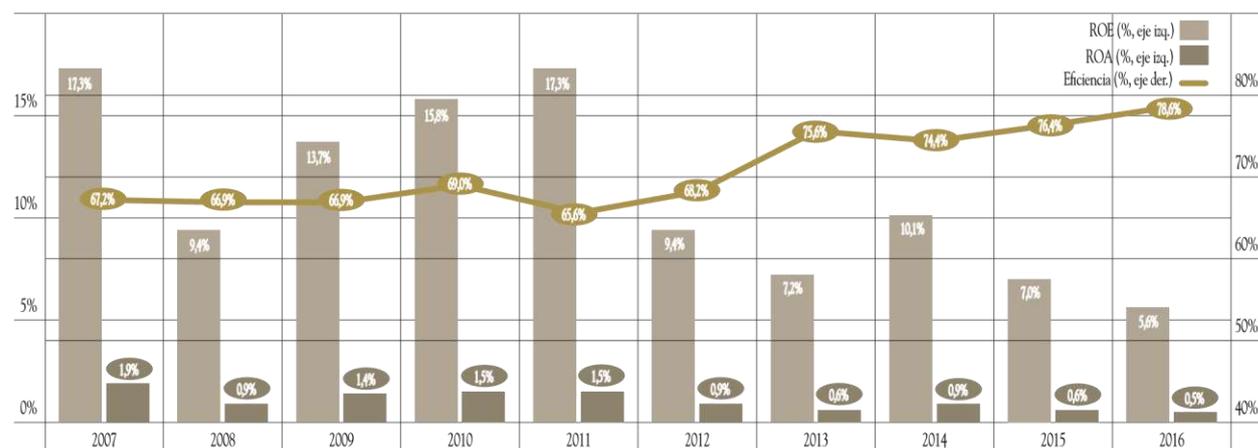
Provisiones / Cartera improductiva (porcentajes)

Gráfico 3



Rentabilidad y eficiencia (porcentajes)

Gráfico 4



Profitability and Efficiency (percentages)

Graph 4

ROE (% , left axis)

ROA (% , left axis)

Efficiency (% , right axis)

Despite the pressure on the financial margin in the first half of 2016 resulting from the slowdown in 2015 and unhurried recovery during the preceding fiscal year, Banco Pichincha's results, though below those of last year, did meet the budgeted levels. Net earnings totaled \$49.2 million, with the return on equity (ROE) and on assets (ROA) at 5.6% (7% in 2015) and 0.5% (0.6% in 2015), respectively.

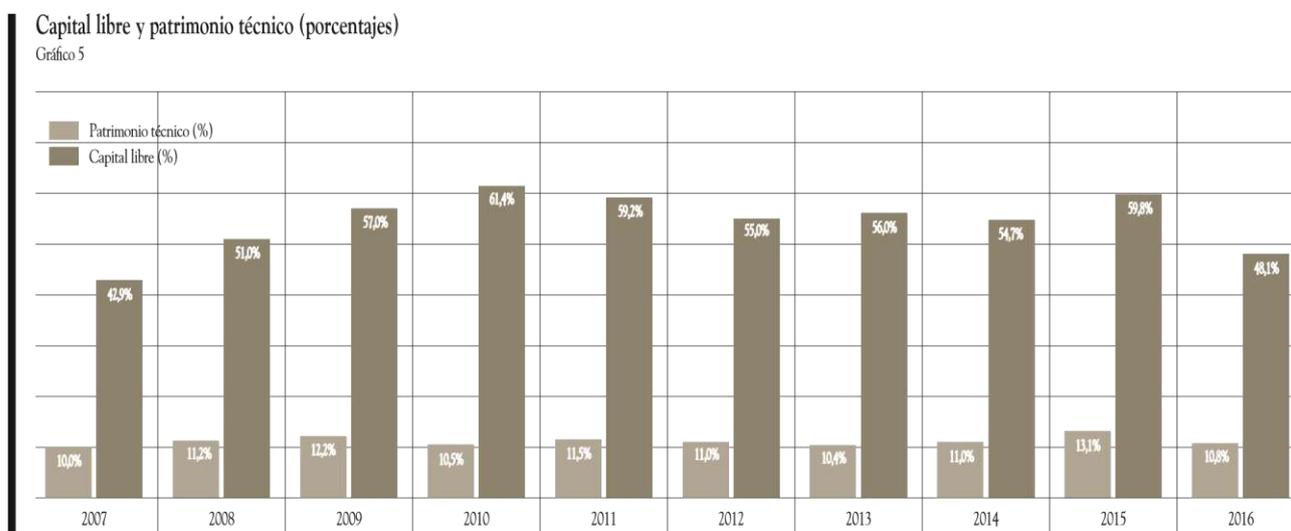
The results in terms of earnings of Banco Pichincha owe to the Bank's conservative and prudent policy promoting solvency and risk asset coverage over profit-making. With respect to solvency, at the end of 2016, the technical equity index was 10.8%, which is higher than the 9% required by banking oversight institutions. In addition, the level of free capital, an indicator determining the percentage of the Bank's own resources for supporting its business, closed at 50.2%, which is higher than the 48.1% of the banking system.

Free Capital and Technical Equity (Percentages)

Graph 5

Technical Equity (%)

Free Capital (%)



Service

In 2016, efforts were made to create the Service Culture Model in branches by implementing a method for measuring the level of customer satisfaction in the Quito region. This allowed us to concentrate on four key pillars, which are called commandments, enabling us to improve customer satisfaction from 67.18% to 77.3% from October to December 2016.

These Service Commandments are: **1.** We all must act like hosts. **2.** We give advice and solutions in each interaction. **3.** We know that time is important for customers. **4.** We want a cordial, close relationship with customers.

**BANCO PICHINCHA
optimized its operating
expenses in 2016, slashing
them by \$35.7 million or
5.9%.**

Products and Innovation

NEW CUSTOMER SERVICE MODEL

The financial sector is confronting its future with a reflection on the function, weight, and evolution of different channels. This calls for a broader and cross-cutting view of the market and the business. On these lines, the new customer service model for the branch network has been crafted. After 2,519 employees received training, the new model was implemented in 166 branches up to December 2016.

The purpose of this model is to become the reference for excellence in customer service, with cost efficiency and a high potential for generating business. To accomplish this objective, we will put powerful self-service banking (deposit machines, call center, and kiosks) into place to migrate transactions to alternative channels; have visible, organized commercial and business spots for addressing customer needs in only one point of contact; set up express service areas; put up friendly signage making it easier for customers to do transactions on their own; and, change the structure for aligning staff with the new multifunctional management approach.

NÓMINA CONFIANZA, A SERVICE OFFERING VALUE FOR COMPANIES AND THEIR EMPLOYEES

Premised on the strategic principles for focalized growth and customer service, Nómina Confianza ("Confidence Payroll") was born. This new service offers value, efficiency, and appeal for companies with their employees' salaries deposited directly in Banco Pichincha.

Companies can manage their payrolls from the Cash Management platform and access a special service that addresses their requirements. Employees receive their salaries in their account at Banco Pichincha, have access to tailored financial solutions in terms of loan, savings, or investment products, and may benefit from a broad catalogue of offers and discounts thanks to the alliances forged with the primary supermarket

chains, telephony operators, restaurants, cinemas, and so forth. At December 2016, N6mina Confianza had attracted 1,020 new companies with 29,053 employees.

MODEL FOR SERVICING MICRO-BUSINESS OWNERS

In mid-2016, the Banco Pichincha Microfinance Unit received The Smart Campaign certification, ratifying its leadership in this segment. It is the first Ecuadorian organization to get certified (only 55 institutions in the world have received this certification).

Throughout its 16 years of history, Pichincha Microfinance has maintained its management pillars under a policy by which the customers are accompanied during the entire process and are given advice about new loans based on their payment ability, in order to promote their economic development in sustainable fashion. These principles match the responsible banking model championed by The Smart Campaign and the customer protection pillars on which the work of certified entities is evaluated: appropriate product design and distribution, prevention of over-indebtedness, transparency, responsible pricing, fair and respectful treatment of clients, privacy of client data, and effective complaint resolution.

During 2016, under the frame of these values, the reformulation of the Group's Business in the Microfinance Unit servicing over 7,000 customers, was promoted. The initiative, which relied on accompaniment by the consultant firm, Acci6n Internacional, was able to optimize commercial processes and improve response times and customer satisfaction at the group's teller windows. For this purpose, method conditions, minimum amounts and steps, as well as other operating aspects, such as reduction in the number of required documents in commercial management (down from 24 to 13) and the use of friendlier formats, were redefined.

Activities and dynamics were crafted to tighten the ties of unity within the group and promote easier access to financial services for vulnerable people. Other progress was made in facilitating graduation processes so that if a customer requires greater financing offers, he or she can evolve to more specialized service models within the microfinance business.

SUPPORT TO THE WOMAN ENTREPRENEUR

As an institution, we want women to look at Banco Pichincha as an entity that promotes economic growth and is focused on becoming the model for financing women entrepreneurs in the country, through products and services easier to access. For this reason, a campaign was carried out in both the Microfinance and Small and Medium Business segments, in which 1,066 transactions were completed for a total disbursement of \$3.74 million.

TECHNOLOGY AND IMPACT PROJECTS

In this field, the Bank worked in 2016 to achieve a new information technology (IT) structure that will become the axis for designing and adopting new solutions under the criteria of standardization and maximum efficiency in its operations and processes models.

In September, the first phase of the Murex project was implemented. The project's general objective is to transfer the architecture and platform supporting the Treasury business. This will produce a greater expansion in new markets by creating customer added value, reducing time to market products, adapting better to regulatory changes, boosting the demand for products, evolving faster in risk and market management, controlling position online, calculating VaR (Value at Risk), executing stress scenarios, and increasing risk limits (market, credit, and trader).

In short, it will open the door to new technological possibilities. The implementation of the second phase of the project is planned for July 2017. Its main reach covers certain portfolio products—both local and foreign papers—, as well as credit and money market derived products.

The Bank chose the Omnichannel platform, primarily aimed at transforming our digital channels, improving customer experience and satisfaction, and leveraging the strategy for migrating transactions. Implementation initiation was approved and Digital Banking was defined as the first channel to be developed for replacing Internexo.

In 2016, various normative changes requested by the Government were urgently addressed. The major changes are hike in the value-added tax (VAT) from 12% to 14%; adjustments in the electronic billing process; change in calculating the money outflow tax (ISD) for transactions using debit and credit cards; reprogramming customers' payment installments because of the earthquake; changes related to portfolio segmentation; and, so forth.

Many of these changes meant modifying and testing a large number of the Bank's systems and involved the interaction of systems and external vendors, making change execution more complex. Concerning electronic billing, great strides were made to lower the operating costs of the service and to provide customers with tax information in their account statements in a lot less time.

INSTITUTIONAL VALUES

In 2016, Banco Pichincha pushed forward with its goal to be a fair, nearby bank, focused on customer service, carrying out activities to create financial sustainability and organizational synergy so as to warrant operating efficiency.

In order to add to the strength of our organizational culture, we renewed our institutional values: integrity, responsibility, service, productivity and innovation, and solidarity. The Bank's description and image are found in the beginning of this report. We all must preach these values within the different functions we carry out. We must maintain these values and put them into practice every day. The constant challenges we have to face call for a positive attitude and commitment to keep up customers' trust, which has become our Bank's insignia.

In 2017, these values will be spread even farther among all our shareholders, customers, employees, vendors, and the community in general to become the prevailing reference of our 100-year-old institution.

At December 2016, N6mina Confianza had attracted 1,020 new companies with 29,053 employees.

Outlook

Although external financing and the recovery in oil prices these past months have bolstered the Ecuadorian economy, there are other factors still battling against it: the appreciation of the dollar and the introduction of new taxes have made the Ecuadorian private sector less competitive. Since Ecuador does not have its own currency, external imbalances are adjusted by contracting the domestic demand. This adjustment has triggered a drop in sales and more unemployment. There has been a rise in the rate of inadequate employment, which encompasses underemployment, uncompensated employment, and other non-full employment. The rate of inadequate employment was 48.1% at December 2015 and jumped to 53.4% at December 2016, sparking the expectation of a decline in economic activity.

In this context, Banco Pichincha will develop and put forth the strengths that it has built up thanks to its prudent policy of creating reserves to protect itself from situational risks, in terms of credit and liquidity. One clear opportunity for improvement with regard to 2016 stems from the advantage that Banco Pichincha has for being present in all segments—from Communal Banking to servicing the big corporations—by applying analyses and tools to heighten the cross-selling index, offering customers adequate products and services for their different credit and life-cycle needs.

One of the Bank's key factors of its strategy for 2017 is its pursuit of higher efficiency levels in managing its business and operations. For this purpose, the Bank has invested in technological innovation and telecommunications, as well as in non-banking correspondents, connecting hundreds of neighborhoods and cities in the country to the dynamism of banking. In addition, processes were improved after having analyzed them from beginning to end and involving all players and assessing their efficiency based on indicators.

Sustainability Report

Presentation

Sustainability Challenges

G4-1; G4-7

Banco Pichincha C. A.⁸ is the largest bank in the country, with three million customers, 110 years of experience, and presence throughout the entire national territory, as well as in various countries in the Americas and Spain. Its constant, disciplined, and forward-thinking business has made the Bank an engine in the country's economic and sustainable development. Furthermore, the Bank encourages a more inclusive financial sector and is aware of the primary needs of our times. Consequently, the Bank is especially interested in getting Ecuadorians to save. For this reason, it carries out ongoing educational campaigns encouraging people to save. We have the right strategies for responding to the challenges of our surroundings, with the knowledge that our efforts reap fruit. At the same time, however, we know that there is still a lot more to do.

This document is an exercise of transparency in information. We present the relevant topics that our main stakeholder groups want to know about, under each one of the three priorities into which our Sustainable Management Model is divided. This report presents the results achieved in 2016 and offers a glimpse of the work we will do in 2017.

Reporting Standards

G4-3; G4-30; G4-32

Banco Pichincha C.A., hereinafter Banco Pichincha or the Bank, presents its eleventh annual *Sustainability Report*, which has been drawn up following the *Global Reporting Initiative G4*⁹. The *Report* is the outcome of an active and dynamic survey of our stakeholder groups, taking into account the expectations of our surroundings and the best global sustainability practices.

Through this Report, we seek to make information transparent, convey our strengths, and inform about the opportunities for improvement. In addition, we describe the commitments acquired and the challenges the Bank must face next year with respect to social, economic, and environmental issues.

⁸ Banco Pichincha C.A., a corporation wholly owned by Ecuadorian capital.

⁹ *Global Reporting Initiative GRI G4* is an international reference for publishing information concerning the focus of management and the performance of organizations in the social, economic, and environmental realms.

For the publication of this edition, we have chosen the *G4 Guidelines* core option, as well as the *Financial Service Sector Supplement*. The indicators reported on are found under the main title of each one of the topics elaborated on. At the end of the Report is an index referring to the contents and external assurance hereof, as well as the auditor's report.

The *Sustainability Report* informs about our social, economic, and environmental performance, besides discussing the topics of interest to our stakeholder groups.

Scope and Coverage

G4-6; G4-18; G4-22; G4-28; G4-29

This document contains the social, economic, and environmental indicators regarding the work carried out by Banco Pichincha in Ecuador between January and December 2016. Where applicable, these indicators are compared to the ones reported in 2015. It also describes the work done for our Microfinance customers, through our CREDI FE S.A. subsidiary, Microenterprise Development, and the indicators of social investment programs carried out by the CRISFE Foundation, our ally in social responsibility to the community. Also included are restatements primarily due to the change in calculating methods.

Method for Selecting Contents of the Report

G4-18; G4-23; G4-25; G4-26; G4-27, G4-FS5

To define the contents of the *Report*, we first identified our primary stakeholder groups, taking their relationship of dependence and influence on the Bank and vice-versa into account. This enabled us to plot strategies to strengthen the relationship and keep it in the long term, focusing on satisfying the expectations of these groups.

Dialogue with stakeholder groups is key for complying with the *GRI Reporting Guidelines G4*. Through this process, the topics to be reported on in the *Sustainability Report* are selected. Compared to last year, there are significant changes in the scope and coverage of material aspects. These changes are based mainly on the new materiality study. This year, in addition to the information obtained from the e-mail surveys sent out to our shareholder groups, we have taken other sources of information into account, as shown in *Graph 1*.

Method for Selecting the Contents of the *Sustainability Report*

Graph 1



Furthermore, each year we go over the accomplishment of objectives and the goals defined in the *Sustainability Report*. This time around, the evaluation is based on a comparison with the year 2015. We identified new challenges for this year that have been included in view of the organization's situation and its strategic priorities, which are defined in the beginning of each chapter and will be measured in coming years.

Governance and Sustainability

SUSTAINABILITY IN OUR ORGANIZATION

G4-2; G4-13

In 2016, Banco Pichincha was clearly the leader in the domestic financial market and it focused more on its search for new business strategies for overcoming the conjuncture and making long-term accomplishments, while keeping up its traditional levels of solvency, liquidity, and provision coverage. We look to improve productivity and optimize the closeness to customers by implementing certain projects, such as the Omnichannel, ERP, and Murex Project* (quoted from the Letter by Management).

*For more information, see the Annual Report, Letter by Management.

Thanks to the close relationship with our stakeholders, we know their needs and are able to define the actions for satisfying them.

Sustainable Management Model

During 2016, we redefined our Sustainable Management Model, dividing it into three priorities that identify each one of the chapters presented in this report and that have been united to render a better conceptual understanding.

We combined the Human Resources and Ethics and Transparency topics, in view of their focus on the internal management of our organization, looking inward to see the work by our staff and the good practices that apply to them. Furthermore, these topics provide a global vision of the codes of conducts prevailing within the Bank and in our external relationships.

We have unified Safety, Health & Environment, in application of our Integrated Management System, which has been implemented since the end of 2016 and will be reinforced in 2017. Furthermore, our model is pillared on forefront sustainability trends around the globe (*Graph 2*). In the period covered by this *Report*, there have been no significant changes in terms of our organization's structure, operations, and value chain.



Sustainability Initiatives

G4-15; G4-16

We ratified our commitment with the following global initiatives to which the Bank has willingly acceded:

- United Nations Global Compact
- United Nations Environment Program (UNEP FI)
- Global Banking Alliance for Women
- U.N. Women’s Empowerment Principles
- Dow Jones Sustainability Index
- The Smart Campaign client protection principles
- Ecuadorian Consortium for Social Responsibility (Ceres)
- Association of Banks of Ecuador (Asobanca)
- Ecuadorian-American Chamber of Commerce

Stakeholder Groups

G4-26; G4-27

We maintain contact with our stakeholder groups through different internal and external channels, placed at the stakeholder’s disposable for frequent communication.

In the materiality study, the topics of interest to our stakeholders are defined and are a substantial part of the information contained in this edition of the *Sustainability Report*.

Chart 1 contains a description of the consultation mechanisms employed for each group, based on the topics proposed in the *Global Reporting Initiative GRI-G4*.

Stakeholder Groups and Contact Method Chart 1		
Stakeholder Group	Regular Contact Channels	Channels for Determining Materiality
Corporate Governance	Meetings <i>Impacto</i> Magazine Up-to-Date Impact	Meetings E-mails Surveys
Staff	E-mails Surveys	
Suppliers	Surveys	Surveys E-mails
Customers	E-mails	
Community	Social Network	Social Network

Relevant Topics

G4-18; G4-19; G4-20; G4-21

In 2015, thirty-six material aspects were defined. After our Management Model

was renewed in 2016, these aspects were reduced to 21. The changes in the topics owe to the fusion of some of them, particularly Ethics and Human Rights since they are related to customer service, and our organization’s environmental management. Provided below is a list of the relevant aspects identified in our materiality study, which are classified based on the three priorities of our Sustainable Management Model (*Chart 2*).

Relevant Topics for Stakeholder Groups and the Bank (topics with medium or high relevance in the study)		
Chart 2		
No.	Description	Coverage
ETHICS, TRANSPARENCY, AND HUMAN RIGHTS		
1	Labor practices and Human Rights (staff)	Internal
2	Human rights in business relationship (customers and suppliers)	Internal and External
3	Fair and equal treatment in value chain	Internal and External
4	Anticorruption and anti-money laundering	External
RESPONSIBLE FINANCES		
1	Information about key products and services	External
2	Market share and economic performance	External
3	Coverage of services and distribution channels	External
4	Customer satisfaction	Internal and External
5	Responsible investments (activities financed by the Bank)	External
6	Customer privacy and data leaks	Internal and External
7	Social investment programs	External
8	Financial inclusion	External
9	Financial education	Internal and External
SAFETY, HEALTH & ENVIRONMENT		
1	Environmental management policy and system	Internal
2	Water, paper, and energy consumption and reduction	Internal
3	Carbon footprint and climate change	Internal and External
4	Correct waste management	Internal
5	Environmentally friendly products and services	External
6	Environmental protection expenditure and investment	External
7	Environmental Audit	Internal
8	Customer environmental and social risks management (Saras)	External

Visión y creación de valor

NUESTRA CADENA DE VALOR
G4-9; G4-12; G4-24

El cliente es el foco principal de los procesos productivos de nuestra organización y es hacia quien la institución enfoca su mejor esfuerzo y trabajo para contar con su satisfacción, por medio de los procesos de **Gestión comercial; Gestión de canales y servicios, y Gestión de recuperación y cobranzas**. A través del relacionamiento con nuestra cadena de valor, encontramos los siguientes hitos principales:



GOBIERNO CORPORATIVO

- Segunda medición del Índice de Sostenibilidad Dow Jones.
- 7 adhesiones voluntarias a diferentes iniciativas de sostenibilidad.
- Ventas: **1.058** millones.



