

## **PRESENTATION OF THE 2013 REPORT**

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THE GOAL OF BANCO PICHINCHA IS THAT THE *SUSTAINABILITY REPORT* IT ISSUES YEAR AFTER YEAR REACHES ITS READERS IN CLOSE AND PRACTICAL FASHION AND THAT THE SOCIAL, ECONOMIC, AND ENVIRONMENTAL INDICATORS SHOW THE PROGRESS AND COMPLIANCE OF THE BANK'S COMMITMENT WITH ITS EMPLOYEES, PROVIDERS, CUSTOMERS, AND BENEFICIARIES. IN THIS EIGHTH EDITION, BANCO PICHINCHA GIVES SPECIAL ATTENTION TO THE OPINIONS OF ITS STAKEHOLDERS, WHO WERE SPECIFICALLY TAKEN INTO ACCOUNT WHEN WRITING UP THIS *2013 REPORT* AND ALSO FOR UNDERPINNING THE 2014 OBJECTIVES.

### **Reach and Coverage**

This eighth *Sustainability Report of Banco Pichincha*, which covers the year 2013 (January-December), contains the social, economic, and environmental indicators of the organization's business in Ecuador. It also describes the work carried out with respect to our customers and the community in the terms of the data of the Group's affiliates, including CREDI FE, which services microfinance customers by applying individual credit methodology, and CRISFE Foundation, an ally in our social responsibility to the community.

Inasmuch as possible, biannual comparative indicators will be provided so the reader may assess the progress made in our business in 2012, appreciate the advances made in the challenges taken on in 2013, and learn about the commitments set out for 2014.

### **Reporting Standards**

This *Report* was updated following the *Reporting Guidelines – Global Reporting Initiative* (version G3.1) of the *Financial Sectors Supplement* as well as the principles of the UN Global Compact, a global initiative to which we have adhered since 2011.

## **Materiality and Stakeholders**

In order to boost coverage and the quality of the information presented to our stakeholders, we have included new indicators premised on the materiality study performed in 2012, which was based on dialogues with our priority groups concerning corporate social responsibility (CSR) topics, the items evaluated by the *Dow Jones Sustainability Index*, and the recommendations from the audit report in the *2012 Report*.

In 2013, we conducted different processes for consulting our stakeholders in order to measure the level of their satisfaction with regard to our processes and services. These processes include a *Diagnosis of internal customer satisfaction* and also consulting microfinance customers about issues related to the *Smart Campaign*, which were taken into account for the 2014 objectives. Next year, we will again offer CSR talks in order to update our Sustainable Management Model.<sup>1</sup>

## **Sustainability Challenges**

This year we became the first Ecuadorian corporation to conduct a sustainability evaluation based on the *Dow Jones Sustainability Index*. The evaluation compares our business with the business of other global market corporations, including financial-sector companies, in order to bolster our corporate strategy and sustainable management by applying the best international practices.

We will maintain the points identified as strengths for next year and will adequately address any item posing a future risk so that we may reinforce our value proposal for all of our stakeholders.

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<sup>1</sup> Our Sustainable Management Model is further explained in the Good Corporate Governance chapter.

## Accuracy and Verification

This *Report* was verified by the independent firm, KPMG. The Review Report is attached as an annex to this document.

### 2013 in Numbers

31.8% PORTFOLIO MARKET SHARE	2,760,692 CUSTOMERS	5,888 EMPLOYEES
COVERAGE IN 24 PROVINCES	7,836 COMMUNAL BANKS	95.27% LOCAL PURCHASES
9,334 SERVICE CENTERS	1,184,477 TRANSACTIONS FOR GRANTING LOANS	173,081 HOURS OF TRAINING FOR EMPLOYEES
34,947 BENEFICIARIES OF SOCIAL PROGRAMS	\$6,137,203.40 WORTH OF PAPER SAVED BECAUSE OF DIGITAL ACCOUNT STATEMENTS	256 TONS OF ENVIRONMENTALLY PROCESSED WASTE

## 2013 SUSTAINABILITY MILESTONES

EVERY YEAR OUR ORGANIZATION TAKES FIRM STEPS TO ENSURE BUSINESS SUSTAINABILITY AND GROWTH, MEETING ITS COMMITMENTS WITH OUR STAKEHOLDERS. HIGHLIGHTED BELOW ARE SOME OF THE BANK'S SOCIAL RESPONSIBILITY MILESTONES IN 2013.

<p style="text-align: center;"><b>JANUARY</b></p> <p>Implementation of the Business Intelligence project, integrating and optimizing the Bank's available information in line with the best global practices.</p>	<p style="text-align: center;"><b>FEBRUARY</b></p> <ul style="list-style-type: none"> <li>- Launch of the <i>Mi Vecino</i> magazine for Nonbanking Correspondents (NBC).</li> <li>- The UNEP FI acknowledged that Banco Pichincha is an environmental-conservation minded business, valuing the positive impact of its business.</li> </ul>	<p style="text-align: center;"><b>MARCH</b></p> <p>140 low-income families from the El Ebanó community in Manabí benefitted from the help of 55 members of the Pichincha Volunteer Group.</p>
<p style="text-align: center;"><b>APRIL</b></p> <ul style="list-style-type: none"> <li>- CEMEFI of Mexico recognized the Bank as a Model Business in Latin America because of its Corporate Social Responsibility.</li> <li>- Presentation of the Strategic Plan to stakeholders nationwide.</li> </ul>	<p style="text-align: center;"><b>MAY</b></p> <p>Implementation of <i>Emprendefe</i>, a new method for ongoing and systematic support to entrepreneurs looking to set up their own companies.</p>	<p style="text-align: center;"><b>JUNE</b></p> <ul style="list-style-type: none"> <li>- Banco Pichincha is recognized by MERCOSUR as a local company with the best reputation and Dr. Fidel Egas was recognized as one of the main business leaders.</li> <li>- Recycling project for the main buildings in Quito, Cuenca, and Guayaquil.</li> </ul>
<p style="text-align: center;"><b>JULY</b></p> <p>Initiation of the project created for defining, prioritizing, implementing, and executing enhanced customer service plans.</p>	<p style="text-align: center;"><b>AUGUST</b></p> <ul style="list-style-type: none"> <li>- First business in the country to evaluate its own sustainable management based on the standards of the <i>Dow Jones Sustainability Index</i>.</li> <li>- Banco Pichincha signed a cooperation agreement with the Red Cross for supporting the community.</li> </ul>	<p style="text-align: center;"><b>SEPTEMBER</b></p> <ul style="list-style-type: none"> <li>- Open House at the Microfinance Department to boost pride in staff members and their families.</li> <li>- FOROMIC recognized Banco Pichincha as the second best of Latin America for its good financial inclusion practices.</li> </ul>
<p style="text-align: center;"><b>OCTOBER</b></p> <p>Banco Pichincha participated in the 2013 Global Summit on Social Responsibility held in the city of Quito.</p>	<p style="text-align: center;"><b>NOVEMBER</b></p> <p>Reforestation day on which 300 trees were planted in one of the capital city's parks.</p>	<p style="text-align: center;"><b>DECEMBER</b></p> <ul style="list-style-type: none"> <li>- Opening of internal channel for reporting fraud and acts of corruption.</li> <li>- Banco Pichincha's Code of Ethics is internally disseminated.</li> </ul>

**GOOD CORPORATE GOVERNANCE**

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**Proactive quality system for improving the organizational culture, defining levels of responsibility, and complying with ethics and anticorruption policies and procedures.**

Maximizing customer value

Service quality, efficiency, and innovation

CSR culture in the organization

Financial sustainability and risk management

Ethics, transparency, fair competition

<b>COMMITMENTS</b>		<b>MEMBERSHIPS</b>	
<b>United Nations Global Pact</b> promotes strategies based on universal human rights principles, labor standards, environment, and anticorruption.	<b>United Nations Environment Programme Financial Initiative (UNEP FI)</b> Promotes environmental, sustainable, and financial performance practices.	<b>Members of the Ecuadorian Consortium for Social Responsibility (Ceres)</b> Committed to social, environmental, and economic sustainability.	<b>Global Banking Alliance for Women</b> Present in over 135 countries for developing innovative programs.
<b>Sustainable management model with an economic, social, and environmental focus, ensuring responsibility to our customers, staff members, providers, shareholders, and the community.</b>			

PART OF THE <b>UN GLOBAL PACT</b> FOR THE THIRD YEAR	FIRST COMPANY IN THE COUNTRY TO MEASURES ITS SUSTAINABLE MANAGEMENT BASED ON THE <i>DOW JONES</i> <i>SUSTAINABILITY INDEX</i>	<b>2,298</b> SHAREHOLDERS
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<b>2014 CHALLENGES</b>
To design and initiate the execution of a Social Responsibility strategic plan based on the <i>Dow Jones Sustainability Index</i> , improving our business by applying the best international market practices.
To optimize the legal strategy in the organization’s process.
To consolidate the Bank’s reputational risk management model with a tool enabling risk identification and quantification and the correct management thereof.
To disseminate the institution’s values and principles among staff members, following an internal communication plan.

**“Banco Pichincha serves Ecuador by repaying the confidence of its stakeholders, driving their development, and thinking about their needs. It is a global bank in a country that has to grow.”**

Fernando Pozo, General Manager

The objective of our Corporate Governance<sup>2</sup> is to ensure the accomplishment of Banco Pichincha’s mission and vision, focused on its organizational growth, support for the financial needs of Ecuadorians, and constant development of our customers, staff members, providers, shareholders, and the community.

The Corporate Governance Committee takes actions conducive to full compliance with the resolutions by the Superintendency of Banks and Insurance regarding good corporate governance. Through adequate management and groundbreaking strategies, we ensure our organization’s solvency, supply of customer-tailored products, risk management, portfolio recovery, financial

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<sup>2</sup> For more information about our Corporate Governance, see the section on the Mission, Vision, Principles, Corporate Governance, and Main Officers on pages 10, 11, 12, and 13.

inclusion of vulnerable sectors, development of our staff, reduction of our environmental footprint, and contribution to the country's growth.

Everything is based on ethical principles and parameters of conduct that are clearly disseminated among our staff members to ensure long-lasting relationships with each one of our stakeholders. In addition, we have decided to voluntarily continue to follow international initiatives, such as the United Nations Global Pact and the United Nations Environment Programme-Financial Initiative (UNEP FI) for the third year in a row. This helps us to continuously evolve and to become a leading bank financially as well as in terms of corporate social responsibility.

## **1.1. ORGANIZATIONAL STRUCTURE**

### *Board of Directors*

### *and General Meeting of the Shareholders*

Our highest decision-making and administrative organ is the Board of Directors, headed by the Bank's Chairman. The Board is formed by competent members elected by the General Meeting of the Shareholders and qualified by the Superintendency of Banks and Insurance. The Board of Directors holds general meetings once a month and special meetings at the request of the Chairman, the General Manager, or more than three directors. Notices to meetings are made in writing.

We have 2,298 shareholders who assemble together each year at the Annual Shareholders Meeting; however, special meetings of the shareholders may be held in accordance with the law and the bylaws. The report to the shareholders on the progress of the business, *Sustainability Report*, financial statements, and internal and independent auditors' reports are presented at the Annual Shareholders Meeting. In addition, the Chairman of the Bank, the members on the Board of Directors, the Deputy Chairman, the internal and independent auditors, and the Bank's representatives are elected at the annual meeting, pursuant to the law. The notice of meeting is made in advance as required by the law and is published in one of the country's widely circulated newspapers. Eighty-one people, consisting of shareholders and representatives constituting

93.51% of the Bank’s subscribed and paid-in capital, attended the 2013 Annual Shareholders Meeting.

***Bank Committees***

In addition, we have 18 committees with specific missions and objectives for ensuring the sustainable operation of our Bank.

<b>COMMITTEES</b>	
Name of the Committee	Mission
EXECUTIVE COMMITTEE	Formed by the Chairman of the Bank, the Deputy Chairman, General Manager, and up to three members of the Board of Directors. Its mission is to present the annual budget for next year to the Board of Directors, approve general instructions, appoint managers with legal representation, and exercise the powers that the Board of Directors delegates to it.
MANAGEMENT COMMITTEE	Oversees the completion of tasks and compliance with responsibilities in coordination with the vice-presidencies. Makes coordinated decisions.
COMPREHENSIVE RISK MANAGEMENT COMMITTEE	Guarantees the Bank’s soundness and solvency in the short, medium, and long terms.
OPERATING RISK SUBCOMMITTEE	Ensures the adequate control and management of operating risks identified in the Bank’s priority processes and establishes coverage measures.
AUDITING COMMITTEE	Ensures the optimum operation of the Bank’s internal control systems, by way of direct delegation from the Bank’s Board of Directors.
PORTFOLIO RATING	On behalf of the Bank’s Board of Directors, and in accordance with the rules in effect, reviews the quarterly reports by the Risk



COMMITTEE	Asset Rating Committee and levels of estimated provisions for asset protection. Each quarter reviews the evolution and quality of the Bank's risk assets.
RISK ASSET RATING COMMITTEE	Reviews and rates the Bank's risk assets and defines levels of provision required for protecting such assets, in compliance with the rules in effect.
OCCUPATIONAL HEALTH AND SAFETY COMMITTEE	Keeps the Bank healthy, safe, environmentally respectful, socially responsible, and with high service quality standards for establishing a comprehensive health, safety, and environment system based on the continuous improvement of our operating and administrative processes.
PURCHASING COMMITTEE	Approves projects, remodeling, construction, and purchase of goods and services requested by the Bank.
PHYSICAL SPACE COMMITTEE	Provides recommendations on both the national and international levels about options for purchasing goods to reinforce physical space development and proposes real estate solutions for infrastructure where the financial group's different operating fronts work, thus satisfying needs and providing an optimum and friendly environment in areas.
COMPLIANCE COMMITTEE	Ensures the application of asset laundering deterrence policies.
OPERATING COORDINATION COMMITTEE	Determines responsibility for operating losses that may be, as determined in the contract, attributable to Tatasolution Center S.A. or assumed by Banco Pichincha.
PROJECTS TECHNICAL COMMITTEE	Monitors the execution of projects in their different stages in order to timely address needs and guarantees the development thereof based on the standards defined by Banco Pichincha and Tatasolution Center S.A.
TECHNOLOGY AND PROJECTS	Approves the technology plan. Ensures completion of the different stages of projects to timely address needs and guarantee