ACCIONISTAS

- Rentabilidad sostenible para mantener la confianza a largo plazo.
- **2.345** accionistas de nuestra organización.



PROTECCIÓN AMBIENTAL



PROVEEDORES

- Relaciones comerciales respetuosas y transparentes.
- **94,04%** de compras a proveedores locales.
- **5,96%** de compras a proveedores internacionales.



COLABORADORES

- **5.388** colaboradores a nivel nacional.
- **64,50%** del personal son mujeres.



CANALES DE ATENCIÓN

- **11.552** canales de atención a nivel nacional.
- **10.110** CBN Pichincha Mi Vecino.
- **1.174** canales electrónicos.
- **268** agencias y puntos físicos.

Gestión
comercial

Gestión de canales
y servicios



Vision and Creating Value

OUR VALUE CHAIN

G4-9; G4-12; G4-24



Faithful to our vision, we create shared value based on the Bank's statement:

"Banco Pichincha is the leader in its market, in terms of image, product share, and service quality, focusing its efforts on the customer by anticipating customer needs, training its personnel, and ensuring a sustainable return for its shareholders."

OVERSIGHT ENTITIES

- Superintendency of Banks and local legislation
- We support anti-money laundering
- **100%** of our staff trained in anti-money laundering

ENVIRONMENTAL PROTECTION

CUSTOMERS

- Pichincha Microfinance earned certification in client protection principles: *The Smart Campaign*.
- **3,068,645** customers nationwide
- **1,328,279** loan transactions

COMMUNITY

- We encourage entrepreneurship, education, and scholarships.
- Economic and social development aimed at the community.
- **3,173** hours of voluntary work by the Banco Pichincha staff.

Recovery and Collections Management

Organizational Structure

G4-34; G4-39; G4-45; G4-47; G4-48

Our organizational structure includes a Board of Directors as the highest body of Corporate Governance. The most important decisions in social, environmental, and economic matters are made by the board, with the Bank's Chairman as the head, accompanied by the members in the General Meeting of the Shareholders, duly registered with and qualified by the Superintendency of Banks. One hundred percent of the directors are independent and do not hold executive posts.

Our mission, vision, and values statements, as well as our organizational strategy and goals, are defined by this important governance body.

The Shareholders hold an annual meeting, as well as special meetings when required or necessary.

As shown in *Graph 3*, the organizational structure consists of three levels:

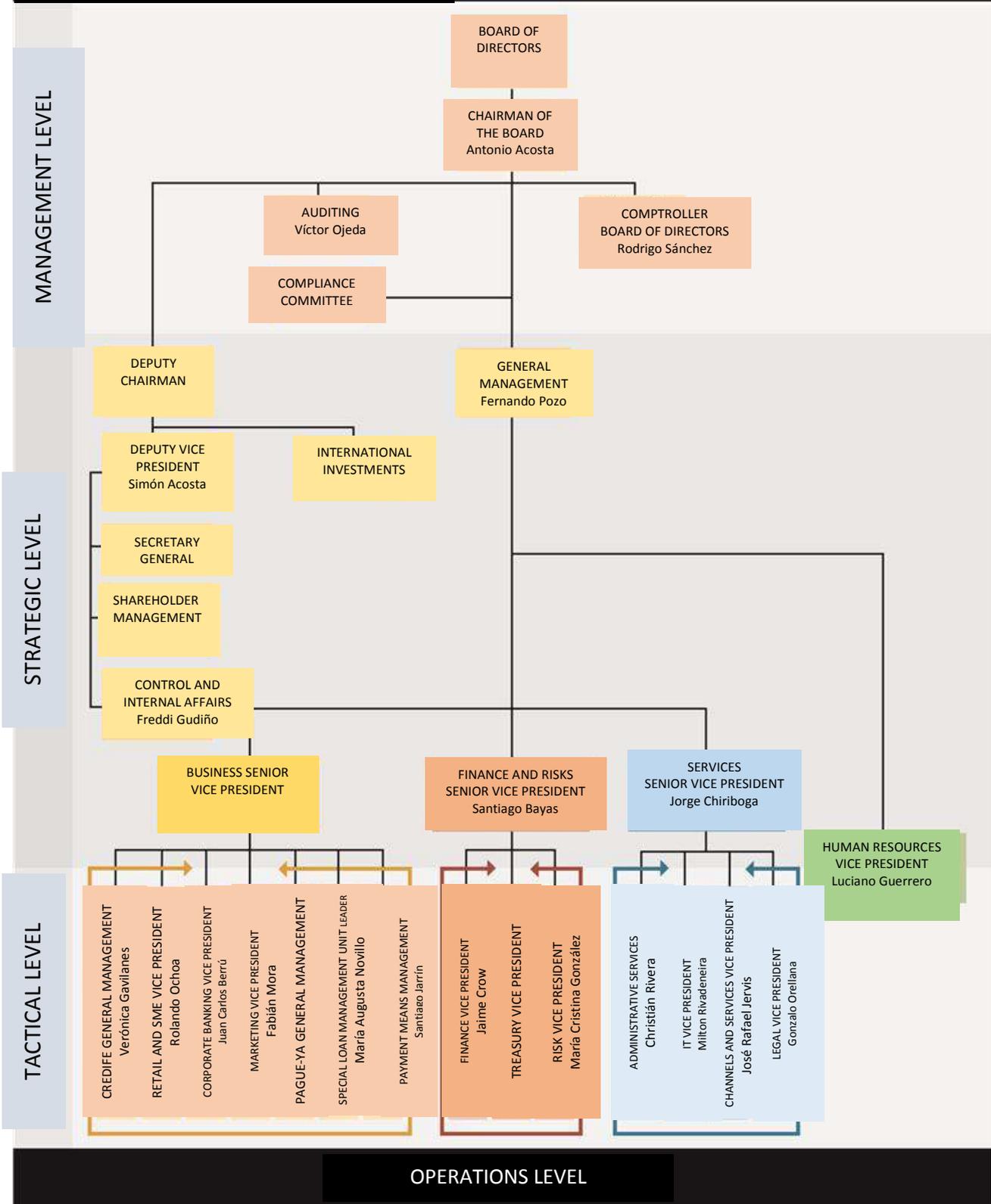
1. Executive
2. Strategic, and
3. Tactical

We have 15 committees that support the work of Senior Management. The committees have decision-making powers in diverse topics that are the reason behind their existence, for promoting the Bank's Sustainable Development. In addition, we have seven committees backing the Bank's tactical-operations management (*Charts 3 and 4*).

- The Bank's highest regulatory organ is its Board of Directors, formed by the Chairman, an alternate director of the Chairman, three main directors, and three alternate directors, who are independent. The members on the Board of Directors are elected by the General Meeting of the Shareholders, in accordance with Article 29 of the Bank's bylaws, for a one-year term, but may be reelected. For sustainability issues, the Board of Directors has a Competition and Sustainability Committee to define social, economic and environmental matters.

- The Competition and Sustainability Committee is an exclusive committee that analyzes, investigates, and provides recommendations on an annual basis for complying with the law and regulations on market power control and the Bank's Sustainable Management Model. Furthermore, it reviews and approves the Bank's *Sustainability Report*, ensuring that all material aspects have been covered.

Organizational Structure
Graph 3



Committees Promoting the Organization's Sustainable Development

Chart 3

ALCO Committee	Focuses on commercial businesses aligned with risk tolerance.
Comprehensive Risk Management Committee	Ensures the Bank's soundness and solvency with the Board of Directors' approval.
Risk Asset Rating Committee	Determines the Bank's risk assets and defines levels of provision required for protecting such assets.
Compliance Committee	Monitors compliance with the rules and policies for deterring money laundering, the financing of terrorism, and other crimes.
Audit Committee	Monitors the optimal operation of internal control systems, institutional objectives and goals, and higher financial results.
Executive Committee	Ensures adequate operations, as well as administration and operations management, at the Bank's Board of Directors level.
Strategy Committee	Plots institutional strategies for fulfilling the budgetary strategic plan.
Ethics Committee	Promotes compliance with institutional principles and values, as well as with the guidelines of the Code of Ethics.
Finance and Risk Committee	Ensures that Bank's soundness and solvency are consistent with financial performance standards.
Business Committee	Plots commercial strategies in line of business.
Human Resources Committee	Monitors, oversees, and supervises compliance with human resources management policies and processes.
Retribution and Good Governance Committee	Observes relationships among the shareholders, the Managing Board, the Board of Directors, and the Bank's management.
Services Committee	Proposes improvements in customer service processes.
Information Technology Committee	Maximizes the return on technological investment aligned with services strategy and corporate guidelines.
Strategic Oversight Committee	Ensures strategies are followed, contributing to the accomplishment of strategic planning goals.

Committees Supporting Tactical-Operations Management

Chart 4

Management Committee	Oversees tasks, in coordination with the vice presidencies.
Portfolio Rating Committee	Each quarter, reviews the evolution and quality of the Bank's risk assets.
Occupational Health and Safety Committee	Keeps the Bank healthy, safe, environmentally respectful, and with top quality service standards.
Procurement Committee	Approves projects, remodeling, construction, and the procurement of goods and services required by the Bank.
Technical Project Committee	Monitors the various stages of project execution.
Competition and Sustainability Committee	Analyzes, investigates, and makes recommendations for complying with the rules, in accordance with the Sustainable Management Model.
Legal Committee	Provides legal advice for minimizing legal risks for the Banks and its officers.

Information and Comments

G4-5; G4-31

For more information, comments, or suggestions about the contents of the *Sustainability Report*, contact Banco Pichincha, Av. Amazonas 45-60 y Pereria, Sustainable Development, telephone no. (593 2) 298 0980, ext. 594738, or email: desarrollo.sostenible@pichincha.com

For matters related to the *Annual Report*, contact María Isabel Tufiño, Shareholders Office, telephone no. (593 2) 298 0980, ext. 593400, or email: mtufino@pichincha.com.

Accuracy and Assurance

G4-33

The independent firm, Deloitte & Touche del Ecuador Cia. Ltda., verified the accuracy and transparency of the data contained in our *Sustainability Report*.



Ethics, Transparency, and Human Rights

This chapter discusses the Bank's workforce, informing the number of our employees and providing a breakdown of the workforce by employee category, region, and gender. In addition, it describes the guidelines that Senior Management has placed at the disposal of employees for building ethical relationships with the Bank's stakeholders and internally, such as through the Mi Pichincha campaign, our institutional DNA, aimed at promoting conduct that is based on values.

G4-DMA

Our ethics, responsibility to society, and the transparency of our work are key to the sustainability of our organization, which has operated in the market for 111 years. We have the resources for improvement, thanks to the values that we instill in our people by way of example, as well as tools such as voluntary accessions supporting and promoting respect for Human Rights, codes of ethic, and formal and clear processes for making complaints and suggestions. Our employees are our main group of stakeholders. For this reason, at all levels of our structure employees receive the information and training necessary, based on that structure, for properly fulfilling their duties and for encouraging their personal and professional growth.

2016 CHALLENGES	2017 CHALLENGES
<p>Renewal of our institutional values</p> <p>Implementation of the Processes Management Model in our organization.</p> <p>Cohaser training model (know, do, and be) for educational self-management of our employees</p> <p>Pichincha Leader: program aimed at maximizing leadership in the Bank's lines of supervision.</p>	<p>Promote the Mi Pichincha organizational culture for fostering the ethical conduct of our people, based on new values.</p> <p>Design a Human Rights policy.</p> <p>Promote the Gender Intelligence program.</p>

Ciclo de permanencia de nuestros colaboradores

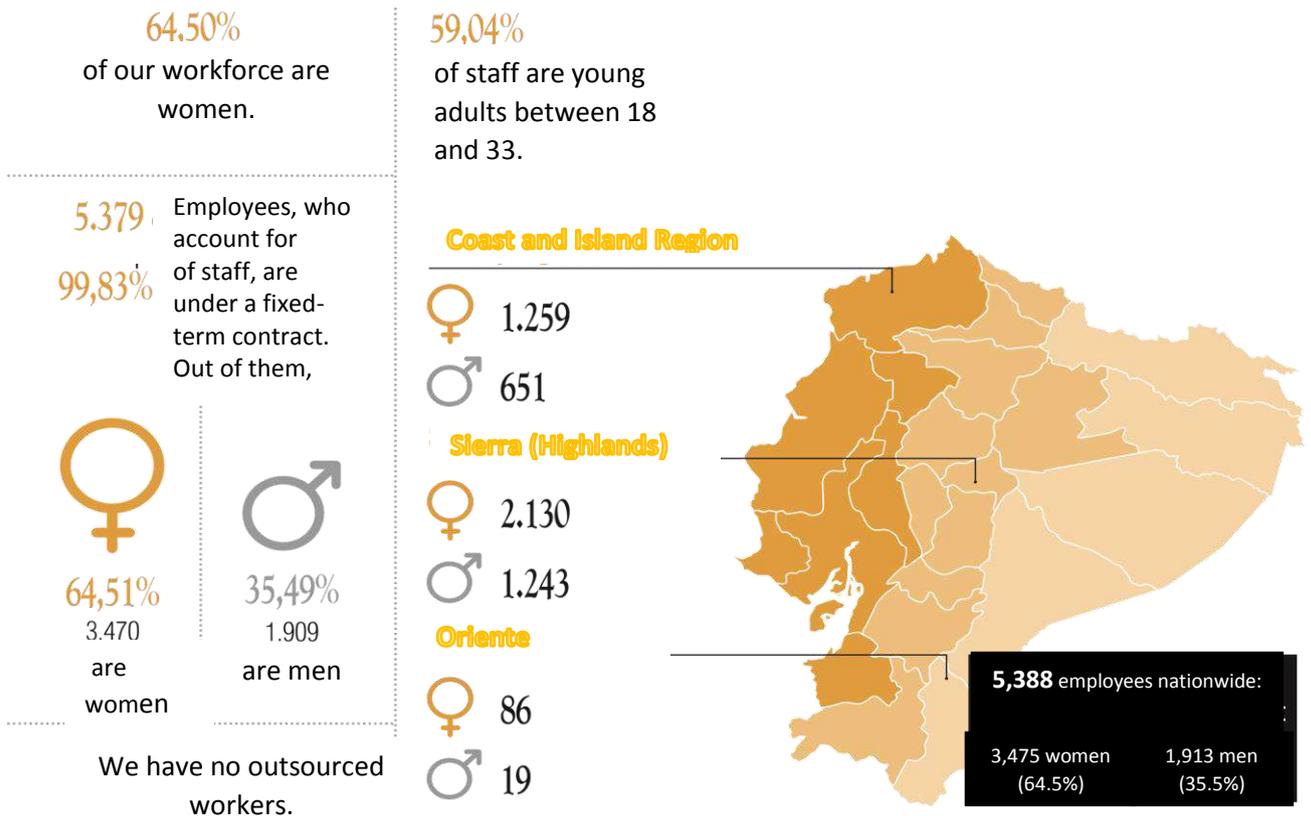


Our People

HUMAN RESOURCES MANAGEMENT G4-10; G4-EC6; G4-LA12

Banco Pichincha has 5,388 employees nationwide. Their work contributes to the development of our organization by building up a close relationship of trust among the employees themselves and with customers. The objective is for our Bank to become a model of human banking within and beyond our country. Our workforce is composed mostly of young women between the ages of 18 and 33 (*Charts 1 and 2*).

1,799 employees, accounting for 33.39% of our staff, have received 301 hours of training in Human Rights issues.



Our Corporate Composition by Gender

Chart 1

Employee Category	Women	%	Men	%	Total	Total %
Assistant / Auxiliary	1,116	32.12%	591	30.89%	1,707	31.82%
Technician / Analyst / Executive / Support	775	22.30%	364	19.03%	1,139	21.56%
Supervisor / Coordinator / Specialist	1,003	28.86%	524	27.39%	1,527	28.69%
Chief / Expert / Administrator	523	15.05%	344	17.98%	867	15.29%
Individual in Charge / Manager	57	1.64%	73	3.82%	130	2.29%
General Manager / Vice President*	1	0.03%	17	0.89%	18	0.35%
Total general	3,475	64.50%	1,913	35.50%	5,388	100.00%

* 100% of Manager/Vice President group are Ecuadorian (Charts 1, 5, 11).

Our Corporate Composition by Age

Chart 2

Employee category	18 - 25	26 - 33	34 - 41	42 - 49	over 50	Total
Assistant / Auxiliary	605	817	160	77	48	1,707
Technician / Analyst / Executive / Support	104	620	301	90	24	1,139
Supervisor / Coordinator / Specialist	93	716	512	165	41	1,527
Chief / Expert / Administrator	6	219	341	234	67	867
Individual in Charge / Manager		1	30	62	37	130
General Manager / Vice President			3	4	11	18
Total General	808	2,373	1,347	632	228	5,388

New Hires

G4-LA1 (Chart 4)

92.35% of new hires are young adults between the ages of 18 and 33.

New Hires by Gender

Chart 4

	Female	Male
	201	559
	207	330
Coast and Island Region	162	333
Sierra (Highlands)	326	529
Oriente	9	27
Total	497	889

Diversity in Our Organization

G4-LA12 (Chart 5)

We promote an environment in which there is respect for diversity, promoting real inclusion and respect for Human Rights. Our culture of values drives us to have diverse work teams who respect each other.

86 employees with a disability are between 18 and 30, and account for 42.36% of all disabled personnel. 117, accounting for 57.64%, are

between the ages of 34 and 50.

Personnel with Disabilities				
Chart 5				
Employee category	Women	Men	Total	%
Assistant / Auxiliary	52	91	143	70.45%
Technician / Analyst / Executive / Support	19	17	36	17.73%
Supervisor / Coordinator / Specialist	4	11	15	7.39%
Chief / Expert / Administrator	1	4	5	2.46%
Individual in Charge / Manager	2	2	4	1.97%
Manager/ Vice President*	0	0	0	0.00%
Total general	78	125	203	100.00%

Turnover

In 2016, there were 937 resignations by personnel under fixed-term contracts, mirroring a 17.39% turnover index. *Chart 3* provides data by number of years of seniority, while *Chart 6* contains data by gender and age.

Bank Employees - Seniority in Years				
Chart 3				
0 to 5 years	6 to 10 years	11 to 15 years	16 to 20 years	Over 21 years
56.94%	23.76%	10.04%	5.20%	4.06%

Total Turnover by Range of Age and by Gender

Chart 6

Age and Gender	18 - 25	26 - 33	34 - 41	42 - 49	Over 50	Total
Women	161	211	101	39	18	530
Men	87	154	83	55	28	407
Total	248	365	184	94	46	937

Turnover by Region: Coast and Island Region: 34.58%; Sierra (Highlands): 63.61%; Oriente: 1.81%

Gender Intelligence and Promotion of Human Rights

G4-LA13; G4-HR2

In 2015, we acceded to the *7 Women Empowerment Principles*, promoted by UN Women, which encourage gender leadership and equal opportunity. Premised on this public commitment, we designed the Gender Intelligence Program in 2016 to encourage women's active participation in society and to achieve more efficient results in the job, family, and personal ambitions.

We will continue to carry out the work plan in 2017 to build up leadership and empower women in Banco Pichincha's value chain: employees, customers, and suppliers. Some of the key milestones of this program were raising awareness among staff about the importance of having male/female teams at all the organization's levels and training the commercial force on strategies for sales targeting female customers.

ACTIVITIES CARRIED OUT IN 2016

- International Women's Day, March 8: *Women's Leadership and Participation* conference by UN Women, with the attendance of 73 people.
- Benchmark of the best international practices in the application of gender intelligence.
- Bank's participation in the *Women for Women "Talent Has No Gender"* Prize.
- Internal and External Communication Campaign in support of the *UNiTE* initiative. Paint the world Orange by UN Women to end violence against women.

- Creation of a diagnosis tool, based on the seven principles of women’s empowerment and report on gaps found.

Investing in equality will lead us to create a champion gender model.

Gender Salary Ratio

Our salary structure is defined by taking the payment trends of the Ecuadorian job market and internal equal opportunity into account. In this context, salaries are paid based on work and not on the person, thus ensuring no distinction between genders.

For this analysis, we look at the job of a bank teller. Across the nation, our Bank has 1,261 tellers, accounting for 23.4% of the workforce. A teller’s job is regarded as significant in view that it is massive, key, and critical for the Bank’s operations. For this employee category, there is no major distinction in salary by gender, as seen in *Chart 7*.

Salary Ratio Gross Income by Gender

Chart 7

Region	Men	Women	Proportion of Men’s Salary	Proportion of Women’s Salary
Sierra (Highlands)	51.73%	56.32%	\$ 1	\$ 0.99
Coast	45.60%	39.39%	\$ 1	\$ 0.99
Amazon	1.87%	4.18%	\$ 1	\$ 0.98
Island	0.80%	0.11%	\$ 1	\$ 1
Total	100%	100%		

At our Bank, there is respect for



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y. We encourage a culture of respect and inclusion to ensure there is no discrimination, whether because of ethnicity, belief, orientation, or otherwise. We promote a healthy work environment, instilling a sense of belonging in our people.

We Value Diversity and Non-Discrimination

G4-HR3

During 2016, no complaints concerning race, color, gender, religion, opinion, origin, social stratus, or other significant forms of discrimination were received through the complaint channels crafted for this purpose.

We promote job inclusion for disabled individuals, offering them a work environment free of discrimination and persuading them to build their own skills. In 2016, together with the Pontifical Catholic University of Ecuador and the CRISFE Foundation, we carried out a project surveying the needs of disabled individuals, with regard to the employment cycle, in order to ensure employee wellbeing and get a clearer picture of their needs and expectations. As a result, we put together a matrix for a comprehensive work plan for 2017 that includes designing horizontal and lateral career plans, with significant improvement in communication through inclusive channels, an institutional awareness program, and entrepreneurship programs focused on commercial and service businesses.