COMMITTEE	development, in accordance with the standards defined by the Bank in terms of time, cost, and quality. Approves new technology investments based on the Bank's needs.
CORPORATE GOVERNANCE COMMITTEE	Takes all actions conducive to compliance with the resolutions by the Superintendency of Banks and Insurance regarding good corporate governance.
LEGAL COMMITTEE	Ensures correct legal advice and application of the legal framework through timely and precautionary analyses so as to minimize legal risks for the Bank and its officers.
ETHICS COMMITTEE	Defines the contents of the code of ethics based on the activities of the organization's people, deterring corruption or conflicts of interest. Determines punishment for noncompliance.
REMUNERATION COMMITTEE	Proposes to the General Meeting of the Shareholders the policy for creating a salary and bonus scale for executives and members on the Board of Director and oversees compliance therewith.

### ***Creation of New Areas***

In our pursuit for ongoing improvement in operations, processes, and services, we realized there was a need to add two new areas to our organizational structure that are key for supporting this purpose.

- ***Control and Internal Affairs***

Our Corporate Governance has the firm conviction and commitment that the Bank's personnel must be aligned with the Bank's declaration of values and principles, which provides the conduct guidelines to be followed in their inside and outside activities. Everyone has the duty to inform, alert, and report unethical behavior. This way we will reinforce our philosophy of zero tolerance for corruption incidents and remove any employee from the organization who has unquestionably committed this kind of act.

In order to support this kind of ethical conduct among employees, the Control and Internal Affairs area was created in 2012. Its job is based on methods and procedures to ensure

that assets are duly protected, account records accurate, and Corporate Governance rules efficiently followed and implemented.

The idea behind this division is to procure the Bank's growth in terms of its capacity to prevent and detect abnormal situations, by implementing a proactive-focused quality system that encourages an organizational culture, defines levels of responsibility, and takes all of the Bank's stakeholders into account.

This area has created a means for communication, such as a telephone line, an email address, and a technological tool, in place as of December, for employees to report any breach of the organization's policies and procedures. The organizational culture of *Juntos hacemos lo correcto* ("Together we do what is right") has been put into practice.

- ***Business Intelligence***

This area was created at the end of 2012 to satisfy the need of maximizing the organization's analytic capacity, by implementing a coherent and orderly practice for storing and using data. The mission for this area is to "Give the right information at the right time to the right people for effective and efficient decision-making."

This area is in charge of establishing a new data store, the data store's quality, and reports for its analysis. The following activities were carried out this year:

- **Data Storage:** the new data store completed the uploading of relevant information about customers, employees, liability products, asset products (except credit cards), and channels (ATM, electronic banking, and teller windows). A new Bank Catalogue of Products was drawn up and implemented.
- **Data Quality:** process ensuring consistent and progressive improvement in the quality of customer data was implemented.
  - Enforcement of automatic quality rules that correct information when producing location data.

- Identification of databases (credit cards, biometrics, CREDI FE, claims, and requirements) contributing to the progressive improvement in the quality of information.
  - Definition of policies and processes for improving the quality of data.
  - Design and implementation of control panels for following up on and assessing goals in order to update and correct data for 2014, as well as with regard to the strategies and work plan to be executed.
- **Reports for Data Analyses:** the first analytical components were generated for the new customer segment, geographical distribution of agencies, sales force, and management of human capital. The main analytical reports on employees, profitability, time period, and income from services and commissions were identified and designed. In 2014, the uploading of relevant information onto the data store of credit cards, guarantees, treasury, among others, will be completed. Key reports will be replaced by data analyses for continuous use, such as the model for profitability, costs, budget, revenue analyses, business performance, service quality at agencies, analytical information about credit cards, gaps, and so on, and the Bank's new analytical culture and data use will be reinforced.

## **1.2. RELATIONS WITH OVERSIGHT ENTITIES**

In compliance with Banking Board resolution JB-2011-2073 of December 15, 2011, which states the basic principles for defining the conditions for good corporate governance at financial-system institutions, the Bank's Corporate Governance Committee holds periodic meetings to oversee compliance with Banking Board rules. In addition, the necessary bylaw amendments have been made.

The Ethics Committee approved its code, which has been disseminated among our staff members and is published on the Bank's intranet. Compliance with this document is mandatory for all staff members. The code contains principles on ethics and conduct that prevail in our

relationships with shareholders, customers, staff members, providers, institutions of the national financial system, and society in general.

- **Customer Defender:** in compliance with legal rules, Banco Pichincha provides Customer Defender Services. The Customer Defender's main duty is to protect customers' private rights and interests, as well as to inform them about their obligations to financial-system institutions subject to the supervision, oversight, and control of the Superintendency of Banks and Insurance. The defender is an individual designated in an election process organized by the Citizens' Participation and Social Oversight Council and is not under a relationship of employment with the Council, the Superintendency of Banks and Insurance, or the Bank.

The defender is obligated to keep third parties' records and information included in a confidential file and to observe bank secrecy and reserve, notwithstanding the defender's obligation to process the requirements by the competent authority.

Twenty-seven customer claims made through the system were processed.

### **1.3. FAIR COMPETITION**

In compliance with the Organic Law of Market Power Regulation and Control, a Competition Committee was formed by the vice-presidents of the Financial-Administrative Control, Risk and Recovery, Marketing, and Legal vice-presidencies. The purpose of the committee is to ensure that competition rules are followed at the Bank and to advise Management on decisions, in terms of the correct application thereof by all of the Bank's staff members. For this reason, the Committee formed a Competition Technical Subcommittee with its delegates. The objective is for the Bank's activities to comply with competition guidelines and to be strictly in line with market power control rules.

To achieve this objective implemented by the Competition Committee and Subcommittee, the Bank is drafting a Competition Manual that will contain the internal guidelines and policies to ensure full compliance with Ecuadorian rules. Once the manual is ready, it will be the obligation of everyone at Banco Pichincha to read and apply it.

Furthermore, we look after our competitors by following our Code of Ethics. None of our staff members may make comments that might tarnish the image or contribute to the spreading of rumors about our competitors with whom we must maintain a cordial and respectful relationship. Spying and getting confidential information through unlawful methods are prohibited.

The manual also refers to responsible marketing practices. The Bank's advertisement must be clear, precise, opportune, reasonable, adequate, valid, accurate, and complete with regard to the products and services we offer, in accordance with fair competition principles and good business practices.

ECONOMIC VALUE GENERATED				
	2013 in thousands of \$	Share %	2012 in thousands of \$	Share %
Financial income	773,485.21	76.85%	736,641.01	75.25%
Income from services	101,783.87	10.11%	96,177.22	9.82%
Other operating income	75,495.85	7.50%	99,390.34	10.15%
Non-operating income	55,664.16	5.53%	46,754.87	4.78%
<b>Total</b>	<b>1,006,429.09</b>	<b>100.00%</b>	<b>978,963.44</b>	<b>100.00%</b>

DISTRIBUTED ECONOMIC VALUE				
	2013 in thousands of \$	Share %	2012 in thousands of \$	Share %
Payment to savings accountholders and investors	153,137.90	16.07%	131,733.14	14.43%
Payment to employees	142,956.16	15%	124,533.88	13.64%
Salaries	100,392.10		89,207.60	
Mandatory employment benefits	29,501.02		21,528.09	
Investment in meals and health	7,359.35		6,854.23	
Other employment benefits	4,802.68		5,355.61	
Investment in training	901.01		1,588.35	
Goods and services providers	290,457.72	30.48%	261,163.06	28.60%
Social investment in the community	4,252.45	0.45%	2,818.76	0.31%
Public administration (taxes and contributions)	99,924.17	10.49%	66,146.83	7.24%
Operating expenses	241,155.20	25.31%	307,381.87	33.67%
Other non-operating expenses	21,004.06	2.20%	19,267.88	2.11%
<b>Total</b>	<b>952,887.64</b>	<b>100.00%</b>	<b>913,045.40</b>	<b>100.00%</b>

## 1.4. SUSTAINABLE VALUE

### *1.4.1. Generated Economic Value*

The effects of applying the regulatory entities' measures, including the Organic Law of Redistribution of Revenue for Social Spending (LORIGS), were evident in 2013. That law affected the banking system's activities, impacting its revenue and expense structure.

As a result of our credit transactions, the Bank's revenue grew by 2.81% with an increase of about \$27.46 million compared to the year 2012. The Bank's main revenue, representing 76.85% of total revenue, comes from income produced in banking transactions (interest, commission, and financial profits).

### *1.4.2. Distributed Economic Value*

Despite the impacts reported as a result of the LORIGS, the Bank has focused on technological investment and customer service projects, which implied additional costs. The sum of these factors resulted in a deterioration of the efficiency index—calculated as the ratio between operating expenses and the financial margin and operating revenue—, from 68.2% in 2012 to 75.6% in 2013. In numbers, expenses escalated by \$39.84 million (4.36%) between the years under analysis.

- **Payments to Savings Accountholders and Investors:** return earned by our customers on their deposits and investments made at our institution, proceeds paid to financial institutions, and convertible bonds.
- **Payments to Employees:** payments made to all of our internal employees, including for their training. At the end of 2013, these payments climbed by \$18.42 million or 14.79%.
- **Goods and Services Providers:** Payment to providers increased by \$29.29 million or 11.22% mainly because of costs and expenses related to fees, technological innovation, security, and advertisement and insurance services.

- **Social Investment in the Community:**

In 2013, Banco Pichincha used around \$4.2 million for the community, out of which \$3.2 million were delivered to CRISFE Foundation for its community-support projects. The rest was used for sponsoring and donations to foundations and organizations, such as the Ecuadorian Red Cross, Amigos Benefactores de Enfermos Incurables (ABEI), among others, and maintenance of emblazonment in green areas in different cities.

- **Public Administration (taxes and contributions):** the total of taxes and contributions paid by Banco Pichincha at December 2013 amounted to \$99.9 million, a \$33.8 million increase compared to 2012. In 2013, this item represented 10.5% of the distributed economic value. These taxes include income tax, contributions to state-run and municipal entities, and the capital outflow tax.

- **Operating Expenses:** these mainly include risk asset provisions required by the Superintendency of Banks and Insurance, financial losses, and other operating expenses, depreciation, and amortization.

<b>TAXES AND CONTRIBUTIONS</b>		
<b>Item</b>	<b>2013 in thousands of \$</b>	<b>Share %</b>
Cosede (former Deposit Insurance Agency)	38,193.36	38.22%
Income Tax (IRS)	17,412.00	17.43%
VAT on purchases	16,896.42	16.91%
Superintendency of Banks	13,489.85	13.50%
Offshore asset tax	7,673.44	7.68%
0.15% tax (municipal)	1,680.74	1.68%
Currency Outflow	1,574.63	1.58%
Other institutions	959.68	0.96%
Municipal patent	930.32	0.93%
Property taxes	559.00	0.56%
Other	358.74	0.36%
0.2% University Hospital	191.00	0.19%
Superintendency of Companies	5.00	0.01%
<b>Total</b>	<b>99,924.17</b>	<b>100.00%</b>



- **Retained Economic Value-Earnings:** at the close of 2013, year-end profits fell by 18.78%; this result—as explained above—owes to a series of measures adopted by National Government authorities.

Nonetheless, we continue to be a socially responsible institution working for all of our stakeholders, starting with the people at the base of the social pyramid, Communal Banking, up to large corporations serviced by Business Banking, thus ensuring financial inclusion and the country’s economic growth.

<b>RETAINED ECONOMIC VALUE</b>			
	<b>2013</b> <b>(thousands of</b> <b>\$</b>	<b>2012</b> <b>(thousands of</b> <b>\$)</b>	<b>Variation</b>
Net Profits	53,541.45	65,918.04	(12,376.59)
Legal Reserve	5,354.15	6,591.80	(1,237.66)
Availability for Shareholders	48,187.31	59,326.24	(11,138.93)

### **1.5. OUR CORPORATE SOCIAL RESPONSIBILITY**

The value we ascribe to CSR in our business is seen in the Strategy Framework, with the pillars thereof supporting the Banks’ sustainability, and substrategies and objectives defined for the different areas.

Furthermore, this year we became the first Ecuadorian company to analyze our sustainable management based on the parameters of the *Dow Jones Sustainability Index*. The results show that our greatest strength is our economic dimension, while we have opportunities for improvement in the social and environment areas. After getting the results, we conducted a feedback process and analysis of the opportunities revealed by the evaluation. This will enable us to build up our sustainable management and apply the best international practices.

<b>CORPORATE STRATEGIES</b>			
<b>MAXIMIZING CUSTOMER VALUE</b>	<b>QUALITY SERVICE, EFFICIENCY, AND INNOVATION</b>	<b>FINANCIAL SUSTAINABILITY AND RISK MANAGEMENT</b>	<b>CSR CULTURE AT THE BANK</b>

***CSR Structure***

The Corporate Social Responsibility (CSR) unit is part of the Human Resources division and is in charge of promoting strategic CSR actions at the Bank and its affiliates, as well as meeting the commitment acquired with the United Nations Global Pact.