175 people with disabilities participated in the study. 71% of those surveyed said that the Bank promotes job inclusion and 74% stated they were interested in complementary activities.

Staff Benefits

G4-LA2; G4-LA10

When an employee joins our extensive Pichincha family, it is a big deal to us. That's why we celebrate an employee's first day of work at the Bank with a warm welcome and a small gift with a picture to remember that day. This is also to let the employee know that together we will reap significant accomplishments to maneuver the country's best and largest financial corporation.

In order to ensure the comprehensive wellbeing of our employees, we have designed different actions comprising the following services or benefits for staff under fix-term contracts across the nation, without any differentiation made in health insurance, life insurance, employee loans, savings plans, daycare bonus, commissary card, and so on.

Actúa (Act) for Your Wellbeing

This program informs about the different alternatives available to our employees and their families, in support of their comprehensive development and wellbeing.

Program Axes:

1

PHYSICAL TRAINING

We encourage our employees to play sports and live a healthy life style.



Pichincha Runners:
Race
Training for races,
97
162 participants.



Participation in Huarmi

Runner Quito:
participants.



Dance Workouts Quito:
59 participants.

2

EDUCATION

We process agreements with various third- and fourth-level educational institutions that are specialists in technical, undergraduate, and postgraduate studies, as well as in education in different development topics, with attractive discounts for employees.



11 discount agreements
with educational institutions nationwide.



10 onsite talks with
different educational centers.



2016 Cohaser Fair
in Quito.

3

HEALTH

We continue our campaigns to promote the health and proper nutrition of our employees and their families.



Agreements with medical centers not
covered by our insurance policy.



Nutritional talks and
identifying overweight
Individuals.



Discount agreements
for alternative
medicines.

4

IMAGE

We push to maintain a corporate image standard among our people nationwide.



Provider agreements at the national level.



Our corporate image standards.



Manuals on how to properly wear the uniform.

5

FAMILY WELLBEING

We offer family and personal support programs; for example, Family School, Klubo, and Our Children Visit Us, as described below:



Our children visit us:

3 cities, 115 children



Klubo: virtual platform for

preventing risk behavior.
48 participants.



Family School:

3 onsite modules 273 participants

a) Family School. We foster the employee's comprehensive development and wellbeing by furnishing information, raising awareness, and providing education in family-related issues, looking to build healthy relationships within a positive environment that boosts personal performance. In the first phase, 3 modules of talks and meetings are given on the following topics:

- **Family life;**
- **Healthy relationships;**
- **The wonderful experience of becoming a parent.**



For 2017, we will expand coverage of the Family School to include other provinces, through specialized workshops for or on parents, married couples, youth, safe maternity, and care for the elderly and the disabled.

b) Klubo. In order to prevent risk behavior in preteens (9 to 12 years of age), who are children of our employees, we activated the Klubo virtual platform nationwide. Through that platform, parents and children can address topics that are usually tough to discuss, such as drug use, use of the social network, and sexuality.

c) Our Children Visit Us. We prepare different learning activities for our staff's children to visit the workplace and appreciate the efforts their parents put forth every day at the Bank. The children can engage in different lucid activities that we prepare. In 2016, this program was carried out in the cities of Quito, Ambato, and Riobamba.

Pichincha Recognition

This year we held the second edition of *Reconocimientos Pichincha* ("Pichincha Recognition"), a program for recognizing the work of our employees as a way to continue to reinforce positive behavior and conduct that boost the productivity of employees for pursuing the corporate strategy.

After projects were rated by the Sustainability Subcommittee in the first instance, and then by the Sustainability Committee a second time around, the winners were announced in the awards ceremony.

Based on our institutional strategy, the categories were defined as:

- Focused growth
 - Organizational synergy
 - Better operating efficiency
 - Customer focus
 - Financial sustainability
-
- 34 participating projects
 - 194 employees nationwide

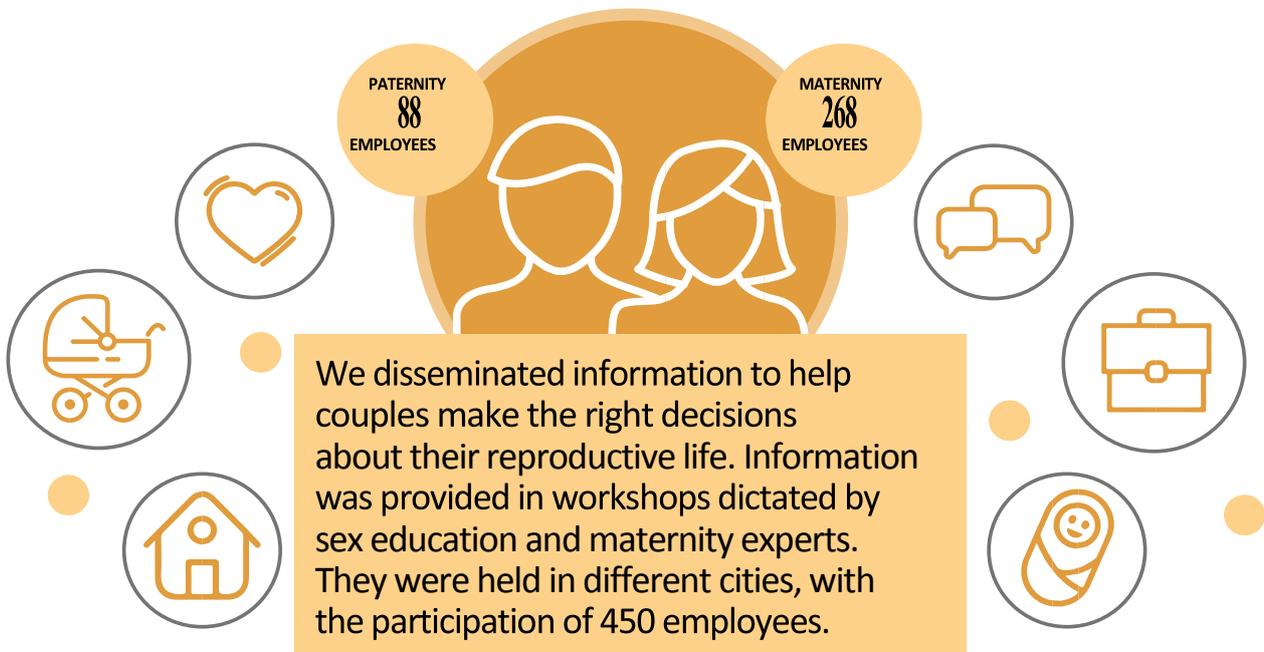
Maternity and Paternity

G4 LA3

Aware that during pregnancy the mother should enjoy a happy, protected, loving, and wellbeing environment, we came up with a guide for future mothers and fathers that discusses healthy family living during pregnancy and healthy birth and adequate growth. This guide offers tips on pregnancy, postpartum, and nursing. One hundred percent of our employees who were entitled to maternity or paternity leave did in fact take that leave (*Chart 8*).

Through our Family School program, we encourage our employees to be well informed fathers or mothers to bring up healthy and well-cared-for children. This is how we contribute to improving the family relationship of our employees.

Maternity and Paternity Leave		
Chart 8		
	Women	Men
Took the leave.	100%	100%
Returned to work after the leave.	98.50%	93.18%
Continue to work at the Bank 12 months after they returned to work.	95.15%	96.59%

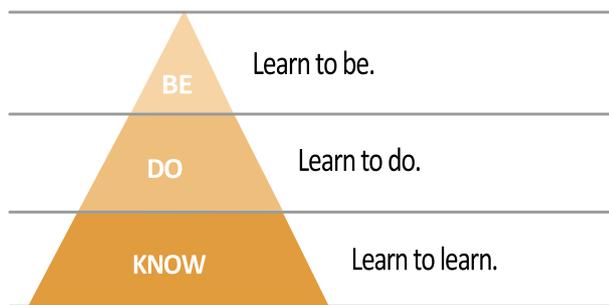


Professional Education and Development

G4-LA9; G4-LA10

TOGETHER WE BUILD YOUR DEVELOPMENT

This is the slogan of our new training model, Cohaser. The era of knowledge drives us to build teams capable of being self-managed, with updated and the latest knowledge. On that basis, we redefined the way of training our staff so that each employee can become the driver of his/her own learning process.



This is how Cohaser started in October. It is a model that weighs in on the person as a whole: knowledge, skills, and attitude. This model acknowledges that training is a means for employees to become the protagonists of their own development and for them to reach their organizational and professional goals, by reinforcing their strengths.

Our employees can take advantage of online courses, master talks, and a repository of knowledge for self-learning about different topics they are free to choose from. It is a self-learning method that provides tools for opening up opportunities for employees to gain knowledge and build up their skills. (*Chart 9*).



BENEFITS FROM ONLINE EDUCATION

- Learning independently and at one's own pace.
- Free and easily accessible knowledge.
- Encourages the student to be responsible and gain self-control with regard to his/her own progress.

This proposal looks to provide the tools for personnel leaving the Bank, whether at will, because of retirement, or otherwise, so that after their departure they may gain knowledge enabling them to keep on working or to carry out an activity of interest to them.

Courses Offered:

- Basics of entrepreneurship: thought and action;
- Creation of a business as a life option;
- How to set up a business under the Lean Canvas method.

Onsite and Distance Education				
Chart 9				
Category	Total Number of Hours of Education by Category	Total Number of Employees by Category	Average Number of Hours of Education 2016	Average Number of Hours of Education 2015
Assistant / Auxiliary	45,841.86	1,707	26.85	10.48
Technician / Analyst / Executive	34,323.46	1,139	30.14	33.30
Supervisor / Coordinator / Specialist	66,898.20	1,527	43.81	36.40
Chief / Expert / Administrator	42,944.28	867	49.54	71.39
Individual in Charge / Manager	8,917.46	130	68.60	65.53
General Manager / Vice Presidents	656.00	18	36.44	44.00
Total	199,581.26	5,388	37.04	32.39

Modules Covered in the Pichincha Leader Program

Graph 1



Pichincha Leader

This program was created to cultivate and bolster leadership skills and organizational values of 1,200 lines of supervision for responding to new challenges and changes. They will become the leaders of ethical values and work commitment. The modules covered are found in *Graph 1*.

Across the nation, we have provided 199,581.26 hours of training onsite and online, representing a 1.28% increase compared to 2015, due to the relevance that the organization ascribes to the educational and development processes for our personnel (*Chart 10*).

Average number of hours of onsite and distance education

Chart 10

Gender	Average Number of Hours
Female	37.69
Male	35.87

Performance Evaluation and Professional Development

GA-LA11

The evaluation process, applied in the 2016 period, directly supports staff's development and contributes to following the organizational strategy. The applied method considered that the contribution of separate results, when added together, shape the Bank's achievements, in each one of the strategy drivers. The following dimensions were taken into account for personnel evaluations:

Strategic Dimension 10%	· Institutional Balanced Scorecard (BSC)
Management Dimension 70%	· Sole performance indicator · Individual BSC Individual / Budgetary Compliance Index (BCI) · Individual / Projects / Objectives
Consistency Dimension 20%	· Outcome reporting team (line of supervision only) - Supervisor's evaluation

One hundred percent of our employees who comply with the requirements defined in the Overall Performance Evaluation (OPE) policies receive their evaluation, and they represent 91.78% of personnel. The reason for the 8.22% who did not receive their OPE was because they failed to meet the requirements of the policies; for instance, they do not have minimum evaluation time required, in view that they are no longer with the organization, or because they are under casual contracts.

The application of this evaluation method offers our employees opportunities to progress, thus serving as a vehicle for personal and professional growth (*Chart 11*).

Overall Performance Evaluation (OPE)				
Chart 11				
Employee category	Women	Men	Total Number of Employees	OPE %
Assistant / Auxiliary	1,001	525	1,526	89.40%
Technician / Analyst / Executive	766	357	1,123	98.60%
Supervisor / Coordinator / Specialist	986	513	1,499	98.17%
Chief / Expert / Administrator	514	338	852	98.27%
Individual in Charge / Manager	55	71	126	96.92%
General Manager / Vice President*	1	16	17	94.44%
General Total	3,323	1,820	5,143	95.45%

Management Model by Processes in the Organization

In order to adapt to the country's economic reality, our organization completed the implementation of a Management Model by processes, with the following goals:

- To boost productivity and operating efficiency at the structural level, in all areas of the Bank.
- To identify, analyze, and implement improvements in business processes.

This project was executed in four key phases, which have produced the deliverables shown in *Graph 2*.



By including the Management Model by processes in our organization, we have optimized 11% of the Bank's headcount, adapting to the country's economic reality.



At Banco Pichincha, we have:

14 macro processes

59 processes

104 subprocesses

Ethics and Transparency in Our Organizational Culture

G4-56; G4-57; G4-LA16

RENEWING OUR CORPORATE VALUES

Banco Pichincha, aware that institutional values convey the Bank's identity, redefined its values statement in 2016. Its current values are:

- **Integrity:** act the way we are: hardworking people.
- **Responsibility:** always be ready to commit and to be responsible for the consequences of our work.
- **Service:** pursuing customer satisfaction.
- **Solidarity:** solidarity with all people, even with strangers we know live in less-than-adequate conditions.
- **Productivity and Innovation:** so that every day our efforts reap more and better fruits.

We continue to apply and disseminate our Code of Ethics, which governs the business relationship with our stakeholders that is initiated by personnel, to achieve transparency in the business relationship. We continue to apply our Responsible Collections Code for protecting customers, as well as a specific code for the Microfinance segment, due to the vulnerability to which the customer and the employee are exposed. In addition, our Corporate Governance Code contains the guidelines designed by Senior Management.

Internally, we have an Ethics Hotline for receiving reports or comments by our workers about ethical issues or assistance in social work matters. Five reports and 36 social cases have been submitted (about catastrophic illnesses, mental problems, and so on) through this completely confidential channel available in the various internal communication means.

“We have reviewed and updated our organizational values and principles, which stem from the Bank’s roots and constitute its essence, identity, and personality. Therefore, our employees have the obligation to accept, practice, and preach them.”

QUOTED FROM LETTER BY MANAGEMENT

Control and Internal Affairs Complaint Mechanisms

G4-58; G4-57

The Control and Internal Affairs area is in charge of identifying and preventing fraudulent activity within our organization, following a fraud management method. Various investigation techniques are applied in the case of fraudulent acts and labor, civil, or criminal action may be taken depending on the results of the investigation.

We have a communication channel available for our employees. If necessary, they may report the breach of the antifraud policies in effect in our organization. We also have an internal reporting policy for Bank officers to report fraud and breach of policy, and for parties making reports to get advice about how to act in the event of fraudulent behavior or breach of procedure (*Graph 3*).

Reporting Channels
Graph 3

	<p>E-mail: usrpdenu@pichincha.com</p>		<p>Code of Ethics for Employees</p>
	<p>Hotline: Ext. 395362</p>		<p>Code of Ethics for Suppliers</p>
	<p>Internet Intranet Application</p>		<p>Responsible Collections Code</p>
			<p>Corporate Governance Code</p>

What may be reported?

- Internal fraud (illegal association between officers and third parties)
- Acts in violation of the internal regulation
- Unethical propositions
- Corruption/bribery
- Conflicts of interests
- Breach of information security policies
- Anything that breaches the Bank's policies and procedures; employees' misuse of confidential customer information or violation of bank secrecy rules

The following are the main information and training mechanisms regarding the different reporting channels:

- E-learning: fraud prevention
- Internal dissemination of reporting channels
- Campaigns giving tips for preventing, detecting, and reporting this kind of suspicious activity through the Bank's internal communication channels.

Anticorruption and Anti-Money Laundering

G4-S03, G4-S04; G4-S05

We maintain processes for managing the risk of money laundering, as well as the risk of the financing of terrorism and other crimes (AML/CFT), in order to control exposure thereto. We identify, measure, monitor, and control the Bank's AML/CFT risk-generating factors, specifically in 225 branches that account for 83.95% of the total.

100% of staff, including Senior Management and the Board of Directors*, received AML training.

*The Board of directors is formed by eight members in the Sierra (Highlands) region.

After applying the method, the risk factors identified are customers, products and services, channels, and geographical zone, which form the AML-CFT matrix. We monitor and analyze customers' transactions; unusual and unjustified operations are reported to the competent entity—the Financial and Economic Analysis Unit.

In 2016, we processed 27,117 customer alerts originating from diverse sources, such as the monitoring system, employee reports, news from the press, oversight entities, offshore banks, and so on. Reports concerning 2,094 customers, representing 7.72% of the total, were made to the Financial and Economic Analysis Unit because of unusual and unjustified transactions.

In addition, we gave talks to our business partners about the Bank’s policies and procedures for combatting corruption (*Chart 12*). No employees have been fired from the Bank because of money laundering issues.

The Qualitative Matrix Method is updated every two years. In December 2016, the last version was updated and will be used in the next two years.

Furthermore, we gave awareness talks to groups of workers from security companies that provide their services to the Bank. In 2016, the *Anti-Money Laundering for Directors and Senior Management* annual conference was given by expert speakers from the U.S. Embassy. They discussed real cases and the best practices that may be applied for achieving a solidly controlled environment and for preventing the effects of this crime.

Training in Anti-Money Laundering topics			
Chart 12			
Business Partners	No. of Employees	Percentage Trained	Region
Invin	74	100%	Sierra (Highlands)
Visprot	65	100%	
Seminter	87	100%	Coast, Amazon, and Sierra (Highlands)
Vaserum	183	98%	Coast and Sierra (Highlands)
Tata	112	100%	
Senapro	78	100%	
Almesa	60	100%	

The ***JUNTOS HACEMOS LO CORRECTO*** (“Together We Do What is Right”) program mirrors our conviction and commitment, starting with the Bank’s highest level of management, for bolstering our value-based organizational culture.



Responsible Finances

As market leaders, we have a huge responsibility in the country's economic development. For this reason, we have focused our work on the sustainable growth of the business, including social and environmental criteria in the design and distribution of products and services we offer and creating shared value with our stakeholder groups, mainly our customers, who are the reason behind our business.

G4-DMA

Banco Pichincha offers products and services to its customers that always address their needs and procure to meet their expectations. The Bank works throughout Ecuadorian territory at various service points distributed in all the country's provinces. In this chapter, we will discuss these aspects, microfinance management, our relationships with suppliers, and our social investment programs.

Relevant Achievements in 2016

CLIENT PROTECTION CERTIFICATION

THE SMART CAMPAIGN

The Pichincha Microfinance segment aligned its work with the client protection principles, adding to the international efforts of industry leaders focused on a common objective: to treat customers as the engine of the sector, offering them transparent and respectful financial services. Through the Microfinance segment, we reached a milestone, demonstrating it is possible to obtain the client protection certification in the country, and we became the first Ecuadorian institution to do so.

The Client Protection Principles endorsed by *The Smart Campaign* are the minimum standards that customers expect to receive when establishing a business relationship with a financial institution. These standards seek to protect customer integrity through seven

practices: appropriate product design and distribution, prevention of over-indebtedness, transparency, responsible pricing, fair and respectful treatment of clients, privacy of client data, and effective complaint resolution.

Various of the good practices implemented in Pichincha Microfinance were carried over to the Bank's other segments, thus bearing a positive impact on all our customers.

2016 CHALLENGES

•
First Bank in Ecuador to obtain the client protection certification

The Smart Campaign for the Microfinance segment.

•
Second measurement of our work based on the Dow Jones Sustainability Index, achieving a 16-point increase in our rating.

•
Implementation of Copac* for promoting a resources savings culture.

* Copac: corrective action plans committees.