In 2013, the Sustainable Management Model (SMM) was ratified, based on the second round of talks conducted with stakeholders in 2012. For this year, it is proposed to review the SMM based on the results of a new materiality study and a process for consulting priority stakeholders, following the focus group methodology and holding interviews and surveys in order to identify the issues that matter to them.

<b>SUSTAINABLE MANAGEMENT MODEL</b>		
<b>OUR PHILOSOPHY</b>		
<b>VISION</b>	<b>MISSION</b>	<b>VALUES AND PRINCIPLES</b>

**Our Strategy and Commitment**

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To create a CSR culture at our organization and have our commitment reflected in our actions involving society, customers, staff members, and the environment.

Corporate Governance	Responsibility to Staff Members	Responsibility to Customers	Responsibility to Providers	Responsibility to the Environment	Responsibility to the Community
<b>ECONOMIC</b>		<b>SOCIAL</b>		<b>ENVIRONMENTAL</b>	
Ethics and transparency		Comprehensive human development		Raising environmental awareness among stakeholders	
Responsible investments		Responsible business with providers		Reduction of environmental footprint in business transaction.	
Management of economic, social, and environmental risks		Education (including financial education), occupational health and safety			
Products and services with sustainable criteria					
Financial inclusion and access to banking services					

Our SMM lists the following topics in order of importance: comprehensive development (addressing matters, such as a balance between life and work, professional development and education, work environment, and Occupation Health and Safety); ethnics and transparency; access to banking services for vulnerable sectors; supply of products with sustainable criteria; financial education, and environmental awareness.

The progress the Bank has made in each one of these topics is described throughout this report.

### **1.6. Risk Management**

We have a risk management system that allows the organization to safely and profitably grow while remaining aligned with the best global practices, the guidelines of the Superintendency of Banks, and the definitions by the Board of Directors that are outlined in the Bank’s strategies and follow a conservative risk approach.

We manage the business’s risks within a fast-changing and highly competitive environment. We rely on a system that enables us to envisage credit, market, liquidity, and operating risks. We look to manage risks by identifying, assessing, controlling, reporting, and mitigating them opportunely and effectively. Conservative risk management is reflected in the high liquidity levels and outstanding coverage of the loan portfolio with indicators way above those of the local financial system.

The Board of Directors, through the Comprehensive Risk Committee, is the top approbatory body of our risk management system consisting of a set of established policies, procedures, and practices. The heart of the Board of Directors is formed by Management, represented by the General Manager and the Risk Vice-President, together with members of the Risk and Recovery Division, and delegates of the Board of Directors. They are all committed to this specialized and highly responsible task.

We continue to recapture dozens of customers who required a process for renegotiating their credit transactions for different reasons. In each case, we relied on specialized support, while generating windfall income and a reduction of costs for the organization. Users who greatly contribute to the country's development were reinserted into the economy.

In addition, we have included practices in the credit generation processes enabling us to reinforce the path for further and stronger inclusion of the CSR model. We have been able to pursue one of the institution's objectives and to have access to lines of international financing. This conveys the elevated relevance we ascribe to our responsibility towards the environment.

Our business continuity plan remains part of our ongoing improvement process. This guarantees us a permanent reduction of the different kinds of risks and helps us to ensure sustainable business growth in benefit of our shareholders, customers, employees, providers, and the community.

### ***Reputational Risk Management***

For next year, in order to define adequate mitigation plans, we will bolster the Bank's reputational risk management model by identifying and quantifying the risks to which the organization is exposed.

**OUR EMPLOYEES: THE STRENGTH BEHIND OUR ORGANIZATION!**

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SELECTION AND PROMOTION OF HUMAN RESOURCES WITHIN THE BANK

PROACTIVE APPROACH

OVERALL PERFORMANCE EVALUATION

PROFESSIONAL TRAINING AND DEVELOPMENT

EQUAL OPPORTUNITY EMPLOYER

We support the managerial, executive, and personal skills of our staff members.

WELLBEING

SAFE ENVIRONMENT

COMMUNICATION

THE PILLARS FOR HUMAN CAPITAL MANAGEMENT

<b>5,888</b> <b>staff members</b>	<b>63.69%</b> <b>of staff is female.</b>	<b>173,081</b> <b>hours of training</b>
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<b>2013 CHALLENGES</b>	<b>2013 CHALLENGES ADDRESSED</b>	<b>2014 CHALLENGES</b>
To design and implement a corporate education model.	We designed and built an integrated corporate education model and defined three internal careers for educating mass profiles.	To implement an integrated corporate education model for the technical and managerial levels.
To redesign the tool for assessing the Work Environment Quality Index.	Our assessments focused on certain units and we executed action plans for improving the work environment.  We did not make an overall assessment of the working environment due to internal structural changes and our search for new methodologies and an updated tool.	To assess the work environment overall and specifically. To design plans for achieving better indicators.
To execute a job insertion plan for disabled individuals nationwide.	We reinforced the equal opportunity plan and took certain joint actions with CRISFE Foundation.	To execute all of the actions under the Plan directed to the Bank's staff members and affiliates.

<p>To design and implement the global communication plan at Banco Pichincha and its affiliates.</p>	<p>We conducted macro processes, crafted a manual for using tools, and defined a policy for the management thereof. We redesigned internal customer service and enhanced current communication tools in order to optimize their use and impact.</p>	<p>To measure the efficiency of the comprehensive internal communication model.</p>
<p>To cultivate a CSR culture at Banco Pichincha and its affiliates through better practices and permanent dialogue with our stakeholders.</p>	<p>We executed a CSR communication plan addressed to our staff members, and we measured customers' level of knowledge and satisfaction. We achieved a 79% index.</p>	<p>To continue with the execution of a CSR plan and achieve a satisfaction level of 83%.</p>

**“For Banco Pichincha, social responsibility to our staff members is not just a slogan; it is the line of conduct followed across the entire organization.”**

## **2.1. OUR HUMAN CAPITAL**

At the close of the year, Banco Pichincha’s human asset consisted of 5,888 people, the majority of them women—63.69% of all personnel— and mostly young women: 67.09% of them are not more than 33 years old.

The range of age of our employees is shown in the chart called *Corporate Composition by Age Range*.

<b>CORPORATE COMPOSITION BY AGE RANGE*</b>						
<b>Professional Category</b>	<b>18-25</b>	<b>26-33</b>	<b>34-41</b>	<b>42-49</b>	<b>Over 50</b>	<b>Total</b>
Assistant/aide	981	778	155	73	52	2,039
Technician/analyst/executive/support	314	898	352	105	34	1,703
Supervisor/coordinator/specialist	112	757	435	150	33	1,487
Chief/expert/administrator	5	103	230	151	53	542
Individual in charge/manager		2	35	38	27	102
General Manager/vice-presidents**			1	3	11	15
<b>TOTAL</b>	<b>1,412</b>	<b>2,538</b>	<b>1,208</b>	<b>520</b>	<b>210</b>	<b>5,888</b>
*Corporate composition by age not comparable to other fiscal years because of change in criterion in professional category.						
** Of the General Manager/vice-presidents group, 93.33% are Ecuadorian.						