2017 CHALLENGES

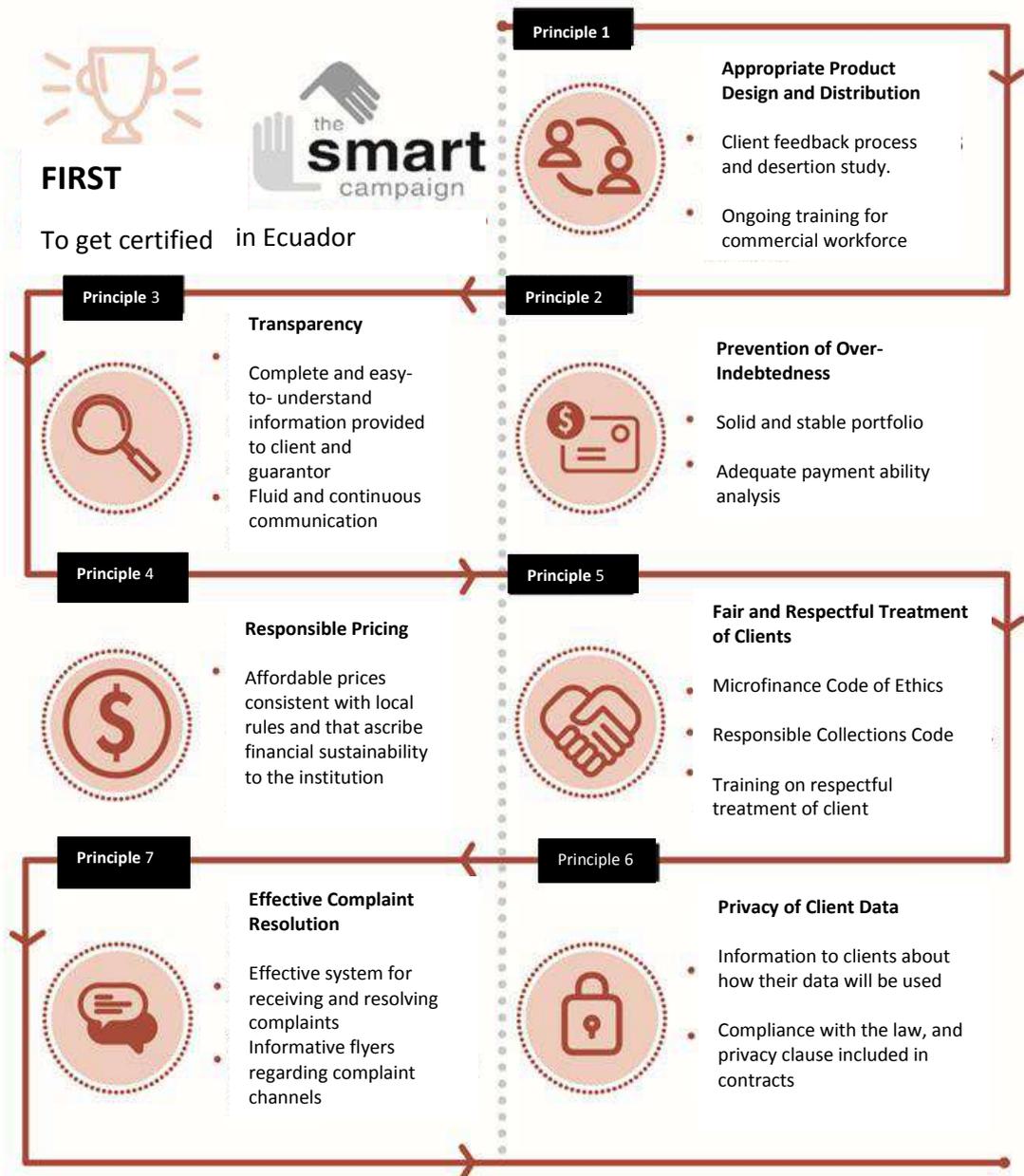
•
Take action to keep up the rating based on client protection principles

The Smart Campaign, aligned with the new 2.0 version.

•
Create a Social Performance Management Indicator System for the Microfinance segment.

•
Launch ecological loans for achieving energy efficiency.

Client Protection Certification for *Pichincha Microfinance*



Dow Jones Sustainability Index

The Dow Jones Sustainability Index (DJSI), a variant of the Dow Jones Industrial Average for the NYSE, is used to rate companies that comply with sustainability requirements and principles. It is a global index that assesses the good practices of companies, based on economic, environmental, and social criteria.

On a second occasion, this time in 2016, Banco Pichincha willingly chose to have its sustainability management measured against this index, which is the most renowned reference at the international level. Based on this measurement, the organization became a frontrunner in sustainability practices, compared to the world's best banks, generating a better return and a better market position, while managing emerging risks.

This time around, Banco Pichincha improved, earning 16 more points in its rating compared to the first measurement made in 2013. This shows that our organization is more committed to sustainability and responsibility with respect to its stakeholder groups. The Bank's challenge is to be in the lead in sustainability and to align its work with the best international practices.

Graph 1 shows the Bank's evolution in terms of the sustainability index by dimension and provides a summary of the primary actions taken.

Between 2014 and 2016, we implemented a work plan that sparked a notable improvement in our index. Data are rated over 100 points and the measurement varies from one year to the next, depending on the score obtained by the financial institution in the lead in the world, in terms of sustainability. Better scores mirror the improvements implemented by such institutions, and also by our Bank.

Dow Jones Evolution 2013 vs. 2016

Graph 1



Implementation of COPAC (corrective actions plants committees)

2016 COPAC results

Graph 2

The COPACs are corrective action plans committees for boosting the savings culture in our Bank. For more information, see *Graph 2*.

We thank everyone at the Bank because, together, we can accomplish and even surpass the goal we have set out!

In 2016, the corrective action plans committees (COPAC) were created. Their main purpose is to define savings initiatives for the organization to accomplish its goal of reducing costs by implementing changes in processes, policies, and procedures.



Administrative COPAC

\$6,252,440



Marketing COPAC

\$14,355,767



Technology COPAC

\$5,003,479



Decentralized COPAC

\$976,437



Human Resources COPAC

\$2,655,451



Channels and Services COPAC

\$2,682,299

\$32 million

in savings



At Banco Pichincha, we practice solidarity.

After the earthquake that struck on April 16, 2016, causing unfortunate adverse consequences for Manabí and Esmeraldas, Banco Pichincha C.A. activated an Emergency Committee to assess the conditions of, and magnitude of damage to, the area, as well as to define and timely coordinate different actions to help our customers and employees.



167.000

customers of Banco Pichincha affected by the April 16 earthquake.
The Bank took the following actions:



42,006 loans
forgiven for customers
from low-income and
micro enterprise
segments.



\$100
million for economic
reactivation.



\$416,002
Voluntary donation by employees
as direct support for earthquake
victims.



\$80
million in loans
refinanced.



500
employees attended crisis
intervention workshops in
Manabí and Esmeraldas.



\$16.8
million in debt
forgiven.

ACTION FOR EMOTIONAL SUPPORT

- Psychological first-aid workshops provided a few weeks after the earthquake, and a specific day scheduled for lines of supervision to reinforce the role of supervisor in times of crises.
- Delivery of emotional support materials and stories for guidance of employees' children.
- Accompaniment actions with *Sigue siendo luz* ("Keep on Shining") workshops provided to emphasize the capacity of resilience, strength, and optimism, as well as for employees to continue to convey a message of change and to be the multipliers of resilience within the different spheres of their lives.
- Lastly, a group of employees participated in individual and group sessions in which the tools for generating a state of adequate wellbeing and for contributing to personal growth were provided.

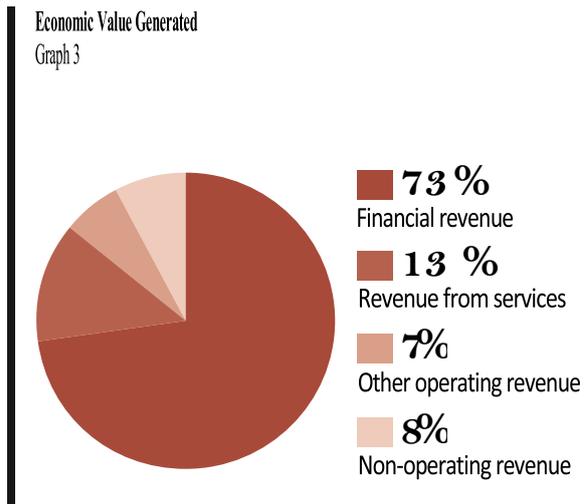


Bank's Economic Performance

G4-EC1; G4-EC4

ECONOMIC VALUE GENERATED

The revenue generated by the Bank in 2016 fell by 6.5%, representing a drop of \$73.9 million compared to last year.¹⁰ Seventy-three percent of revenue comes from financial intermediation: interest, earned commission, and financial earnings (*Graph 3* and *Chart 1*).



Economic Value Generated

Chart 1

	2016 (in thousands of \$)	% share	2015 (in thousands of \$)	% share
Financial revenue	772,991	73.0%	879,524	77.7%
Revenue from services	136,703	12.9%	123,893	10.9%
Other operating revenue	68,783	6.5%	87,811	7.8%
Non-operating revenue	80,027	7.6%	41,223	3.6%
Total	1,058,504	100%	1,132,450	100%

¹⁰ We have not received financial aid from governmental entities.

ECONOMIC VALUE DISTRIBUTED

We focus our efforts on cost reduction by applying a series of measures for this purpose, such as savings initiatives at the operating accounts level, which were subjected to specific follow-up by the COPACs. The reduction achieved was 5.9% (\$35.7 million) in total operating expenses. Nonetheless, the slower-paced growth of revenue resulted in an efficiency index of 78.6%, which is two percentage points below that obtained last year (*Graph 4 and Chart 2*).

Economic Value Distributed				
Chart 2				
	2016 (in thousands of \$)	% share	2015 (in thousands of \$)	% share
Payment to savings and investment accountholders	199,776	19.8%	190,201	17.7%
Payment to employees	166,823	16.5%	170,035	15.8%
Salaries	112,084		122,504	
Mandatory employment benefits	42,788		31,293	
Investment in food and health	7,804		8,254	
Other employment benefits	3,377		6,421	
Investment in training	770		1,562	
Goods and services suppliers	287,443	28.5%	333,705	31.1%
Social investment in the community	3,413	0.3%	3,921	0.4%
Public administration (taxes and contributions)	102,509	10.2%	98,300	9.2%
Operating expenses	237,804	23.6%	257,852	24.0%
Other non-operating expenses	11,585	1.1%	19,986	1.9%
Total	1,009,354	100%	1,074,000	100%



TAXES AND CONTRIBUTIONS

Taxes and contributions in 2016 amounted to \$102.5 million, which is 4.3% more compared to last year, representing an economic value of 10.2% that was distributed (*Chart 3*).

Taxes and Contributions		
Chart 3		
Item	2016 (in thousands of \$)	% share
Cosede (former AGD (Insurance Deposit Agency))	43,909.00	42.83%
Income tax (IRS)	21,694.50	21.16%
Superintendency of Banks	10,912.30	10.65%
Offshore asset tax	2,897.00	2.83%
VAT in purchases (expensed to expenses)	17,061.50	16.64%
Money outflow tax	1,084.10	1.06%
Other taxes	354.50	0.35%
Other institutions	226.80	0.22%
0.15% tax (municipal)	2,291.00	2.23%
0.2% tax University Hospital	204.20	0.20%
Municipal patent tax	1,260.90	1.23%
Property taxes	597.90	0.58%
Superintendency of Companies	15.00	0.01%
Total	102,508.70	100.00%

Banco Pichincha had a 28.45% share in the asset market at December 2016.

PAYMENTS TO SAVINGS AND INVESTMENT ACCOUNTHOLDERS

These payments cover the interest that our customers earn from deposits and investments, interest paid to financial institutions, and convertible bonds. In 2016, there was a 5% increase compared to the preceding year.

PAYMENTS TO EMPLOYEES

These payments encompass all payments to our internal employees. Payments total \$3.2 million, which is 1.89% less than last year.

PAYMENTS TO GOODS AND SERVICES SUPPLIERS

These payments mainly cover costs and expenses related to fees, technological innovation, security, advertisement services, and insurance. The year 2016 reported a decline of 13.7%, equal to \$45.6 million.

SOCIAL INVESTMENT IN THE COMMUNITY

Our Bank is aware of its responsibility with the community and, for this reason, sponsored donations to the CRISFE Foundation in a sum of \$2.8 million.

OPERATING EXPENSES

This item mostly includes: **a)** risk asset provisions required by the Superintendency of Banks; **b)** financial losses and other operating expenses; and **c)** depreciation and amortization. Operating expenses represent 23.6% of the total economic value distributed.

ECONOMIC VALUE RETAINED (EARNINGS)

Due to the country's economic conjuncture, earnings dropped by 15.9%, that is, by \$8.3 million (*Chart 4*) in 2016.

Economic Value Retained (earnings)				
Chart 4				
Item	2016 (thousands of \$)	2015 (thousands of \$)	Variation	
Net earnings	49,151	58,451	(9,300)	
Legal reserve	4,915	5,845	(930)	
Earnings available for shareholders	44,236	52,606	(8,370)	

Our Customers

G4-8; G4-FS6
SERVICE COVERAGE

We service all banking segments through our distributor service channel network in 100% of the provinces (*Charts 5 and 6*).

1,328,279 loan operations in all our segments.

We service the country's 24 provinces, over three million customers.

Customers with active loan operations, by segment

Chart 5

Segment	Subsegment	Total Portfolio	Operations	Customers
Companies	Large corporations	\$ 2,334,706,363	8,643	2.284
	Legal persons	\$ 7,860,815	363	347
	Micro enterprise	\$ 836,760,473	329,447	252.378
	Small business	\$ 1,116,345,726	65,443	41.212
Retail	Retail	\$ 2,277,878,184	936,707	776.600
Total		\$ 6,573,551,561	1,340,603	1,072,821

Banco Pichincha's **3,068,654** customers are the main focus of attention in our daily work.

Customers by Region and City

Chart 6

Region	Retail		Corporate		Total Customers	
	Dec 2016	Dec 2015	Dec 2016	Dec 2015	Dec 2016	Dec 2015
Quito	907,610	819,668	123,813	186,148	1,031,423	1,005,816
Guayaquil	489,203	464,309	96,764	137,617	585,967	601,926
Northern Coast	320,919	279,304	110,569	144,465	431,488	423,769
Central Sierra (Highlands)	168,869	149,990	65,548	77,865	234,417	227,855
Northern Sierra (Highlands)	133,476	120,327	39,665	51,482	173,141	171,809
Central Coast	150,638	140,352	43,142	61,951	193,780	202,303
Cuenca	139,200	123,296	29,326	43,552	168,526	166,848
Machala	94,867	87,443	28,295	37,202	123,162	124,645
Eastern Zone	80,567	74,841	26,467	29,983	107,034	104,824
Spain	19,256	21,368	460	60	19,716	21,428
Total	2,504,605	2,280,898	564,049	770,325	3,068,654	3,051,223

Data include large corporations, SME, micro enterprise, legal persons.

The number of retail customers dropped in 2016 as a result of the implementation of an efficiency process regarding accounts that have not generated transactions in the trailing six months.

The number of corporate customers grew because of the application of a new segmentation model.

In 2016, there was a change in zones. The zones were homologated with previous ones based on the geographical distribution in which they are located.

Service Channels

G4-PR5

We have 11,552 points of service comprising physical and electronic channels available to our customers for them to make their transactions (*Chart 7*).

Service Channels

Chart 7

Physical Channels	Non-Banking Correspondents (NBC)	Electronic Channels
		
2016: 268	2016: 10,110	2016: 1.174
2015: 291	2015: 14,113	2015: 1.132

Physical channels: branches, offices, bank windows, points, and transaction branches.

The number of physical channels contracted because of optimization in bank window extension.

The number of NBCs dropped due to optimization in service zones.

Customer Satisfaction

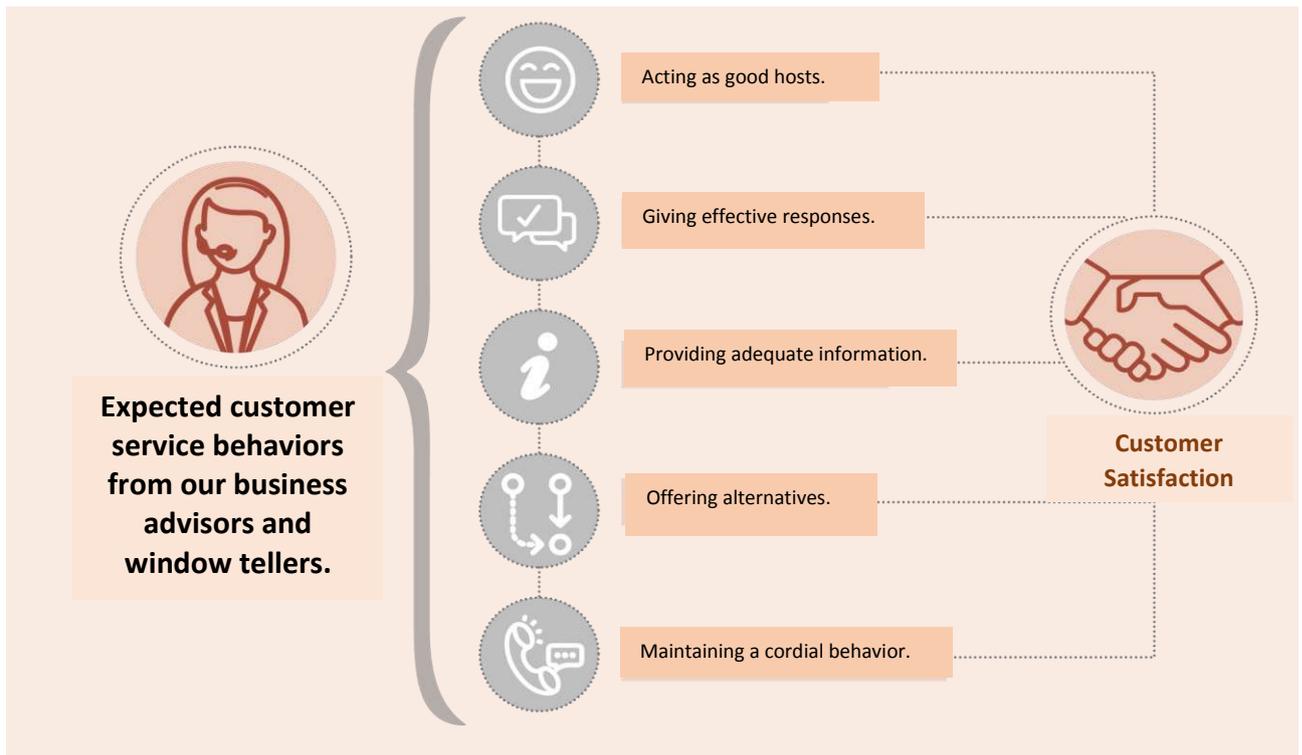
G4-PR5

We implemented and designed methods for measuring customer satisfaction, service quality assurance, and results control, for contributing with improvements to the service model, processes, policies, and procedures followed in different channels.

In 2016, the customer satisfaction Measurement to assess behaviors defined as the reason behind branch services (*Graph 5*).

Our Advisors' Behavior

Graph 5



Measuring Method

Our measuring method consists of telephone surveys and procedures that enable us to continuously monitor compliance with service quality and customer service standards. In the first stage of the measurement, 57 branches in the Regional Quito area were taken into account. The results are published in the *Client* platform, available to branch managers for them to see the results of the customer satisfaction index and manage action plans for covering identified opportunities for improvement.

Chart 8 shows the results of the customer satisfaction index, based on the study conducted in Regional Quito.

Customer Satisfaction Index		
Chart 8		
Oct	Nov	Dec
67.18%	72.42%	77.30%

2017 CHALLENGES

- Continued measurements in Regional Quito.

- Feedback, training, and follow-up of zone chiefs.
- Training and meetings for accompaniment and reinforcement.
- Progressive use of this method in the rest of the country.

Products and Services for Vulnerable Groups

G4-4

In view of the tragedy that hit Ecuador in April 2016, we designed new products and modified existing ones to better serve our most vulnerable customers and reactivate the country's economy. The following are some of those products:

Reactivation Loans. Loans for reactivating the areas most affected by the earthquake were designed. The loans are for longer terms, with grace periods up to six months, for promoting the regeneration of economic activity in those areas.

Refinancing and Restructuring Loans. For customers across the nation, changes have been made in refinancing and restructuring products, especially tailored for those customers with a good credit rating but a reduced payment ability due to the local and global macroeconomic context. In 2016, the primary change in the original products was a longer payment period for customers to have more leeway to cover the needs of their family and also their credit operations.

Loans for Businesswomen and Micro Enterprise Women. As a way to improve the quality of life of women who own a business or a micro enterprise (in the Retail, Microfinance, and Small Enterprise segments), Banco Pichincha launched specific products in support of this niche. The most relevant products in the women's portfolio are loans, savings products, and electronic services. The main difference concerning these products is the type of security required.

We support women who own businesses or micro businesses.

Our Bank completed 1,066 operations amounting to \$3,735,500.

1,020 new companies use Banco Pichincha for their payrolls.

29,053 new customers in 2016 because of salaries paid through the Bank.

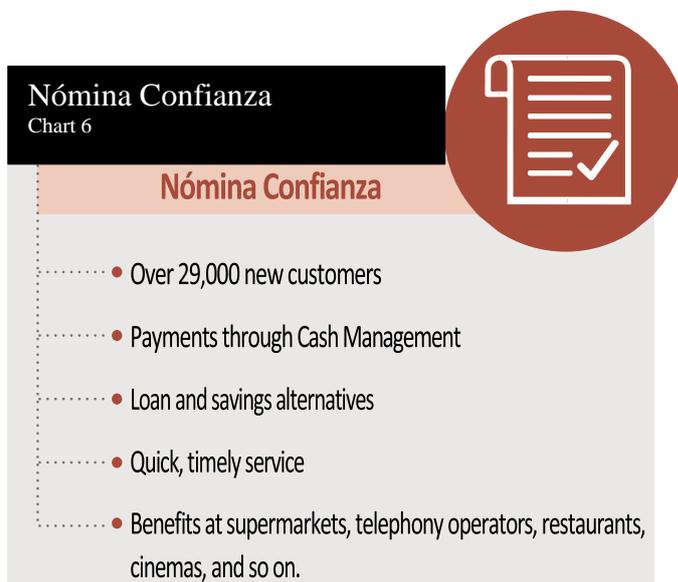
Xperta Account for Refugees. This is a basic savings product offering refugee customers the possibility of gaining access to the financial system. This kind of account may be opened anywhere in the country.

New Services

G4-FS15

Bank References. As of the end of the year, our bank reference application service is available to our customers through the following Bank channels: **1** Retail E-Banking **2** Interactive Cellular Banking **3** Mobile Banking.

Nómina Confianza (“Trust Payroll”). In 2016, the Nómina Confianza service (*Graph 6*) became a turning point. It is a proposal that adds value to the customers in the Corporate, Small Enterprise, and SME segments, as well as to end customers collaborating with those businesses (*Chart 9*).



New Nómina Confianza Customers

Chart 9

Segment	New Employer	New Customer
---------	--------------	--------------

Corporate	84	4,396
Business	335	11,739
SME	387	9,195
Other legal persons	214	3,723
Total	1,020	29,053

ENVIRONMENTALLY FRIENDLY PRODUCTS AND SERVICES

We work on the design and placement of ecological loans contributing to environmental care, pillared on three fronts. They will be massively launched in 2017.



ENERGY EFFICIENCY



SUSTAINABLE CONSTRUCTIONS
AND HOUSING



ENVIRONMENT



To date, 84 ecological loan disbursement operations for a total of \$ 31,500,000.

Service to Disabled Customers

G4-FS14; G4-EC7

Our disabled customers are serviced at our network of branches, offering them a safe environment suitable for their needs. We have low counters and for the blind tactile signage placed on the floor. Fifty-seven branches have access ramps. Branches without ramps are at street level, whether because they are located in a shopping center or because technically it is not possible to build ramps. For infrastructure works, we give priority to the hiring of local contractors for generating jobs in the same sector.



129 branches accommodated in 2016.



Amount invested: \$1,687,116.

6 new branches built this year with infrastructure adequate for disabled customers.

Complaints Management

G4-PR8

We focus our efforts on quickly and efficiently addressing complaints, identifying their causes, as well as implementing corrective measures that allow us to improve our commercial and service processes. As part of our compliance with current rules, complaints are processed within the timeframe set by the regulatory agency. Additionally, complaints forwarded by the Customer Advocate are also processed. We honor bank secrecy.

In 2016, there was a 0.4% increase in the number of basic transactions compared to those made in the year prior. Despite this increase, the number of complaints fell by 25.1%. If this trend is compared with that of previous years, a decline in the ratio may be seen. This demonstrates our permanent commitment to offer quality service to our customers, as may be appreciated in *Chart 10*.

Ratio between Complaints Received and Number of Transactions

Chart 10

Number of Transactions		Number of Complaints	
2016	2015	2016	2015
264,977,758	263,867,563	0.033%	0.045%

During 2016, 88,033 complaints (*Chart 11*) were received and processed. This represents 0.033% of all transactions made in the year. By December 31, 86,360 complaints, that is 98.1% of the total, had been resolved and 1.9% are still in the analysis stage.

Ratio between Complaints Received and Number of Transactions

Source: Complaint tool and requirements.

Chart 11

Type of Complaint	Number of Complaints Received	Composition 2016	Number of Complaints Received	Composition 2015	Variation 2016-2015
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	2016		2015		
Special Cases UAC	1,333	1.5%	600	0.5%	▲ 122.2%
Returned checks not received	719	0.8%	830	0.7%	▼ -13.4%
Xperta card purchases	13,611	15.5%	20,318	17.3%	▼ -33.0%
Fraud, embezzlement, and loss	3,282	3.7%	3,648	3.1%	▼ -10.0%
Transaction inconsistency	2,332	2.6%	5,062	4.3%	▼ -53.9%
Complaints	2,106	2.4%	1,161	1.0%	▼ 81.4%
Complaints through oversight entities	1,167	1.3%	12,83	1.1%	▼ -9.0%
Collections complaints	305	0.3%	420	0.4%	▲ -27.4%
Complaints inconsistencies NBC	6,924	7.9%	4,538	3.9%	▼ 52.6%
Credit card complaints	27,955	31.8%	39,164	33.3%	▼ -28.6%
Withdrawal from ATM	22,306	25.3%	33,584	28.6%	▼ -33.6%
Undelivered credit cards	23	0.0%	2,108	1.8%	▲ -98.9%
Online transactions	4,776	5.4%	3,323	2.8%	▼ 43.7%
Other	1,194	1.4%	1,487	1.3%	▲ -19.7%
Total	88,033	98.5%	117,526	100.0%	▼ -25.1%
Transactions	264,977,758		263,867,563		▲ 0.4%
Complaint/transaction ratio	0.033%		0.045%		▼ -26.7%

In order to reduce the number of complaints about ATM transactions and improve customer service, we reinforced the migration of transactions to the call center, implementing a process for resolving *debited but not paid* complaints, considering these represent 25.3% of all complaints. After the actions were implemented, there was a 26.5% reduction in this kind of complaint.

CHANNELS FOR RECEIVING COMPLAINTS

- 216 service points and branches nationwide.
- E-Banking: www.pichincha.com

- Call Center: 24 hours a day, 7 days a week.
- Interaction via Social Network: Facebook and Twitter.
- For *smartphones*, form for submitting complaints and suggestions.

TRANSACTIONS

In the year 2016, over 230 million basic transactions; compared to 2015, they represent a 9% reduction in the use of channels, such as:

- ATMs: reduction seen in withdrawals.
- Bank Windows: decline in the number of deposits and withdrawals.
- Internet Banking: increase in number of transfers posted.

Economic, Fraud, and Scam Complaints. In 2016, channel security measures were implemented to prevent fraud against our customers. The measures include:

- Modification for logging into E-Banking: this process is for preventing logging in with data other than that submitted in *Bancs*. Only the consultation option is available when data is inconsistent.
- Elimination of payment option.
- Inclusion of OTP (one-time password) for payment transactions through Mobile Banking.
- Change in delay process for first debiting the account and then crediting it.
- Monitoring nonmonetary transactions for logging in and updating data.

This year saw a 12% reduction in fraud and scam complaints. ATM fraud declined the most, as did the number of investigation cases. See *Chart 12*. Furthermore, 24.73% of complaints were approved, 69.1% denied based on the relevant analysis process, and 6.17% partially resolved in favor of the customer.

Number of Complaints and Amounts Involved

Chart 12

Type	Number of Complaints				Complaint Amount			
	Approved	Denied	Partial	Total	Approved	Denied	Partial	Total

ATM transaction fraud	67	1,196	12	1,275	\$37,571.55	\$514,666.34	\$6,755.80	\$558,993.69
POS (<i>Points of Sale</i>) purchase fraud	193	159	3	355	\$ 67,087.37	\$67,158.49	\$1,484.51	\$135,730.37
Number of investigation cases	502	774	175	1,451	\$2,673,136.77	\$2,907,819.99	\$504,607.43	\$6,085,564.19
Total	762	2,129	190	3,081	\$2,777,795.69	\$3,489,644.82	\$512,847.74	\$6,780,288.25
	24.73%	69.10%	6.17%	100.00%	40.97%	51.47%	7.56%	100.00%

Pichincha Microfinance

G4-4; G4-FS13

We provide nationwide coverage (*Chart 13*) and, as added value, we included optional health insurance covering illness, maternity, and outpatient care through a network of clinics at the national level, for both individual and group Microfinance (*Graph 7*).

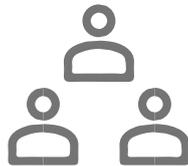
Agricultural loans are granted to customers in the farming or livestock production business who wish to associate through the group method, giving an opportunity to small farmers who want to cultivate land, which must be at least 500 square meters in size (*Chart 14*).

Individual



We service our customers
at their own workplace
in order to understand their needs, foster their
growth, and support the development
of micro enterprise.

Group



We form a group cash office
by associating individuals living,
or owning businesses, in the same sector
and who know each other. They engage
in production activities
and can jointly guarantee each other.

Microfinance Focus

Graph 7



Out of **17**
provinces above the median poverty index
Microfinance Group services
16



Focus on women who are
heads of households.



Presence nationwide.



Out of the **11**
provinces with a low population density,
the Microfinance
Group is present in **9**.

Nationwide Microfinance Service Coverage

Chart 13

	Provinces	Parish Districts	Cantons	Total Number of Offices
Microfinance Individual	100% (24 out of 24)	82.78% (1,029 out of 1,243)	100% (220 out of 220)	147
Communal Banking (Group)	91.67% (22 out of 24)	50.76% (631 out of 1,243)	75.45% (166 out of 220)	14
Point of Sale (Communal)	91.67% (22 out of 24)	50.76% (631 out of 1,243)	75.45% (166 out of 220)	14
NBC Pichincha Mi Vecino	100% (24 out of 24)	58.97% (733 out of 1,243)	97.27% (214 out of 220)	10,110

Key Figures

Chart 14

Data	Microfinance Individual	Microfinance Group
% female customers	48.2%	68%
% customers in rural areas	51.1%	58%
% of customers with primary education	53.41%	47%
Annual Sales: reflected in the number of loans granted	112,485	103,541
Coverage	100%	92%
% of total of Pichincha Microfinance portfolio	77.1%	22.90%
Balance of micro loan portfolio at December 2016	\$ 664,949,165	\$ 39,769,990
Portfolio condonement because of 2016 earthquake	\$ 4.3 million	\$ 8.1 million

LET'S GO FARTHER TO GET CLOSER!

PICHINCHA MICROFINANCE

We focus on improving the quality of life of our micro enterprise customers by employing our methods, individual and group, through our most valuable resource—our staff. Day after day, our employees stand behind the motivation of our Bank, offering quality service with their coordinated work for the good of the community.

Nonbanking Correspondents (NBC)

Pichincha Mi Vecino (“Pichincha, My Neighbor”) is a network of comprehensive and nearby services, with broad coverage, formed by micro-entrepreneurs and small enterprise. Thanks to the technology offered to them by Banco Pichincha, financial and nonfinancial solutions are provided to the different stakeholders in communities (*Graph 8*) during extended hours, Monday to Sunday. This promotes a culture of financial inclusion, based on an innovative model adapted to different business profiles: group or individual micro-entrepreneurs, small enterprise, itinerant sales, multilevel sales, and so on.

The NBC, as another one of the allies in our Bank’s strategy, receives close attention under an efficient mechanism. We offer accompaniment with actions for increasing levels of sales, addressing the NBC’s credit requirements, while impacting his/her financial education, as a way to encourage loyalty. For mass consumption companies, the project facilitates collections processes, thanks to the bancarization of shopkeepers, making the management of their accounts more accessible. Service companies benefit because they have a distribution channel and a package of solutions.



Suppliers

GOODS AND SERVICES PROCUREMENT PRACTICES

G4-EC9

We contribute to the development of the local economy, by hiring a greater number of local suppliers from whom we purchase our primary products and services. This year, we increased the amount disbursed to international suppliers, compared to 2015, mainly due to the purchase of the *E Business Suite* (EBS) and international licenses for using Oracle, as necessary for their operations (*Chart 15*).

	2016		2015	
	\$	%	\$	%
Local payments	\$367,957,120.60	94.04%	\$291,495,094.19	98.30%
Offshore payments	\$23,313,068.89	5.96%	\$5,045,777.72	1.70%
Total	\$391,270,189.49	100%	\$296,540,871.91	100%

Human Rights in Business Relationships

G4-HR5; G4-HR6; G4-LA14; G4-S09; G4-EN32

In the different geographical areas where we have our operations, we have no suppliers who pose a significant risk of child labor. We comply with Mandate 8 in cases where applicable. The obligation to comply with this clause is validated by a supplier qualification process conducted by a third party, based on a checklist, and by making annual onsite visits for verification. We mitigate potential risks by including in our contracts special clauses prohibiting child labor. In this period, we had 437 new suppliers with 100% of them were evaluated, and 80.78% achieved certification by a third party.

More than \$360 million in purchases from local suppliers.



Banco Pichincha complies with the Universal Declaration of Human Rights and demands that its suppliers know, respect, and refrain from breaching it within the organization and in their value chain. For this purpose, we have a Code of Ethics governing the business relationship with our suppliers.



All our suppliers must comply with tax, health, safety & environment obligations.



We promote an upright, honest, and transparent behavior, reject any kind of extortion, and do not accept gifts, money, or loans from suppliers.



We reject all kinds of abuse, harassment, forced labor, child labor, verbal, psychological, and physical abuse, and duress in our suppliers and in their value chain.

Financial Education

METHOD

G4-S01; G4-FS16

The strategic objective of the CRISFE Foundation is to educate the Ecuadorian population during the various stages of their lives. We offer a financial education program consisting of an ongoing process of financial education enabling beneficiaries (*Chart 16*) to improve the management of their resources, access financial products in line with their needs, and make the right financial decisions, depending on their life cycle.

Beneficiaries			
Chart 16			
Children	Adults		SME segment and users in general
Young Children and Preteens	Banco Pichincha* employees	Nonbanking Correspondents	
4,918	4,794	618	13,070
Total beneficiaries			23,400
* Nationwide, 100% of provinces covered.			

To satisfy the particular needs of each audience, the CRISFE Foundation relies on the methods included in *Graph 9*.

Financial Education Methods	
Graph 9	
	<ul style="list-style-type: none"> • Popular: implemented for the female/male public • Aflatoun: for school and preschool children, ages 3 to 12.
	<ul style="list-style-type: none"> • Gender Focus: women. • E-learning: specifically for employees of Banco Pichincha.
	<ul style="list-style-type: none"> • E-learning for college students and personnel of companies. • Directed at executives of nonbanking correspondents.

ERCA: directed at personnel of different companies.

EDUCATIONAL/COMMUNICATIVE PROGRAMS OF FINANCIAL EDUCATION

For raising awareness among the population in personal and family finances, the following communicative and educational products have been crafted and disseminated:



Financial Advice.

Webpage. Contains practical information about the family budget, intelligent consumption, savings, and healthy and safe debt. With the recommendations, key steps, simulators, and other tools, the population can get the tools necessary for properly managing their finances and improving the household economy.

Short film about health debt: *El poder de los sueños* (“The Power of Dreaming”). A colloquial story about an Ecuadorian Family. The film conveys the importance of managing adequate debt within the formal financial system, without resorting to informal moneylenders.

Radio program, *Economía de la vida diaria* (“Economy of Daily Living”). With analyses by economic experts, the program looks to reach out to the population with profound reflections on financial goals, family budget, savings, healthy debt, investment, and insurance, financial system, and customer protection, in order to offer alternatives for improving the management of personal finances.

Financial pocketbook *Mi planificador de sueño* (“My Dream Planner”). Contains the tools for planning a budget, posting loan payments, and identifying savings goals, setting the monthly amount allotted for such purposes.

Radio spots: 41 radio spots with simple and practical information about financial education. The idea behind this material is to inform the public in general about savings and healthy and safe debt. The spots are broadcasted during different timeslots, with an average of ten radio spots from Monday to Sunday, on the Irfeyal radio frequency.

Micro radio program *Historias de gente como uno* (“Stories about People Like Me”). Stories about a family situation, dealing with the importance of responsible consumption and savings. The target audience is youth and adults.

Advice in Financial Education

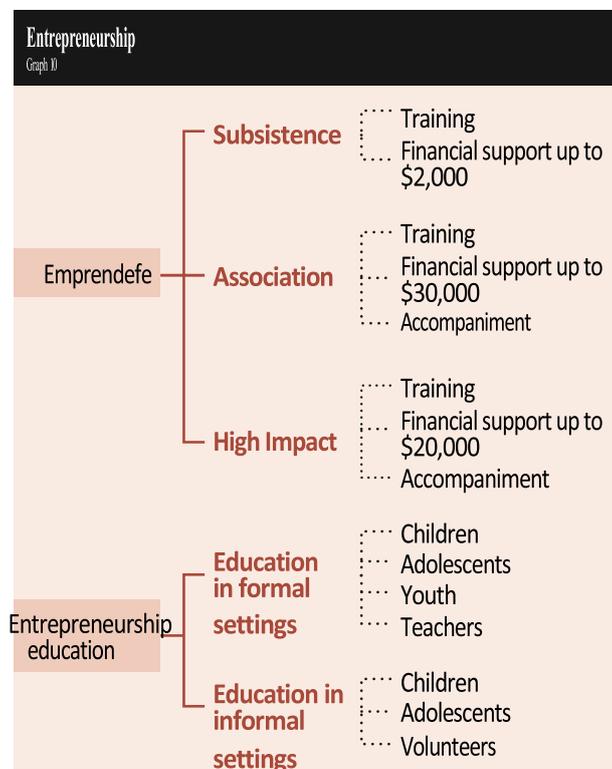
All our employees whose job is to advise microfinance customers have been trained to convey personal and family finances topics to the community with whom they relate.

Social Investment Programs:

entrepreneurship, education, and scholarships

ENTREPRENEURSHIP

Reinforcing and Developing Entrepreneurship Initiatives. The entrepreneurship program aims to educate Ecuadorians for promoting an entrepreneurship attitude with respect to life (*Graph 10*). In this process, the beneficiaries cultivate their personal growth, contributing to the generation of wealth in the country, thus improving the quality of their lives.



Emprendefe. This is an invitation to identify potential entrepreneurs that have a prototype for their product or service, in order to offer them support in terms of training, financing, and/or accompaniment.

•Components

This initiative uses different methods: Emprendefe for subsistence, association, and high impact. In each one of these methods, the following components are addressed:

Entrepreneurship Training: for cultivating an entrepreneurship attitude in the individual and creating viable business models.

Financial Support: for potential entrepreneurs with a business model that produces and delivers value.

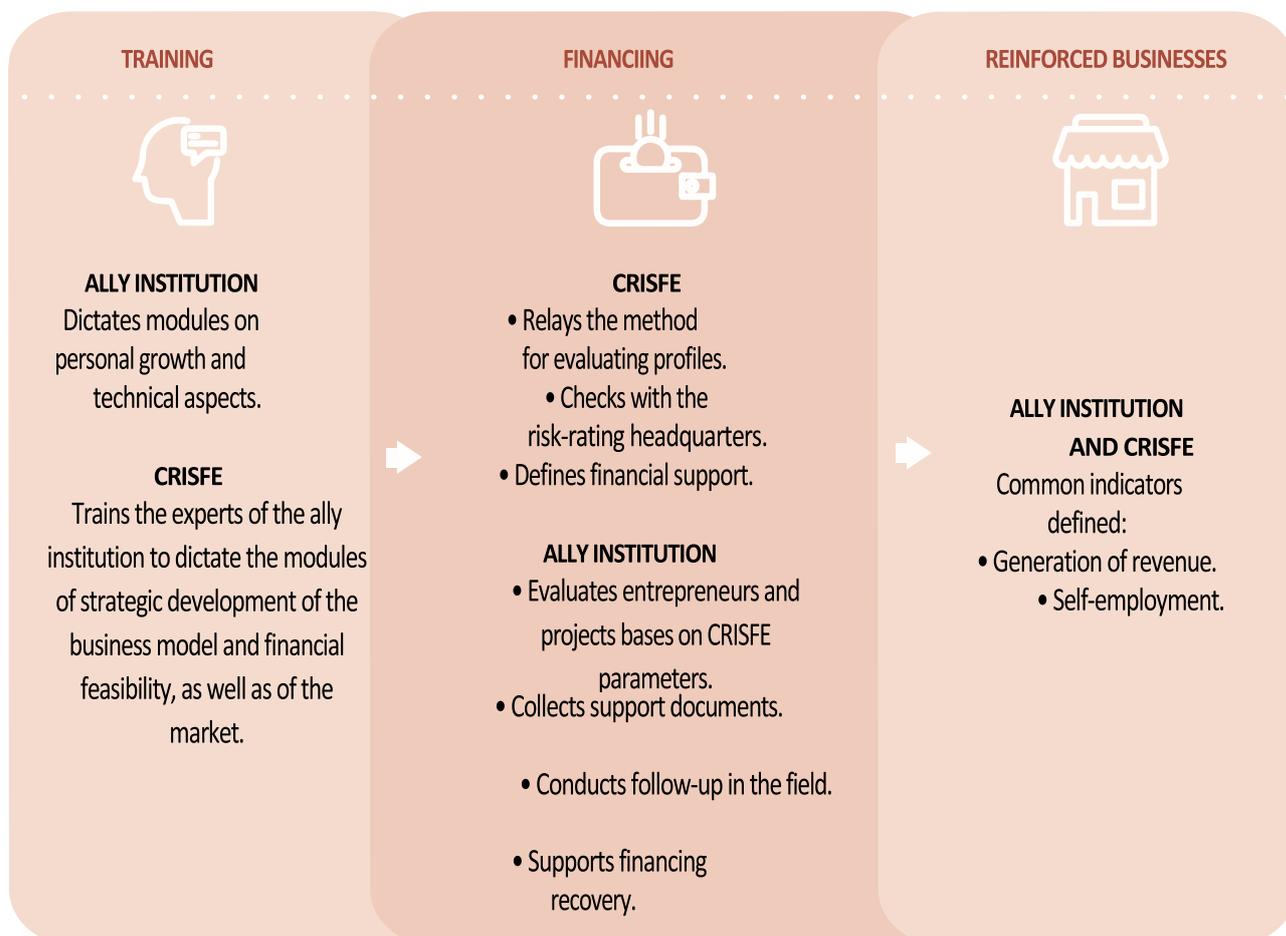
Accompaniment: for entrepreneurs, in basic administrative topics for adequately managing their business, in order to reduce the risk of bankruptcy.

• **Subsistence Emprendefe**

In pursuit of impacting the quality of life of more Ecuadorians, this method aims to foster and bolster subsistence entrepreneurship in the prototype stage. To achieve this purpose, Emprendefe works with strategic partners, for which the role and scope that each institution must have to accomplish program execution are defined (*Graph 11*).