<b>CORPORATE COMPOSITION BY GENDER*</b>					
<b>Professional Category</b>	<b>Number of women</b>	<b>Number of men</b>	<b>% women</b>	<b>% men</b>	<b>Total Number</b>
Assistant/aide	1,293	746	21.96%	12.67%	2,039
Technician/analyst/executive/support	1,145	558	19.45%	9.48%	1,703
Supervisor/coordinator/specialist	961	526	16.32%	8.93%	1,487
Chief/expert/administrator	317	225	5.38%	3.82%	542
Individual in charge/manager	33	69	0.56%	1.17%	102
General Manager/vice-presidents	1	14	0.02%	0.24%	15
<b>TOTAL</b>	<b>3,750</b>	<b>2,138</b>	<b>63.69%</b>	<b>36.31%</b>	<b>5,888</b>
*Corporate composition by gender not comparable to other fiscal years because of change in criterion in professional category.					

<b>COMPOSITION OF PERSONNEL WITH DISABILITIES ACCORDING TO AGE</b>			
<b>Professional Category</b>	<b>Number of women</b>	<b>Number of men</b>	<b>Total Number</b>
Assistant/aide	62	100	162
Technician/analyst/executive/support	27	27	54
Supervisor/coordinator/specialist	3	4	7
Chief/expert/administrator	2	3	5



Individual in charge/manager	2	1	3
General Manager/vice-presidents			
<b>TOTAL</b>	<b>96</b>	<b>135</b>	<b>231</b>

By gender and by different professional categories, personnel are distributed as shown in the *Corporate Composition by Gender and Composition of Personnel with Disabilities According to Age*.

Of all our employees, 98.79% have fixed-term contracts that turn into indefinite contracts after one year, according to the law. This means that our Bank largely provides a very stable environment.

By region, 59.17% of employees work in the Sierra, 38.91% in the Coast and the Galapagos Islands, and 1.92% in the Amazons. Therefore, we cover the country's four regions. There was no significant alteration compared to the percentages reported for 2012.

When counting employees with fixed-term contracts who resigned from the bank, our rotation rate was 13.23%<sup>3</sup>. This year 1,460 new employees were hired; 360 of them left the organization, resulting in a 24.66% rotation rate.

<b>BREAKDOWN BY TYPE OF CONTRACT</b>		
<b>Type of Contract</b>	<b>2013</b>	<b>2012</b>
Fixed-term contracts	5,817	5,614
Occasional contracts	50	142
Professional Fee Contracts	3	3
Apprentice Contracts	13	25
Part-Time Contracts	5	5
<b>Total</b>	<b>5,888</b>	<b>5,789</b>

<b>EMPLOYEES BY REGION AND GENDER</b>	
<b>(PERCENTAGES)</b>	
	Women

<sup>3</sup> For calculating the rotation rate, only employees who voluntarily resigned were counted. Employees who left because of retirement, death, apprenticeships, or expired occasional contracts were not counted. We believe that most of the resignations were not pursued by the organization.

			Men
Sierra	Coast and Galapagos Islands	Amazons	
<b>2013 NEW HIRES AND ROTATION*</b>			
<b>Age</b>		<b>Hired</b>	<b>Left</b>
18-25		907	224
26-33		470	118
34-41		64	13
42-49		14	3
Over 50		5	2
<b>Total</b>		<b>1,460</b>	<b>360</b>
*This indicator is new and therefore cannot be compared to 2012.			

<b>NEW HIRED AND ROTATION BY REGION</b> (NUMBER OF INDIVIDUALS)			
(PERCENTAGES)			
			Hired
			Left
Sierra	Coast and Galapagos Islands	Amazons	

<b>NEW HIRED AND ROTATION BY REGION</b> (NUMBER OF INDIVIDUALS)			
(PERCENTAGES)			
			Women
			Men
Hired		Left	

## 2.2 ORGANIZATIONAL CULTURE

Through the declaration of values and principles of our organization, the principles of the United Nations Global Pact, and compliance with local laws, we support the protection of human rights, reject all kinds of forced and binding labor, and effectively abolish child labor: we only hire employees over 18.

We respect the freedom of association: we have 12 employee associations that were freely and voluntarily created. We promote gender equality, respect for workers' rights with regard to maternity, nursing, paternity, and so on. We offer equal opportunities for our staff in the selection, recruitment, promotion, and development processes and in the grant of benefits in general. We disapprove of all kinds of discrimination. Just like last year, this year no reports or complaints were made by employees regarding discrimination incidents.

To bolster compliance with these conduct parameters, we have crafted a social record for assessing the socioeconomic and job level of our people. This tool covers aspects that will be used for managing the different areas of the Bank, but mainly for supporting employees in both their job-social and family ambits. This tool provides data offering a panoramic view of each worker and an effective social balance. The record is now in the trial phase.

In this year, 334 employees gave birth and took maternity leave. Out of that number, 99.4% returned to work after maternity leave. In addition, 34 male workers had children and 100% of them were back on the job after paternity leave.

Our organizational culture is pillared on internal guidelines based on ethical principles constituting a guide for our employees' conduct on the job and in their personal lives.

- **Internal Work Regulation:** Specific regulations governing employment relationships and the provision of services by our staff.
- **Code of Ethics:** Values and principles for ethics and conduct that we foster and maintain with our main stakeholders.
- **Internal Policy Manual:** A set of policies disseminated to employees when hired. The manual covers subjects such as nepotism, conflicts of interests, asset laundering, password usage, occupational hazard prevention, and so forth.

## 2.3. LEADERS IN HUMAN CAPITAL

### *Selection*

Our personnel selection system is designed to attract people with potential who can effectively contribute to the organization's growth. We have established a practice for announcing existing vacant positions in the organization so as to give priority to internal human resources to let them have the freedom to choose a position. We support local hiring, giving preference to people from the place in question, selecting and hiring people who are habitual residents of the place where they will work.

<b>NUMBER OF HOURS OF ONLINE TRAINING*</b>			
<b>Professional Category</b>	<b>Number of Hours of Training</b>	<b>Number of employees</b>	<b>Average Number of Hours</b>
Assistant/aide	5,766	2,039	2.83
Technician/analyst/executive/support	7,689	1,703	4.51
Supervisor/coordinator/specialist	10,057	1,487	6.76
Chief/expert/administrator	6,203	542	11.44
Individual in charge/manager	448	102	4.39
General Manager/vice-presidents**	12	15	0.8
<b>TOTAL</b>	<b>30,175</b>	<b>5,888</b>	<b>512</b>
*This information is not comparable with previous years because of the change in criterion for professional categories. The data are divided into online education and live education in order to differentiate between these two methodologies. The online education indicator implies technological inclusion of employees and use of new teaching-learning methods, making it possible for workers to better manage their time by enabling them to access the system from any place and at any time, thus encouraging a balance between their careers and personal lives.			