Emprendefe Subsistence Process

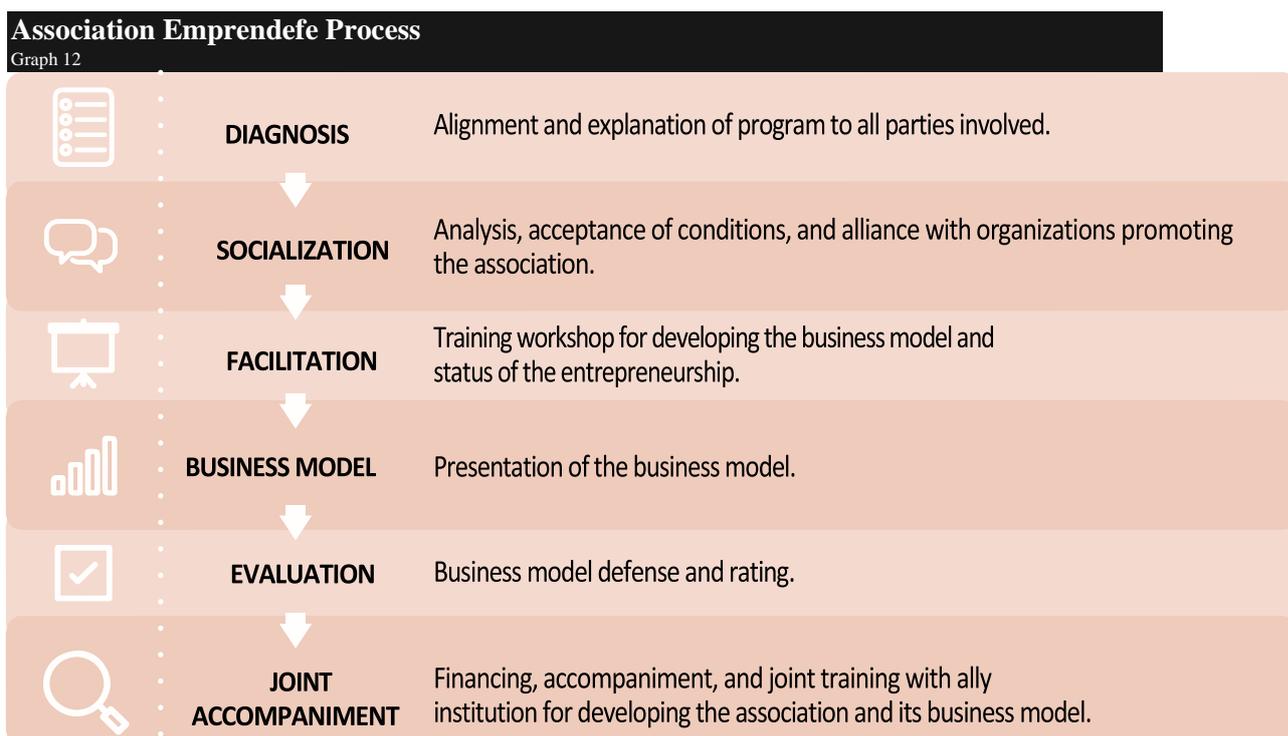
Graph 11



• **Association Emprendefe**

This is a closed invitation made in alliance with institutions fostering entrepreneurs under any kind of formal associations.

The beneficiaries receive training in entrepreneurship and financial education topics, as well as financing if needed and accompaniment in technical, administrative, and entrepreneurship profile reinforcement areas. Throughout the process, the ally institution actively participates together with CRISFE (*Graph 12*).



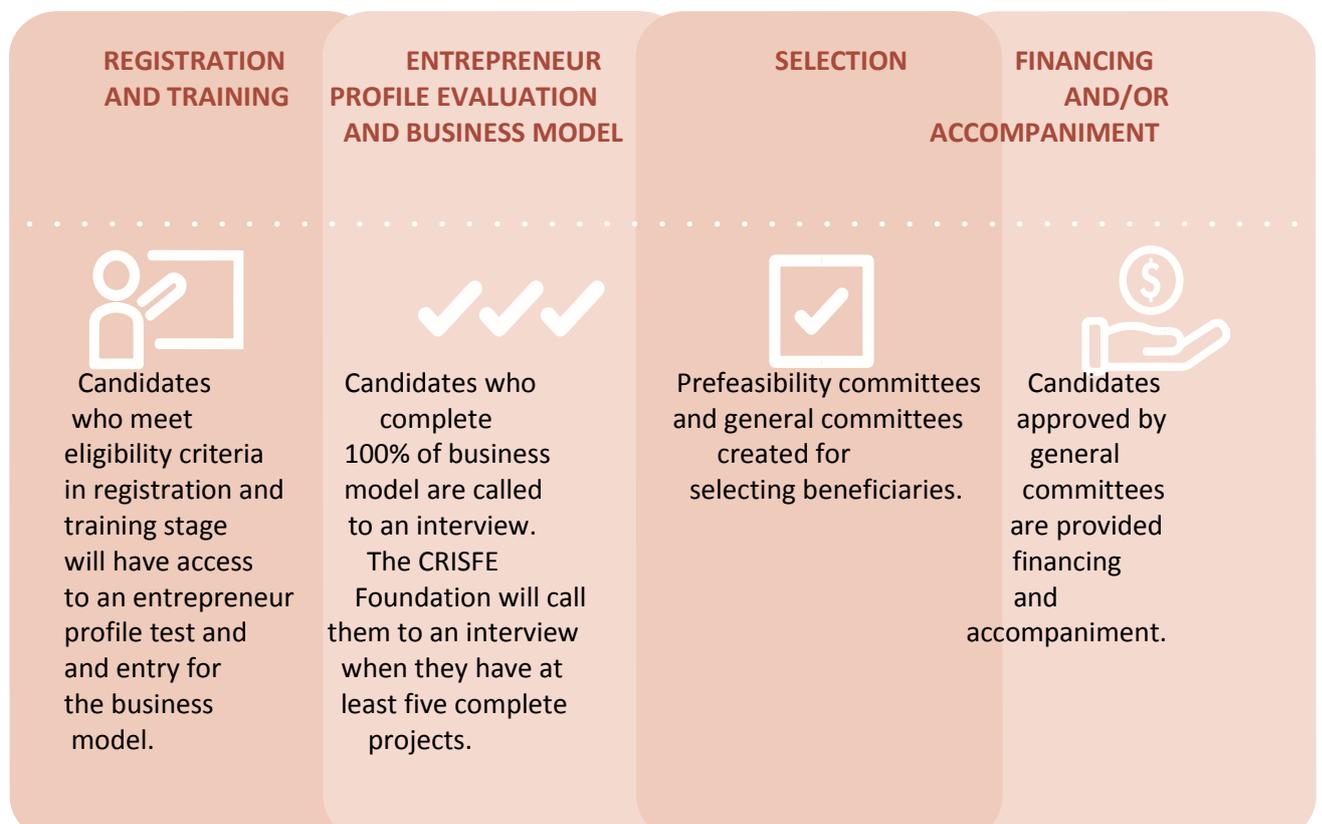
• **High-Impact Emprendefe**

An ongoing proposal connecting projects through various allies of the ecosystem entrepreneur for training entrepreneurs and crafting business models in the prototype stage.

Applications received throughout the year through the following website: www.emprendefe.org. The entrepreneur leader of the project is evaluated in all stages. For optimizing the process and response times, various stakeholders have been trained. In addition, joint proposals are launched for supplementing the different program components (*Graph 13*).

Emprendefe High-Impact Process

Graph 13



Achievements in 2016

Emprendefe: results 2016

Chart 17

Results/Actions	Variables	Unit	Work done in 2016	Work done in 2015
CRISFE evaluates, selects, trains and finances entrepreneurs with a viable entrepreneurship.	Training provided	No.	20	12
	Number of hours of training	Hours	424	192
	Number of hours of technical assistance	Hours	828	342
	Trained entrepreneurs	No.	424	249
	Technical assistance entrepreneurs	No.	39	37
	Financed entrepreneurs	No.	12	17
	Average sum of entrepreneurship disbursements	\$	13,413	12,300

Association Emprendefe: results 2016

Chart 18

Results/Actions	Variables	Unit	Work done in 2016	Work done in 2015
CRISFE supports entrepreneurs in association.	Trained associations	No.	9	4
	Training provided	No.	6	5
	Number of hours of training	Hours	193	70
	Average sum of financial support	\$	25,000	10,000
	Trained direct beneficiaries	No.	68	47
	Indirect beneficiaries	No.	200	188
	Financed associations	No.	2	1

Entrepreneurship Education. This initiative by CRISFE addresses entrepreneurship from a comprehensive formation perspective, without overlooking the economic-productive vision. We focus on building up transversal, interdisciplinary entrepreneurship skills (*Chart 19*).

Entrepreneurship Education: results 2016

Chart 19

Results/Actions	Variables	Unit	Work Done in 2016	Work Done in 2015
CRISFE trains teachers in entrepreneurship.	Trained teachers	No.	118	200
	Training provided	No.	3	11
	Number of hours of training	Hours	120	400
	Educational institutions supported	No.	41	60
	Investment in teacher training	\$	41,300	30,000
	Students	No.	4,868	9,200

Education in a Formal Setting. This means participating with our program and methods in regular education: schools, high schools, and universities.

Teacher Training. Training through universities to boost knowledge and skills of teachers who teach entrepreneurship and management subjects in high schools. Currently, the different training methods are employed through e-learning.

Educating College Students. With training, the skills of college professors are reinforced. Their work on classroom entrepreneurship projects is aimed at making the projects integrating and interdisciplinary.

Educating Adolescents. Through the *El viaje del emprendedor* (“The Entrepreneur’s Journey”) method and the *EmPréndete* game, we participate in secondary education, especially at the high school level. The goal is to build up skills in adolescents to motivate them to practice entrepreneurship in their lives.

Educating Children. Through the Aflatoun method, we participate in primary education, which means that we have the capacity to work with first-graders all the way up to ninth-graders.

Education in an Informal Setting. Participating through our program and methods at institutions, associations, groups, clubs, and so on, which are outside sphere of regular educational.

Children. Through the Aflatoun method, we participate with children groups, such as youth groups, clubs, foster homes, foundations, and so on.

Adolescents. Through a method designed by CRISFE, we work on entrepreneurship motivation matters with adolescents from different priority attention groups; for instance, youth homes, foster care centers, and foundations.

Educators. Volunteers are trained and educated so they may replicate our methods in education in informal settings.

SCHOLARSHIPS GRANTED BY CRISFE

Scholarships. In 2016, the CRISFE Foundation granted scholarships for individuals who, because of their socioeconomic situation, deserted the formal educational system and have no access for getting a high school diploma or a college degree (*Chart 20*).

In addition, starting this year we are offering occupational scholarships to cultivate technical skills (*Chart 21*).

Scholarships Granted: 2015-2016 results

Chart 20

High School Scholarships	Cycle	Total Number of Scholarships	Approved	Number of Graduates	Number of Desertions	Desertion Percentage
Fuvia	Coast	258	185	39	73	28.29%
	Sierra (Highlands)	151	104	25	47	31.13%
Irfeyal	Coast	903	754	123	149	16.50%
	Sierra	259	257	56	2	0.77%
Funder	Sierra	311	266	0	45	14.47%
EINA	Sierra	20	18	2	2	10%
		1,902	1,584	245	318	Average: 16.86%

Comparative Data

Chart 21

2015-2016 Comparative	2016			2015		
	Number of Scholarships Granted	Approved	Number of Desertions	Scholarships Granted	Approved	Desertion Percentage
High School Scholarships	1,926	1,515	24%	1,902	1,584	16.86%
College Scholarships	102	87	20%	212	201	5.19%
Occupational Scholarships*	184	176	5%			

* Not possible to compare data because occupational scholarships began in 2016.

Corporate Volunteers

- ***Sponsoring communities and organizations through corporate volunteers***

The CRISFE Foundation executes the volunteer program following a sponsorship model conceived for two-way collaboration, by which the ties between sponsors (volunteers) and sponsored communities/organizations are built. They share their realities; they learn about each other and work in participation to solve their needs.

Voluntary work
does not mean doing
something specific to help,
but rather is a process aimed
at sparking significant changes
in the long term.

The role of the volunteer sponsoring an organization or community is to provide accompaniment in satisfying the needs described in the territorial intervention model. For this reason, the volunteer participates in the entire process: diagnosis, definition, intervention plan execution, final project evaluation, impact measurement, and transfer of method (*Chart 22*).

- ***Goals of Sponsorship Model***

1. To promote a culture of voluntary participation in solidarity projects and initiatives fostered by the organization, driving the professional and personal development of beneficiaries and volunteers alike.
2. To reinforce the self-management, teamwork, and creativity skills and abilities of volunteers and in the leaders of beneficiary groups.

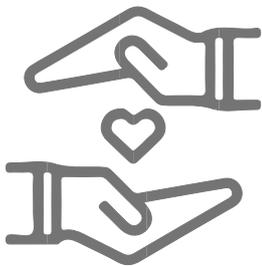
- ***Process focused on working for priority communities and organizations***

The program supports organizations and communities selected under the following criteria:

- Communities and organizations situated in poverty quintiles 1 and 2 (priority attention groups).
- Communities and organizations with needs related to educational and production projects, in which our volunteers offer comprehensive and sustainable solutions, based on their self-management capacity.

Needs are different in each community and organization; therefore, sponsorship is directed at satisfying basic needs, in the following order:

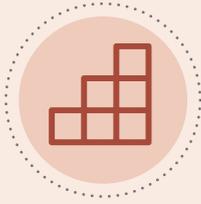
- a) Implementing educational processes for building up the skills in community leaders/teachers/tutors and students/beneficiaries.
- b) Facilitating technical assistance in matters in which sponsored organizations show weaknesses, such as accounting, management, strategy, marketing, and production models that generate economic inclusion.
- c) Reinforcing organizations and communities for developing value chains and productive links.
- d) Improving living conditions, especially in terms of basic services.
- e) Offering accompaniment and support in growth and educational processes for people who have been excluded from society.



Sponsoring is defined as
“endorsing an individual or
collective initiative for
it to be successful”
or “cooperating in the
development
of an activity or plan.”

FIELDS OF ACTION THROUGH VOLUNTARY WORK

CRISFE proposes to foster the work of volunteers, under the following courses of action:



Build

accommodation of space

Together with the beneficiary community or organization, volunteers promote the community's or organization's participation and integration in activities in which the physical spaces where their work, study, or live are improved.



Join

humanitarian development

Volunteers offer their time, accompanying people in extreme vulnerability and covering their needs, thus contributing to the improvement of the living conditions of this population group.



Teach

education volunteers

Volunteers participate as instructors in workshops, replicating educational and entrepreneurship methods for youth.



Transmit knowledge

technical assistance

Volunteers help to improve the performance of sponsored organizations by sharing their knowledge and professional experience based on their specialty.

Volunteer Work
Chart 22

Results/Actions	Variables	Unit	2016	2015
CRISFE Coordinates the activities of volunteer work.	Coordinated activities	No.	147	82
	Banco Pichincha and affiliates number of hours of volunteer work	Hours	3,173	2,082
	Volunteers from Banco Pichincha and affiliates who signed up	No.	551	467
	Beneficiary communities/organizations	No.	25	21
	Total number of beneficiaries	No.	3,806	3,047
	Investment	\$	105,985	43,600

Safety, Health & Environment

This chapter discusses the strategies and measures that Banco Pichincha implemented in 2016 to achieve the efficient use of its resources, based on the Bank’s environmental commitment. It also addresses topics concerning the timely response to the emergencies this year.

G4-DMA

An important part of our strategy is focused on environmental protection. For this reason, we have proposed various measures for reducing our Bank’s ecological footprint through actions that raise awareness among our employees on the efficient use of resources. Following the sustainability trend in companies, we are implementing an Integrated Safety, Health & Environment System for carrying out programs in line with domestic legislation, emphasizing safety in the face of unexpected events and achieving greater efficiency in processes.

The integration of the Safety, Health & Environment (SHE) is a system based on ISO international standards, allowing for guaranteed adequate conditions and occupational safety & health, as well as the efficient use of natural resources. In these processes, our staff’s

2016 CHALLENGES

- 4.8% savings in paper, equal to 5,000 reams of paper and \$17,015 in savings.

- Onsite socioenvironmental audits on customers for checking risk level and actions for improvement.

- Effective assistance to victims of natural emergencies that occurred in the country.

- Occupational Safety & Health (OSH) inspections in 128 branches across the nation.

participation is key.

2017 CHALLENGES

- We will implement an Integrated Management System, in which we will work on Safety, Health & Environment matters together.

- We will offer environmental training to customers and employees.

Sistema de Seguridad, Salud y Ambiente



Integración en procesos de Seguridad, Salud y Ambiente para minimizar los riesgos ambientales y laborales, ser más eficientes, así como también incrementar la satisfacción de nuestros grupos de interés.



Planes de emergencia



- Simulacros a gran escala, **2.736** colaboradores.
- Talleres de resiliencia para **500** colaboradores afectados por el terremoto.

Inspecciones



- Inspección de riesgos laborales en **128** agencias, que representan **45%** de instalaciones.

Medicina ocupacional



- Exámenes ocupacionales a **3.131** colaboradores, que representan **58,11%** de personal.
- **9** campañas de vacunación.

Papel



- Ahorramos **5.317** mil resmas de papel.
- Sembramos **2.650** árboles, compensamos **29'642.839** hojas.

Electricidad



- **5%** de eficiencia en energía del uso de transporte propio: **\$ 130.000** de ahorro.
- **1.270** equipos de computación con certificación *Energy Star*.

Residuos



- Donamos y reciclamos adecuadamente **10.040** activos y **138** toneladas de papel y cartón.
- Iniciamos reciclaje de papel en todas las agencias.

Cultura



- Campañas educativas sobre consumo eficiente de energía, papel, agua y residuos.
- Capacitación a **600** personas (proveedores críticos) en procesos de Seguridad, Salud y Ambiente.

Saras*



- **2.350** cuestionarios ambientales.
- **374** evaluaciones socioambientales a clientes.

* Sistema de Administración de Riesgos Ambientales y Sociales.



Occupational Safety & Health (OSH)

G4-LA6; G4-LA7

In 2016, our country experienced natural emergencies, such as the Cotopaxi and Tungurahua volcanoes on eruption alert, as well as the earthquake that struck the country's coastal area. To prevent and respond to events, we employed tremendous efforts to educate employees and their families, informing them on how to act in an emergency, providing family emergency plans and conducting drills nationwide.

Through its work, OSH directs its actions to the employees of the Bank and subsidiaries, besides other stakeholder groups, such as suppliers, contractors, watch groups, and so on.

We disseminate information fostering a culture of prevention in the face of natural emergencies and disasters.

Safety & Health Culture

Through internal communication channels, we promote various strategic activities triggering prevention, not only in the labor, but also in the personal and family, spheres. The following are the highlights:



Emergency Plans and Drills



Emergency in Natural Phenomena



OSH Training

<ul style="list-style-type: none"> • We drew up emergency plans at the national level and for new branches, as well as for areas at risk because of the Cotopaxi volcano emergency, El Niño phenomenon, and earthquake in Manabí. • We conducted drills on a large scale, with the participation of 2,736 employees in main buildings and branches in the country's various provinces, earning recognition from relief agencies. 	<ul style="list-style-type: none"> • In the area of Manabí, we set up emotional intervention workshops for promoting adequate emotional welfare and for our staff to resume their daily tasks. • We conducted 41 workshops with the participation of 500 employees, furnishing information for them and their families to boost their resilience capacity, strength, and optimism in the face of adversity. 	<ul style="list-style-type: none"> • We encouraged specific actions for our different stakeholder groups to foster a culture of prevention of labor and environmental risk factors. For this reason, we trained 600 people, regarded as critical suppliers, in the safety, health & environment processes, as well as armed security personnel.
<p>Part of our prevention plan is to disseminate communications, conduct drills, and form brigades among our personnel.</p>		

Occupation Safety & Health (OSH) Actions

We conducted ongoing inspection processes at branches, together with members on joint committees,* to identify potential occupational hazards and to ensure that emergency and risk signage is properly placed.

In our organization, ergonomic and psychosocial risks are the most common. To minimize them, we work on prevention plans nationwide, placing emphasis on jobs identified as vulnerable, in terms of exposure to occupational hazard factors.

Prevention and Vaccination Campaigns

• Influenza vaccination campaign	394 participants
• Diphtheria and tetanus vaccination campaign	129 participants
• Chickenpox and measles vaccination campaign	14 participants
• Papilloma virus vaccination campaign	782 participants
• Yellow fever vaccination campaign	79 participants
• Parasite prevention campaign	3,131 participants
• Osteoporosis prevention campaign	163 participants
• Uterine cancer prevention campaign	62 participants
• Diabetes prevention campaign	84 participants

*Committees formed by different people from various areas of the Bank. They meet each month to analyze Occupational Safety & Health topics.



Maternity and Family Planning Workshops

- 68 employees participated in safe maternity workshops.
- Sex education and family planning workshops – 381 people attended.



Vulnerable Personnel Service

- We delivered 499 guides to pregnant women, with recommendations regarding pregnancy, as well as relevant information about insurance and medical care.



Disabled Individuals

- We collected information about their employment life cycle needs.
- Socioeconomic records for 275 individuals
- 27 employees participated in the *Ultimas Noticias* race.

*For more information, see chapter on Ethics, Transparency, and Human Rights.



Occupational Medicine

- We have a comprehensive health monitoring program for the entire time of the employee's service with the Bank.
- We conducted occupational exams on 3,131 employees in Quito and Guayaquil, who represent 58.11% of personnel. In 2017, we will continue the exams for personnel from provinces, following the plan.
- We ensure the best health conditions when an employee starts working, during the employee's time of service, and when the employee leaves, based on the employee's assigned post.

The Bank has OSH manuals and procedures ensuring the integration and implementation of the Management System and contributing to the analysis of actions triggering prevention in benefit of stakeholder groups. In addition, we have statistical records on key indicators. We have detected 14 jobs as critical. All of this comprises a standard of compliance with respect to oversight entities. No mortalities resulting from accidents on the job and occupational illnesses have been reported to date.

Occupational Safety & Health (OSH) Indicators

We reinforce compliance with norms through internal audits and reviews by independent oversight entities, conveying how OSH management performed. Up to the month of December, technical-legal compliance with the Andean Management model (Resolution 584, Andean Occupational Safety and Health Instrument) was at 71.58%. This percentage owes to the awareness achieved and the joint participation throughout the entire organization and the responsibility of each employee (*Chart 1*).

OSH Indicators			
Chart 1			
Indicator	2016 Value	2015 Value	Description of Indicator
Frequency Index	3.53	5.22	Number of injuries over man-hours worked, multiplied by 200,000. ¹
Number of Accidents	12		
• Men	58%		
• Women	42%		
Accidents by Region *	–		
• Coastal region	44%		Does not add up to 100% because the total population of each region was taken into account.
• Provincial region	50%		
• Pichincha region	16%		
Seriousness Index	38.08	10.97	Number of days lost over man-hours worked, multiplied by 200,000.
Risk Rate	10.78	24.87	Index of seriousness over the frequency rate. ²
Sickness Rate	2	4	Number of cases of occupational illnesses.**
Absenteeism Rate	0.76	1.13	Number of days lost because of illness during the period, over man-hours worked by the group in the same period, multiplied by 200,000.

¹International recommendation reflecting the approximate reference number of man-hours worked as an average of companies with over 100 employees.

²The 2016 figures are not comparable because of changes in the method for calculating, due to an amendment in the country's OSH rules.

* Every year, we inform the reactive indicators to the Occupational Hazard Office of the IESS (Ecuadorian Social Security Institute), pursuant to Directive Council Resolution No. 513 of the General Occupational Hazard Regulation, Art. 57.

** Data reported pursuant to Resolution 513 of the General Occupational Hazard Regulation, Art. 6.

Environmental Protection

ENVIRONMENTAL MANAGEMENT SYSTEM AND POLICY

G4-14; G4-FS9; G4-EN29

Our environmental policy, which was approved by the Bank's Senior Management, governs the Management System, addressing the environmental issues in the institution and following eight environmental care commitments, such as the mitigation of environmental risks in the operations of the Bank, as well as those of its customers and suppliers, and identifying opportunities for improvement. The policy is available on the Bank's official website and has been disseminated among our employees and suppliers as of its approval.

This year, we worked on implementing the Environmental Management System. For this purpose, we carried out various activities and conducted new campaigns at the Bank, as described below.

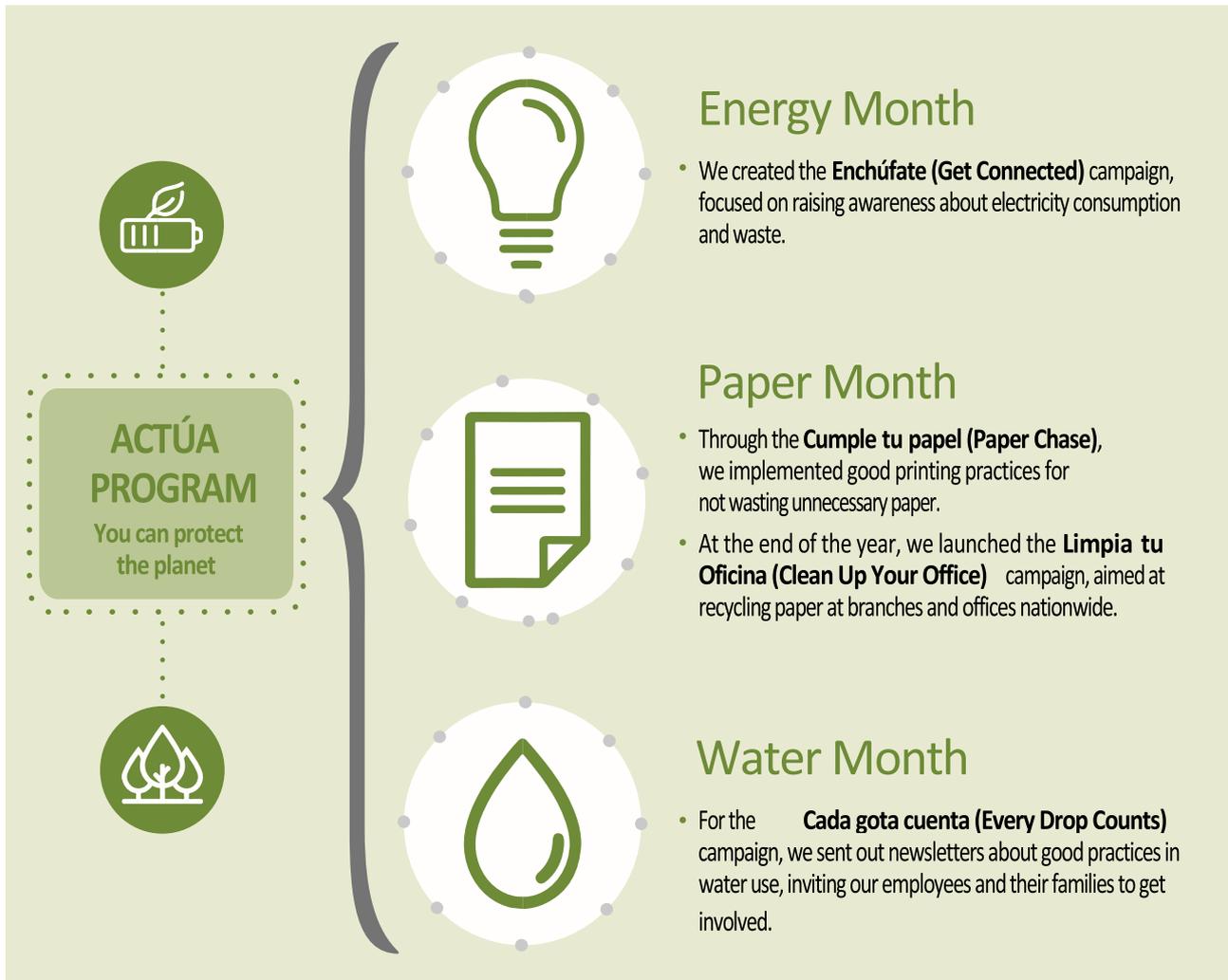
For more detailed
information on this
subject:



Environmental Policy

Actúa ("Act") Program

We held big campaigns to raise awareness among our employees and their families on different topics. Each campaign consisted of activation games, trivia, contests, and programs encouraging our people to become part of the initiatives for saving resources. The chart below describes these initiatives in detail. The Bank's Chairman sponsored this campaign.



Environmental Audits

We provided technical training to the environmental team of Internal Auditing with regard to the Environmental Management System (EMS) of Banco Pichincha. The system's structure and the ISO 14.001 standard were reviewed. Seven auditors were trained.

We moved forward with a pilot environmental auditing project at five offices, as well as three Environmental Management System processes, based on ISO 14.001. The results allowed for measuring the time and operation of audits to draw up an annual internal audit

plan for the 2017 EMS. Furthermore, we complied with the law when conducting environmental audits at 16 branches regarded as critical nationwide.

There was no record of environmental complaints or fines in 2016.

Environmental Expenditure

G4-EN31

The figures have considerably contracted compared to last year. In 2015, investments were made in building and implementing the Environmental Management System (EMS) ISO 14001, with the accompaniment of an independent consultant. In 2016, work was done to commission the EMS and to adapt to an integrated Management System.

Social and Environmental Risks Assessment (Saras)

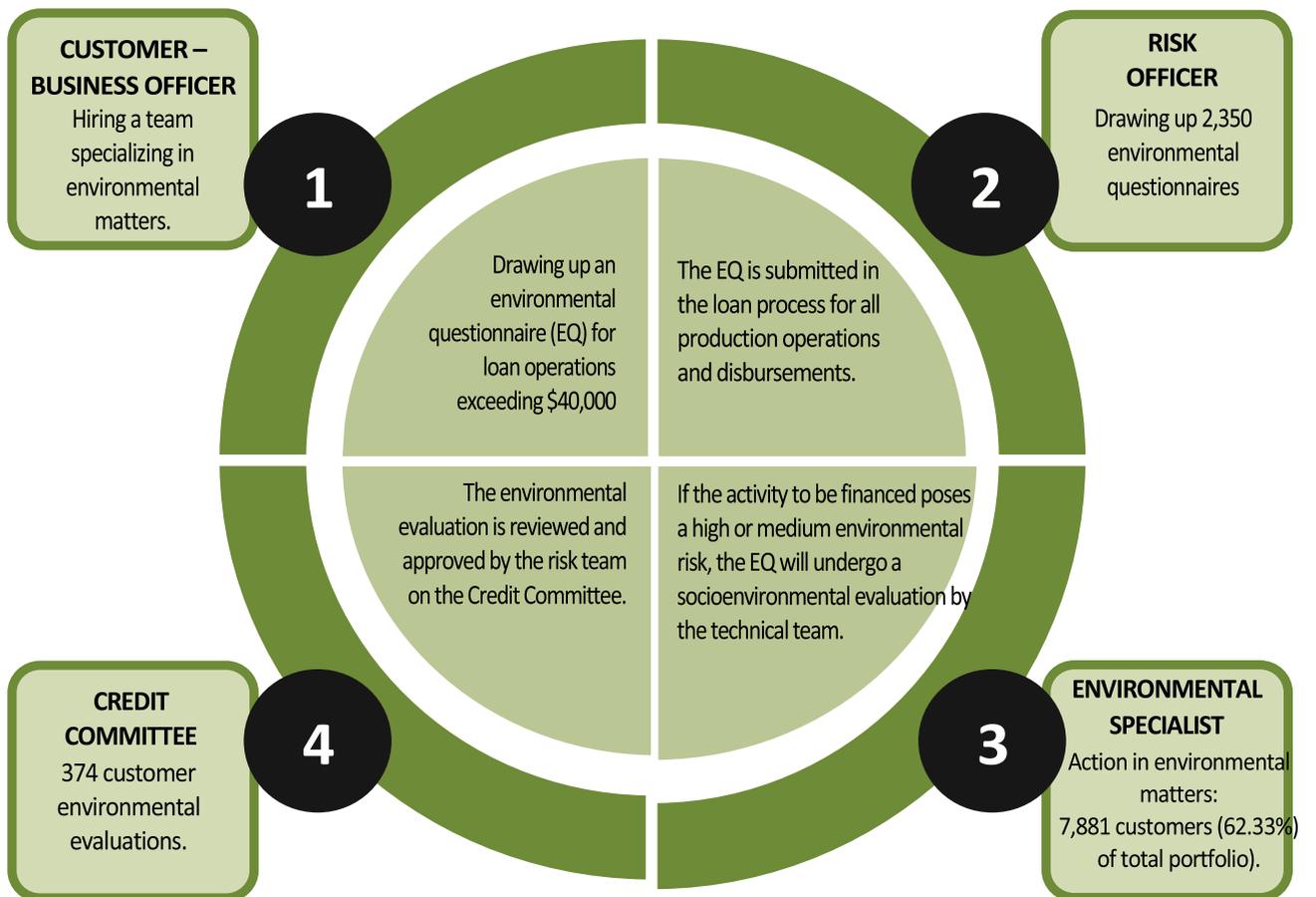
G4-FS1; G4-FS2; G4-FS3; G4-FS4; G4-FS8; G4-FS10

We continued to apply the Social and Environmental Risks Assessment Management System (Saras), by which we evaluate customers whose activities to be financed pose an environmental and/or social risk to our institution. The system is governed by the Loan Environmental Policy, defining guidelines, such as the following: for loans in a minimum amount of \$40,000, a questionnaire has to be drawn up to perform socioenvironmental analyses; the segments that the evaluation addresses; submission of an environmental permit for activities rated as medium or high environmental risks; and, preparation of socioenvironmental reports.

During 2016, we made improvements to the operating system, conducting phase 2 of Saras. We included all loan operations, expanding the number of customers evaluated through socioenvironmental analyses. The annual cost, which includes the cost of keeping Saras in operation, is approximately \$19,500.



Saras.



During this year, the Bank reached a total of \$14,532.01 in environmental expenditure and investment.

External Management in Climate Change

G4-FS8

We maintain the climate change impact trend tool. This consists of a statistical and econometric model of climate variables in production activities, by measuring precipitation and temperature. The objective is to analyze the impact by climate change on the loan portfolio, especially in the Agricultural and Production segments, to be able to prevent risks. In addition, the results of the measurement contribute to the sectorial rating of economic activities that are financed. The approximate annual cost for keeping this tool current is \$3,000.

During 2016, we did not update the measurement because of internal changes in the structure of the area in charge of the tool and due to external factors. In 2017, we will work on updating the measurement with data available at that time.

Internal Management in Climate Change

CARBON FOOTPRINT¹¹

G4-EN15; G4-EN17; G4-EN19

We maintain the tool for measuring the direct impact of the Bank's carbon footprint (Scope 1)¹². For this year, we increased the measurement of indirect emissions (*Graph 1*) (Scope 3) and therefore the data cannot be compared to those published last year.

We reduced by 5%, equal to one ton (t) of CO₂, the emissions from the use of our own transportation fleet. Some measures taken are the sale of vehicles and the optimization of vehicle use (*Chart 2*).

GHG emissions			
Chart 2			
Direct emissions (Scope 1)	Unit	2016	2015
Electric generators	CO ₂ e tons	61.14 ¹	122.15
Bank's own transportation fleet		26.26 ²	27.64 ³
Total direct emissions		87.40	149.79
¹ This is an estimate and is not comparable with last year due to the change in the method for obtaining information. For the calculations, the GHG Protocol (version 4.1 2015) was used. ² For the 2016 calculations, the Banco Pichincha EMS environmental indicator reporting tool was used. This tool takes data from the Intergovernmental Panel on Climate Change and from the International Energy Agency. ³ G4-22: 2015 data modified in terms of calculation method to make it comparable with 2016 data.			

The lighting efficiency pilot project generated a monthly reduction of 0.84 t of CO₂e emissions (*Chart 3*)¹³.

¹¹ G4-EN16: This year, the process for reporting the measurement of emissions in Scope 2, regarding electricity consumption, was affected by the Bank's migration to a new reporting tool. The new tool logs energy consumption, but does allow for identifying the specific consumption generated by the Bank. For 2017, we are committed to work on having this information collected once again.

¹² Scope 1. GHG emission sources owned or controlled by the Bank. We take our own fleets and electric generators into account.

¹³ Scope 3. Emissions derived from the Bank's activities from sources the Bank does not own or control, such as the use of rented vehicle fleets, emission from land and air business trips, and emissions from messenger transportation.

Resources Management and Consumption

Paper Consumption and Reduction Measures G4-EN1; G4-EN27



Paper Consumption

52,779,659 sheets of paper. The paper used in our organization comes from a renewable source: sugar cane bagasse.



Paper Reduction

For the first time, saving paper through the Actúa program was proposed as an institutional goal.



Reforestation

Three reforestation days with the support of our suppliers. We planted **2,650 trees**, compensating for **7,897,017 printed account statements**, equivalent to **29,642,839 sheets of paper**.



Paper Recycling

138,461.09 kg from correct environmental management

4.8%
in savings



3 million
sheets of paper



5,000
reams of paper



\$17,015

Nationwide Paper Consumption in Number of Sheets of Paper ¹		
Chart 3		
	2016	2015
Total number of sheets of paper consumed internally	52,779,659 ²	55,438,308
Total number of sheets of paper for consumption by customers and suppliers ³	23,174	73,673
Total number of sheets of paper consumed per employee in the year ⁴	7,542	7,328
¹ Corresponds to the number of printouts by the operations of Grupo Pichincha, including subsidiaries (BPAC, CREDI FE, CRISFE, Pague-Ya). Printouts by the company TCS, which is in charge of technological management, not included. ² Data relates to 105,559.32 kg. ³ Corresponds to the paper used for printing checks for both customers and suppliers in the internal payment area. ⁴ Outcome obtained by dividing the total number of sheets of paper for internal consumption (52,779,659) by the average number of Grupo Pichincha employees in 2016 (6,998).		

We reduced paper consumption: 5,317 fewer reams of paper



Document Management Project: The objective is to ensure the efficient and technical management of documents for protecting the data contained therein and for fostering the reduced use of paper. Due to internal changes in the Bank, the project was redirected towards digitalization. This implied the intervention of technological suppliers to maximize the platform purchased by the Bank. The project, which is for the processes level, will be implemented in 2017.

Energy and Water Consumption¹⁴

G4-EN3; G4-EN6

We continue to measure direct energy from the Bank's two generation sources. In 2016, we reduced consumption by 3.08%, equal to 12 gigajoules (GJ), as a result from optimizing the use of vehicles. This represents savings in the amount of \$130,000 (*Chart 4*).

We purchased 1,270 Energy Star certified computers, with a total of 1,447 computers supplied to our employees. Due to the technical features of the equipment, the savings in energy amounts up to 60%.

A lighting efficiency pilot project was carried out in three months, installing LED technology in a branch. The measurement was made directly and the monthly savings achieved is equivalent to shutting off 23,940 lights (bulbs)¹⁵, a \$258 reduction. In 2017, we will replicate the project in more offices (*Chart 5*).

Direct Energy Consumption			
Chart 4			
Direct energy consumption	Unit	2016	2015
Electric generators	Gigajoule ⁴	864.00 ¹	1,726.13
Bank's own transportation fleet		379.00 ²	390.00 ³
Total direct emissions		3,259.00	1,937.13

¹ For this year, the calculations are estimates for electric generators because of the change in the source of information, making them incomparable with the year 2015. GR1 EN3 conversion factor used.

² For the 2016 calculations, the Banco Pichincha EMS environmental indicator reporting tool was used. This tool employs data from the Intergovernmental Panel on Climate Change and from the International Energy Agency.

³ G4:22 2015 data modified in terms of calculation method for making them comparable with 2016 data.

⁴ The gigajoule is the unit of measure of energy, representing consumption in gallons of fuel.

Lighting Efficiency Project		
Chart 5		
Unit	Energy Savings - Scope 2 Monthly Average Data	
	Traditional lighting	LED lighting
GJ	29.92	21.30
\$	895	637

¹⁴ G4-EN8; G4-EN3: In 2016, the electricity consumption report was affected by the Bank's migration to a new reporting tool that does not allow for identifying the Bank's specific consumption and for this reason it was not reported in 2016. For 2017, we are committed to work on having this information collected once again.

¹⁵ Equals 8.62 GJ.

Correct Waste Management

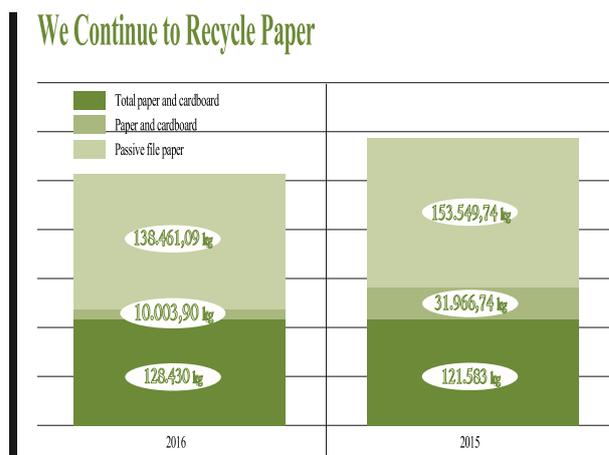
G4-EN23

We maintain waste reduction, reuse, and recycling programs. For correct environmental management, waste is delivered to environmentally qualified companies.

Through sales and donations, we promote the reuse and responsible management of our assets. This year, the quantity of assets written off with management's approval rose significantly to a total of 133.91 tons of assets in 2016.

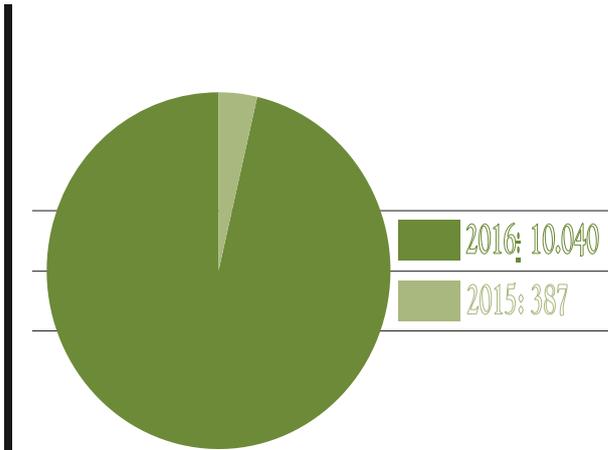
In December 2016, we crafted the *Clean Your Office, Recycle Paper* program, which is focused on separating waste paper at all the Bank's establishments across the nation. The goal is to reinforce the environmental culture of employees and give value to waste, while minimizing environmental impact. Paper undergoes correct environmental final disposal by a manager qualified by environmental oversight entities. In addition, this project includes secured management of information and documents. In 2017, we will obtain the results and quantitative indicators of this project.

\$28,286.52 in revenue from the sale of recyclable waste.



¹The 2016 value is not comparable because in 2015 paper was recycled under a special marketing campaign held only that year. Waste and cardboard waste data are estimates. This waste is delivered to an environmental manager who transforms it into paste for use as raw material in a new production process.