<b>NUMBER OF HOURS OF LIVE TRAINING*</b>			
<b>Professional Category</b>	<b>Number of Hours of Training</b>	<b>Number of employees</b>	<b>Average Number of Hours</b>
Assistant/aide	11,124	2,038	5.46
Technician/analyst/executive/support	40,535	1,703	23.8
Supervisor/coordinator/specialist	38,943	1,487	26.19
Chief/expert/administrator	35,540	542	65.57
Individual in charge/manager	16,092	102	157.76
General Manager/vice-presidents**	672	15	44.8
<b>TOTAL</b>	<b>142,906</b>	<b>5,888</b>	<b>24.27</b>
*This information is not comparable with previous years because of the change in criterion for professional categories. The data are divided into online education and live education.			

<b>TRAINING TOPICS</b>		
	<b>Number of Participants</b>	<b>Number of Number of Hours of Duration of Course</b>
<b>CORPORATE GOVERNANCE</b>		
Global Summit on Corporate Responsibility	3	10
2013 economic and political scenarios	5	5
Job modernization forum	8	4
Corporate governance and comprehensive management	1	10
<b>HUMAN RIGHTS</b>		
New work code	6	3.5
Labor reforms and public service, employment	7	5
<b>ANTICORRUPTION</b>		
Deterrence of asset laundering, financing terrorism, and other crimes	6,806*	2
*The difference between the number of trained employees (6,806) and the number of Bank employees at December 31, 2013 (5,888) is due to the of rotation of employees during the process.		

<b>MANAGERIAL SKILLS PROGRAMS: SKILL BUILDING IN EACH MODULE</b>		
<b>Alignment Program</b>	<b>Managerial Skills Program</b>	<b>Executive Skills Program</b>
Results oriented	Leadership	Executive leadership
Communication	Value Vision	Business games
Teamwork	Planning, organization, and control	
Orientation and customer service	Negotiation workshop	

<b>MANAGERIAL SKILLS PROGRAM: LEVEL OF SATISFACTION</b>			
<b>(PERCENTAGE)</b>			
<b>SCALE OF 1 (BAD) TO 4 (EXCELLENT)</b>			
Professional application	Personal application	Skill building	Overall

### ***Management by Results***

We measure the quantitative and qualitative contribution by our employees, using the management-by-results method in order to ensure the sustained development of our team and our corporation.

### ***Professional Education, Training, and Development***

This year we provided 173,081 hours of online and live training to all of our employees following education and development processes as a key element in organizational development. Our female employees received 58% of the total number of training hours and our male employees 42%.

We highlight the following courses for meeting our commitments acquired with the Global Pact. These courses promote the exercise of human rights.

The special professional development programs for maximizing and aligning the skills of our employees are described in the *Training Topics* chart (*see previous page and top of this page*).

- **Managerial Skills Program** (*see charts above*): 194 employees participated in this program targeted at bolstering their managerial, executive, and supervisory skills, as well as their personal and teamwork skills. Live workshops, coaching sessions, and outdoor days, and so on were held. This is the way we raise each employee's level of commitment with the organization, supporting the accomplishment of their institutional and personal goals.

The level of satisfaction with these programs is within an important range in service standards.

- **Comprehensive Plan for Disabled Individuals:** with the objective that our organization be a reference for inclusion jobs at the national and international levels, we have prepared this plan among the different areas of the Bank and the CRISFE Foundation that seeks to

raise the level of wellbeing of our disabled employees. Within an operating framework based on four pillars, we seek to provide greater opportunities for personal and professional development for our employees. These pillars are broken down into intervention programs for inclusive physical infrastructure, adaptation of human resources subsystems, programs for promoting and fostering wellbeing, as well as schooling and training.

- **Program for Supervisory Skills:** promotes the training and strengthening of supervisory lines for efficient human capital direction and management. By the year 2015, we expect the 1,100 supervisory lines of Grupo Pichincha to attend this program.

***Overall Performance Evaluation***

OVERALL PERFORMANCE EVALUATION	
DID YOUR SUPERVISORY LINE GIVE YOU YOUR OPE RESULTS?	
YES	NO

The Overall Performance Evaluation (OPE) is defined in the policies for performance management and its procedure manual. This methodology has been applied since 2007 and collects the annual contribution of each employee in terms of periodic performance that is evaluated using quantitative and qualitative indicators. The result of this evaluation is the input for training plans, identification of back-ups, promotions, successions, bonuses, and salary revisions. During 2013, 99.94% of employees received a formal evaluation and review of their performance.

The annual monitoring of the OPE process was conducted on 4,256 employees, with the results shown in the chart called *Did your supervisory line give you your OPE results?*

As a whole, 87.49% of the employees consider that they received clear feedback that contributed to their performance, which represents an increase of 8.49% over last year.

***Salary and Compensation***

The employee salary scheme is found in the *Salary Management Manual*, which defines policies and procedures for proper management based on the payment trends in the labor market, fairness within the Bank, and compliance with labor laws. Under this scheme, we are competitive

compared to the market, and we avoid all types of discrimination and make no salary differentiation because of gender.

Fairness in salary compensation is a policy that recognizes the performance and effort of all employees, who are assured that their contribution to the organization is valued as a function of their performance and within the defined salary ranges for each level.

With respect to the legally established minimum salaries listed in the sectorial tables, the Bank pays its employees on average 59.64%<sup>4</sup> higher than the minimum established by law and assures that the base salary for positions with less responsibility is equal to the minimum legal salary established in the sectorial tables.

In addition, each year a person is hired to take a survey to analyze fairness within the Bank and competitiveness with the market. In the analysis for 2013, we found that we are above the market average for the majority of positions that we compared.

### ***Work Environment***

We have taken measurements focused on specific segments of Banco Pichincha to support and strengthen their management. With the results obtained, improvement plans have been designed. The overall work environment has not been measured mainly because the organization has entered into a process of changing its service model focused on customer satisfaction.

### ***Employment Benefits***

We provide a benefits plan that is available to our employees for guaranteeing their wellbeing as well as that of their families.

- **Employee Loans:** we grant loans with preferential terms to our employees. The types of loans that they may obtain are consumer loans, emergency loans, and mortgage loans.
- **Secure Future Plan:** was created to promote savings and for employees to plan their future and generate liquidity to cover the educational expenses of their families, housing needs, and

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<sup>4</sup> For calculating this percentage, the average salaries corresponding to the two lowest paid positions were used (general service, reception, and information assistants) along with one customer service position (tellers).



capital for retirement. In addition to their personal contribution, after the 13th contribution, we compensate employees with a monthly contribution to their fund.