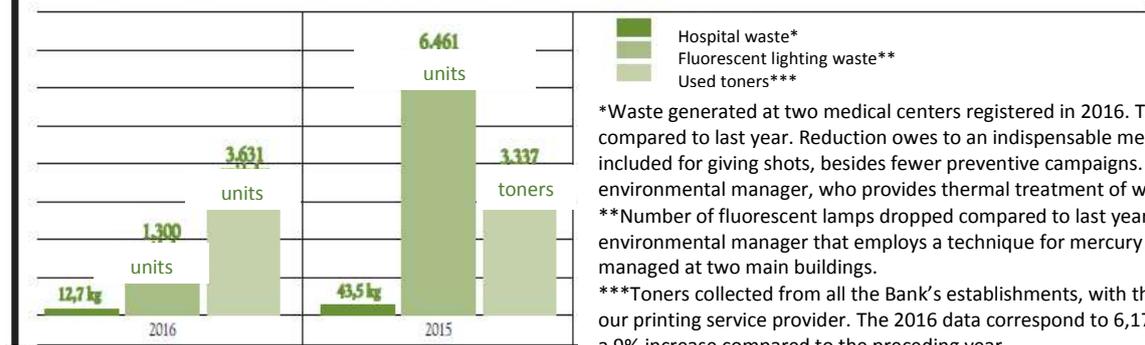
Donation and Recycling of Assets



¹ Assets donated and recycled in 2016 include chairs, filing cabinets, tables, desks, electronic equipment, and so on.

² Assets for sale were delivered to qualified companies that provide correct environmental management.

Correct Management of Hazardous and Special Waste



*Waste generated at two medical centers registered in 2016. The number has fallen compared to last year. Reduction owes to an indispensable medical prescription included for giving shots, besides fewer preventive campaigns. Managed by an environmental manager, who provides thermal treatment of waste.

**Number of fluorescent lamps dropped compared to last year. Managed by an environmental manager that employs a technique for mercury removal. Waste managed at two main buildings.

***Toners collected from all the Bank's establishments, with the support of our printing service provider. The 2016 data correspond to 6,172.7 kg, a 9% increase compared to the preceding year.

CONTENT INDEX – GLOBAL REPORTING INITIATIVE VERSION G4

General content	Description	Chapter/Section	Topic/Response	Page	External Assurance
General Basic Content					
Strategy and Analysis					
G4-1	Statement from the most senior decision-maker of the organization about the relevance of sustainability to the organization.	Presentation of the Report	Sustainability Challenges	49	✓
Organization Profile					
G4-2	Description of the key impacts, risks, and opportunities.	Presentation of the Report	Sustainability in our Organization	50	✓
		Annual Report	Annual Report	15	✓
G4-3	Name of the Organization	Presentation of the Report	Standard Reporting	49	✓
G4-4	Primary brands, products, and services.	Responsible Finances	Service channels	82	✓
			Products and Services designed for vulnerable groups	84	✓
			Pichincha Microfinance	88	✓
G4-5	Location of the organization's headquarters.	Presentation of the Report	Information and comments	58	✓
G4-6	Number of countries where the company operates and the names of countries where either the company has significant operations or that are specifically relevant to the sustainability topics covered in the report.	Presentation of the Report	Scope and coverage	50	✓
G4-7	Nature of ownership and legal form.	Presentation of the Report	Sustainability Challenges	49	✓
G4-8	Markets served (including geographical breakdown, sectors served, and types of customers and recipients)	Responsible Finances	Our clients	81	✓
G4-9	Report the scale of the organization, including	Presentation of the Report	Our value chain	54	✓
	- Number of employees				
	- Total number of operations				
	- Net sales				
	- Total capitalization broken down in terms of debt and equity				
G4-10	Report on the following employment information:	Ethics, Transparency, and Human	Human Resources Management	62	✓
	- Number of employees by employment contract and gender.				

	- Number of permanent employees by employment type and gender.	Rights			
	-Total workforce by employees and supervised workers and by gender.				
	-Total workforce by region and gender				
	-Report whether a substantial portion of the organization's work is performed by workers who are legally recognized as self-employed, or by individuals other than employees or supervised workers, including employees and supervised employees of contractors.				
	-Report any significant variations in employment numbers.				
G4-12	Describe the Organization's supply chain	Presentation of the Report	Our value chain	54	✓
G4-13	Significant changes during the reporting period regarding the organization's size, structure, ownership, or its supply chain.	Presentation of the Report	Sustainability in our Organization	50	✓
G4-15	Externally developed economic, environmental and social principles or other initiatives to which the organization subscribes or which it endorses.	Presentation of the Report	Sustainability Initiatives	52	✓
G4-16	Associations and national or international advocacy organizations to which the organization belongs.	Presentation of the Report	Sustainability Initiatives	52	✓
Material Aspects and Boundaries					
G4-17	List all entities included in the organization's consolidated financial statements and equivalent documents.	Annual Report	Annual Report	15	✓
G4-18	Process for defining the report content and aspect boundaries.	Presentation of the Report	Scope and coverage	50	✓
			Method for selecting contents of the Report	50	✓
			Relevant Topics	53	✓
G4-19	List all material aspects identified in the process for defining report content.	Presentation of the Report	Relevant Topics	53	✓
G4-20	Coverage for each material aspect within the organization.	Presentation of the Report	Relevant Topics	53	✓
G4-21	For each material issue, report the aspect boundary outside the organization.	Presentation of the Report	Relevant Topics	53	✓
G4-22	Report the effect of any restatements of information provided in previous reports, and the reasons for such restatements.	Presentation of the Report	Scope and coverage	50	✓
G4-23	Significant changes from previous report in the scope and aspect boundaries.	Presentation of the Report	Method for selecting contents of the Report	50	✓
Stakeholder Engagement					
G4-24	List of stakeholder groups engaged by the organization.	Presentation of the Report	Our value chain	54	✓
G4-25	Report the basis for selection of stakeholder groups with whom the organization engages.	Presentation of the Report	Method for selecting contents of the Report.	50	✓

G4-26	Organization's approach to stakeholder engagement, including frequency of engagement by types and by stakeholder groups, or an indication of whether any of the engagement was undertaken specifically as part of the report preparation process.	Presentation of the Report	Method for selecting contents of the Report.	50	✓
			Stakeholder groups	52	✓
G4-27	Key concerns that have been raised through stakeholder engagement, and how the organization has responded to those Relevant Topics and concerns, including through its reporting. Report the stakeholder groups that raised each of the Relevant Topics.	Presentation of the Report	Method for selecting contents of the Report.	50	✓
			Stakeholder groups	52	✓
Report Profile					
G4-28	Reporting period for information provided	Presentation of the Report	Scope and Coverage	50	✓
G4-29	Date of most recent previous report.	Presentation of the Report	Scope and Coverage	50	✓
G4-30	Reporting Cycle (Annual – Biennial, etc.)	Presentation of the Report	Reporting standard	49	✓
G4-31	Contact point for questions regarding the report or its contents.	Presentation of the Report	Information and Comments	58	✓
G4-32	Report "the in accordance" with the GRI method the organization has chosen (Core-comprehensive). Report GRI Content Index and External Assurance reference.	Presentation of the Report	Reporting Standard	49	✓
G4-33	Report the organization's policy or current practice regarding seeking external assurance for the report.	Presentation of the Report	Accuracy and Assurance	58	✓
Governance					
G4-34	Governance structure of the organization, including committees of the highest governance body. Identify any committees responsible for decision-making on economic, environmental, and social impacts.	Presentation of the Report	Organizational structure	56	✓
G4-39	Report whether the Chair of the highest governance body is also an executive officer	Presentation of the Report	Organizational structure	56	✓
G4-45	Highest governance body's role	Presentation of the Report	Organizational structure	56	✓
G4-47	Frequency of the highest governance body's review of economic, environmental and social impacts, risks, and opportunities	Presentation of the Report	Organizational structure	56	✓
G4-48	Report the highest committee or position that formally reviews and approves the organization's sustainability report	Presentation of the Report	Organizational structure	56	✓
Ethics and Integrity					
G4-56	Describe the organization's values, principles, standards and norms of behavior, such as codes of conduct and codes of ethics.	Ethics, Transparency, and Human Rights	Ethics and transparency in our organizational culture	71	✓

G4-57	Report the internal and external mechanisms for seeking advice on ethical and lawful behavior, such as ethical lines	Ethics, Transparency, and Human Rights	Ethics and transparency in our organizational culture	71	✓	
			Control and internal affairs complaint mechanisms	72	✓	
G4-58	Report the internal and external mechanisms for reporting concerns about unethical or unlawful behavior, and matters	Ethics, Transparency, and Human Rights	Control and internal affairs complaint mechanisms	72	✓	
Specific Basic Content						
General content	Description	Chapter/Section	Topic/Response	Page	Omissions	External Assurance
Economic Performance						
G4-EC1	Direct economic value generated and distributed	Responsible Finances	Economic performance of our organization	79	-	✓
G4-EC4	Significant financial assistance received from governments.	Responsible Finances	Economic performance of our organization	79	-	✓
Market Presence						
G4-EC6	Proportion of senior management hired from the local community at significant locations of operations.	Ethics, Transparency, and Human Rights	Human Resources Management	62	-	✓
Indirect Economic Impact						
G4-EC7	Development of infrastructure investments and services supported.	Responsible Finances	Service to Disabled Customers	85	-	✓
Procurement Practices						
G4-EC9	Proportion of spending on local suppliers at significant locations of operation.	Responsible Finances	Goods and Services Procurement Practices	90	-	✓
Environmental Indicators						
G4-EN1	Materials by weight or volume	Safety, Health, and Environment	Paper consumption and reduction measures	108	-	✓
G4-EN3	Energy consumption within the organization	Safety, Health, and Environment	Energy and water consumption	109	-	✓
G4-EN6	Reduction of energy consumption	Safety, Health, and Environment	Energy and water consumption	109	-	✓
G4-EN15	Direct greenhouse gas (GHG) emissions	Safety, Health, and Environment	Carbon footprint	107	-	✓

G4-EN17	Other indirect greenhouse gas emissions	Safety, Health, and Environment	Carbon footprint	107	-	✓
G4-EN19	Reduction of greenhouse gas emissions	Safety, Health, and Environment	Carbon footprint	107	-	✓
G4-EN23	Total weight of waste by type and disposal methods	Safety, Health, and Environment	Correct waste management	110	-	✓
G4-EN27	Impact mitigation of environmental impacts of products and services	Safety, Health, and Environment	Paper consumption and reduction measures	108	-	✓
G4-EN29	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations.	Safety, Health, and Environment	Environmental Management and Policy System	104	-	✓
G4-EN31	Total environmental protection expenditures and investments by type.	Safety, Health, and Environment	Environmental expenditures	106	-	✓
G4-EN32	Percentage of new suppliers that were screened using environmental criteria.	Responsible Finances	Human rights in the commercial relationship	91	-	✓
Labor Practices and Decent Work						
Employment						
G4-LA1	Total number and rates of new employee hires and median employee turnover by age group, gender, and region.	Ethics, transparency and Human Rights	New Hires	63	-	✓
G4-LA2	Employment benefits for full-time employees that are not provided to temporary or part-time employees, by significant locations of operation.	Ethics, transparency and Human Rights	Staff Benefits	66	-	✓
G4-LA3	Return to work and retention rates after parental leave, by gender	Ethics, transparency and Human Rights	Maternity and Paternity	68	-	✓
Occupational Health and Safety						
G4-LA6	Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region and by gender	Safety, Health, and Environment	Occupational Health and Safety	102	-	✓
G4-LA7	Workers with high incidence or elevated risk of diseases.	Safety, Health, and Environment	Occupational Health and Safety	102	-	✓
Training and Education						
G4-LA9	Average hours of training per year per employee by gender, and by employee category	Ethics, transparency and Human Rights	Professional Education and Development	69	-	✓

G4-LA10	Programs for skills managements and lifelong learning that support the continued employability of employees and assist them in managing career endings.	Ethics, transparency and Human Rights	Staff Benefits	66	-	✓
			Professional Development Programs	69	-	
G4-LA11	Percentage of employees receiving regular performance and career development reviews, by gender and by employee category	Ethics, transparency and Human Rights	Performance evaluation and professional development	70	-	✓
Diversity and Equal Opportunity						
G4-LA12	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity.	Ethics, transparency and Human Rights	Human Resources Management	62	-	✓
			Diversity in our Organization	63	-	✓
G4-LA13	Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation	Ethics, transparency and Human Rights	Gender intelligence and promotion of Human Rights	64	-	✓
G4-LA14	Percentage of new suppliers that were screened using labor practices criteria	Responsible Finances	Human rights in the commercial relationship	91	-	✓
GA-LA16	Number of grievances about labor practices filed, addressed, and resolved through formal grievance mechanisms.	Ethics, transparency and Human Rights	Ethics and transparency in our organizational culture	71	-	✓
Human Rights						
G4-HR2	Total hours of employee training on human rights policies AND procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained,	Ethics, transparency and Human Rights	Training in Human Rights	64	-	✓
G4-HR3	Number of incidents of discrimination and corrective measures taken.	Ethics, transparency and Human Rights	Organizational Culture	65	-	✓
G4-HR5	Centers and suppliers identified as having significant risk for incidents of child labor, and measures taken to contribute to the effective abolition of child labor.	Responsible Finances	Organizational Culture	91	-	✓
G4-HR6	Centers and suppliers identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of all forms of forced or compulsory labor.	Responsible Finances	Organizational Culture	91	-	
Society, Local Communities, and Anti-Corruption Strategy						
G4-SO1	Percentage of operations with implemented local community engagement, impact assessments, and development programs.	Responsible Finances	Financial Education	92	-	✓
G4-SO3	Number and percentage of operations assessed for risks related to corruption and the significant risks identified.	Ethics, Transparency, and Human Rights	Anticorruption and anti-money laundering	72	-	✓

G4-SO4	Communication and training on anticorruption policies and procedures	Ethics, Transparency, and Human Rights	Anticorruption and anti-money laundering	72	-	✓
G4-SO5	Confirmed incidents of corruption and actions taken.	Ethics, Transparency, and Human Rights	Anticorruption and anti-money laundering	72	-	✓
G4-SO9	Percentage of new suppliers that were screened using criteria for impacts on society	Responsible Finances	Human Rights in the commercial relationship	91	-	✓
Product Responsibility						
G4-PR5	Results of surveys measuring customer satisfaction	Responsible Finances	Customers satisfaction	82	-	✓
G4-PR8	Number of substantiated complaints regarding breaches of customer privacy and losses of customer data.	Responsible Finances	Complaints management	86	-	✓
Financial Supplement Indicators						
GDMA-Former FS1	Policies with specific environmental and social components applied to business lines.	Safety, Health, and Environment	Evaluation of Social and Environmental Risks	106	-	✓
GDMA-Former FS2	Procedures for assessing and screening environmental and social risks in business lines.	Safety, Health, and Environment	Evaluation of Social and Environmental Risks	106	-	✓
GDMA-Former FS3	Processes for monitoring customers' implementation of environmental and social requirements included in agreements or transactions.	Safety, Health, and Environment	Evaluation of Social and Environmental Risks	106	-	✓
GDMA-Former FS4	Process(es) for improving staff competency to implement the environmental and social policies and procedures as applied to business lines.	Safety, Health, and Environment	Evaluation of Social and Environmental Risks	106	-	✓
G4-FS5	Interactions with clients/investees/business partners regarding environmental and social risks and opportunities.	Presentation of the Report	Method for Selecting Reporting Content	50	-	✓
G4-FS6	Percentage of portfolio for business lines by specific region, size, and sector.	Responsible Finances	Our clients	81	-	✓
G4-FS8	Monetary value of products and services designed to deliver a specific environmental benefit for each business line, broken down by purpose.	Safety, Health, and Environment	Evaluation of Social and Environmental Risks	106	-	✓
			Climate change management	107	-	✓
GDMA-Former FS9	Coverage and frequency of audits to assess implementation of environmental and social policies and risk assessment procedures.	Safety, Health, and Environment	Environmental Management and Policy System	104	-	✓
G4-FS10	Percentage and number of companies held in the institution's portfolio with which the reporting organization has interacted on environmental or social issues.	Safety, Health, and Environment	Evaluation of Social and Environmental Risks	106	-	✓
G4-FS13	Access points in low-populated or economically disadvantaged areas by type.	Responsible Finances	Pichincha Microfinances	88	-	✓

G4-FS14	Initiatives to improve access to financial services for disadvantaged people.	Responsible Finances	Service to Disabled Customers	85	-	✓
GDMA-Former FS15	Policies for the fair design and sale of financial products and services	Responsible Finances	New services	84	-	✓
GDMA-Former FS16	Initiatives to enhance financial literacy and education by type of beneficiary.	Responsible Finances	Financial Education	92	-	✓



INDEPENDENT LIMITED ASSURANCE REPORT ON THE SUSTAINABILITY REPORT FOR THE YEAR ENDED DECEMBER 31, 2016

To the Board of Directors and Shareholders of Banco Pichincha C.A.

Introduction

We have conducted the assurance of the 2016 Sustainability Report of Banco Pichincha C.A., for the year ended December 31, 2016. Our work consisted of assuring the adaptation of the contents of the 2016 Sustainability Report to the core option of the Global Reporting Initiative - GRI version G4 guidelines, hereinafter referred to as GRI G4, which is embodied in page 54 and following pages of the Annual Report.

Management's Responsibilities for the 2016 Sustainability Report

The management of Banco Pichincha C.A. is responsible for drafting the 2016 Sustainability Report in accordance with the core option of the GRI G4 guidelines, and for defining, adapting, and maintaining the management and internal control systems that management defined as necessary for drawing up the 2016 Sustainability Report without material errors due to fraud or error.

Auditor's Responsibilities

Our responsibility is to provide an independent conclusion about the adaptation of the contents of the 2016 Sustainability Report to the core option of the GRI G4 guidelines, following the procedures applied in our assurance.

Scope

Our assurance was conducted in accordance with the International Standard on Assurance Engagements Other than Audits or Reviews of Historical Financial Information (ISAE 3000), issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC). This standard requires that we comply with ethical requirements and that we plan and follow procedures for assuring the adaptation of the contents of the 2016 Sustainability Report to the core option of the GRI G4 guidelines.

Assurance Process

Our assurance work consisted of asking questions to the individuals in charge at Banco Pichincha who participated in the preparation of the 2016 Sustainability Report, as well as of applying certain analytical procedures and assurance through sampling, as described below:

- Meetings with Banco Pichincha staff to gather information about the principles, systems, and management focuses applied.
- Analysis of processes to gather and validate data presented.
- Assurance that the contents of the 2016 Sustainability Report do not contradict any relevant information supplied by the Bank and when comparing them with the information issued in 2015.
- Analysis of the adaptation of the contents of the 2016 Sustainability Report to the G4 Guide recommended contents and the Financial Services Supplement, and assurance that the indicators correspond to the GRI-G4 recommended guidelines, as well as an indication as to which indicators are not applicable or not available.
- Verification based on assurance tests on the quantitative and qualitative data corresponding to the GRI indicators included in the 2016 Sustainability Report, based on sample selection.
- For certain indicators identified in the “GRI Index,” additional validation procedures were completed together with the staff of the Bank’s subsidiaries.

Independence

We have performed our work in accordance with the independence standards required by the Code of Ethics of the International Ethics Standards Board for Accountants (IESBA).

Conclusion

The assurance process was performed based on the indicators established as a result of a materiality process completed by the Bank, and that were identified, prioritized, and validated. The indicators verified to date are established in the following table:

- **General Basic Content**

[G4-1] [G4-3] [G4-4] [G4-5] [G4-6] [G4-7] [G4-8] [G4-9] [G4-10] [G4-12] [G4-13]
[G4-14] [G4-15] [G4-16] [G4-17] [G4-18] [G4-19] [G4-20] [G4-21] [G4-22] [G4-23]
[G4-24] [G4-25] [G4-26] [G4-27] [G4-28] [G4-29] [G4-30] [G4-31] [G4-32] [G4-33]
[G4-34] [G4-39] [G4-45] [G4-47] [G4-48] [G4-56] [G4-57] [G4-58]

- **Specific Basic Content**
 [G4-EC1] [G4-EC4] [G4-EC6] [G4-EC7] [G4-EC9] [G4-EN1] [G4-EN3] [G4-EN6]
 [G4-EN15] [G4-EN17] [G4-19] [G4-EN23] [G4-EN27] [G4-EN29] [G4-EN31]
 [G4-EN32] [G4-EN34] [G4-LA1] [G4-LA2] [G4-LA3] [G4-LA6] [G4-LA7] [G4-LA9]
 [G4-LA10] [G4-LA11] [G4-LA12] [G4-LA13] [G4-LA14] [G4-LA16] [G4-HR2]
 [G4-HR3] [G4-HR5] [G4-HR6] [G4-SO1] [G4-SO3] [G4-SO4] [G4-SO9] [G4-PR5]
 [G4-PR8]

- **Sectoral Supplement**
 [G4-FS1] [G4-FS2] [G4-FS3] [G4-FS4] [G4-FS5] [G4-FS6] [G4-FS8] [G4-FS9]
 [G4-FS10] [G4-FS13] [G4-FS14] [G4-FS16]

- **Partial**
 [G4-2] [G4-SO5]

- **Not Applicable**
 [G4-11] [G4-EN9] [G4-EN11] [G4-EN12] [G4-EN13] [G4-EN14] [G4-EN22]
 [G4-EN25] [G4-EN26] [G4-LA4]

- **Non-Material**
 [G4-EN2] [G4-EN5] [G4-EN7] [G4-EN8] [G4-EN10] [G4-EN18] [G4-EN20]
 [G4-EN21] [G4-EN24] [G4-EN28] [G4-EN30] [G4-HR7] [G4-HR8] [G4-HR9]
 [G4-HR10] [G4-HR11] [G4-HR12] [G4-PR7] [G4-SO8] [G4-PR6] [G4-PR9]

Based on the outcome of our assurance procedures, no aspects have been stated that would make us believe that the 2016 Sustainability Report contains significant errors or that it was not prepared in accordance with the core option of the GRI G4 guidelines.

Observations and Recommendations

Furthermore, we have presented our recommendations related to the areas of improvement in Corporate Responsibility and Sustainability management to the management of Banco Pichincha. That report has been issued separately.



Quito, March 13, 2017