- **Uniforms:** female personnel receive uniforms paid for by the Bank; male personnel receive a purchase order that must be used at the designated provider.
- **Supermaxi Cards:** a card that provides the employee with discounts and credit limit for purchases.
- **Meal Plan:** the Bank covers 100% of the price of lunch on business days.
- **Insurance:** starting with the first day of employment with the Bank, all employees are covered by life and personal accident insurance. The Bank pays 100% of the premium.
- **Medical Assistance Plan:** as a benefit, we offer health insurance to our employees, their spouses, and children, with the backing of Confiamed and the advice of Novaecuador. Employees pay a portion of the cost for this benefit, depending on the amount of their base salary.

LOANS GRANTED				
Type of Loan	Number of loans		Amount Disbursed in US\$	
	2013	2012	2013	2012
Consumer*	627	573	2,497,738	2,134,767
Housing	30	44	1,897,451	2,016,767
<b>Total</b>	<b>657</b>	<b>617</b>	<b>4,395,189</b>	<b>4,151,534</b>
* Included here is the open-ended credit product, a product offered since the beginning of this year.				

- **Pediatric Medical Service:** in Quito and Guayaquil the Banks offers pediatric services for employees' children 12 years old or younger. One hundred percent of the cost of pediatric appointments is paid by the Bank.
- **Daycare:** we cover a certain amount of the cost of daycare for employees' children four or younger who attend a daycare center.

## 2.4. OCCUPATIONAL HEALTH AND SAFETY

We promote an environment focused on the health and safety of our employees, minimizing occupational hazards. We continue to implement a system for the prevention of occupational hazards and have an occupational health program in place through which we take corrective measures for creating a safe work environment.

OHS INDICATORS			
Indicator	Value in 2013	Value in 2012	Description of Indicator
Frequency indicator	1.97	2.06	Number of injuries divided by man-hours worked, multiplied by 200,000.
Seriousness indicator	33.5	21.82	Number of days lost divided by man-hours, multiplied by 200,000.
Risk rate	17	10.60	Serious indicator divided by frequency indicator.
Illness rate	0	0	Total number of occupational illnesses divided by man-hours worked, multiplied by 200,000.
Absenteeism rate*	0.68	1.739	Work days lost to absenteeism divided by total number of workers, multiplied by the average number of work days in the year, and then multiplied by 100.
*The data from 2012 is not comparable to 2013 given that they were calculated using different criteria.			

OCCUPATIONAL HEALTH AND SAFETY (OHS) ACTIONS DURING 2013
We prepared the Occupational Health and Safety Regulation for Banco Pichincha.
We performed OHS inspections in 149 agencies nationwide.
Approximately 3,300 employees in Quito and Guayaquil underwent a preventive health examination.
We have statistical records of accidents on the job and alleged occupational illnesses.
The percentage of compliance with the occupational hazard prevention system is 83.54%. In 2014 we will implement the plan nationwide in all areas of the organization. We have not recorded any fatalities in 2013.
We trained 363 employees about OHS issues at 17 teller schools.
We performed evacuation drills with 456 employees.

We continue to report and improve our accident, absenteeism, and illness indicators, among others.

We established an OHS Central Committee in Quito and two subcommittees in Guayaquil and Cuenca in accordance with the geographic structure and work centers of our organization. Each committee and subcommittee works in the city for which it was selected and will begin to meet as of 2014. In the provinces, OHS delegates will be appointed and will report to the Central Committee. This organizational structure was accepted by the Ministry of Labor Relations in

compliance with the Internal OHS Regulation. There are 36 employees, including managers and regional heads, who form part of the OHS committee and subcommittees.

Due to the nature of our business, there are no areas where the risk levels are high; however, an ergonomic risk was detected following the risk matrix made per the law. To mitigate this, occupational health and safety tips are provided in the *Impacto* and *Impacto Express* magazines that inform the ways to prevent this risk.

## **2.5. WE CONTRIBUTE TO THE QUALITY OF LIFE OF OUR EMPLOYEES AND THE COMMUNITY**

The Bank supports a series of activities associated with social, economic, and environmental issues, with the goal of raising the level of awareness of our people, strengthening their values, and seeking a balance between their work and personal lives. Since our Code of Ethics and Internal Regulation provide the guidelines for complying with work schedules and for the rational use of overtime, we have looked to strengthen this objective through the following activities:

- **Choir Project:** we encourage the personal life-work balance of our employees with activities they like. This is where the idea to form the Pichincha Choir comes from. The participants are provided a place for expressing and strengthening their talents.
- **Photo Project:** this is also how the Pichincha Photo Project was created; it seeks to develop the talent of its participants. We arranged an exposition and awarded the best photograph for the theme “We can do a lot if we work together”; see more in the Environment chapter.
- **Aerodance:** Aerodance classes, a combination of aerobics and dance, are offered with the goal of promoting habits of good health and exercise among our employees.
- **Avanti Olympics:** 42 employees joined the sports activities planned by the Avanti Foundation in benefit of Ecuadorian communities living in extreme poverty. We participated in the Olympics together with some of our disabled employees, putting into practice the criteria that govern us as an organization.

- **Sustainable Christmas Contest:** for this contest, employees made Christmas ornaments with recycled materials. More details can be found in the Environment chapter.
- **Microfinance Open House:** the employees of this segment gave a dynamic presentation of the value chain that they perform in their daily work to transmit the challenges their work faces and the importance of their work for the growth and sustainability of the Bank as well as its customers, and in this way improve the quality of life. About 600 employees and family members attended.
- **Talks with the Children of Employees on Becoming a Professional** were given to the children of employees from the microfinance segment, with the goal of making them aware of the importance that higher education for them to be more competitive in the market and obtain better job opportunities and salaries.
- **Corporate Volunteering:** by volunteering, we seek the comprehensive development of our people, contributing to their personal and professional growth. Through the CRISFE Foundation, we promote volunteering days for vulnerable organizations. This year 420 volunteers participated.

## 2.6. INTERNAL COMMUNICATION

We make sure that our employees have permanent communication and information channels for issues supporting corporate strategy. We inform about the change processes in the organization through the different internal channels, communicating relevant issues to each stakeholder. We have a policy and procedure manual for the use of the Bank's communication tools available on the intranet. We have redesigned internal customer service and improved the current communication tools to optimize use and impact.

We have counted 192 communication actions for social responsibility issues, given that social responsibility is one of the Bank's pillars and actively affects areas such as occupational health and safety, asset laundering deterrence, the environment, and others.

CORPORATE RESPONSIBILITY COMMUNICATION							
<i>Impacto Express</i>	Email	Pichincha Express	<i>Impacto Magazine</i>	Induction Schools	Bulletins	Surveys	External Communication

***Communication Tools***

- **Pichincha.Net:** Internet portal that contains policies, procedures, surveys, news, and information relevant to the structure and strategies of the organization.
- **Pichinch@ Express:** pop-up messages displayed when each employee turns on the computer. It is a publication in a short, friendly, quickly read format, with the ability to expand information by linking onto Pichincha.Net.
- **E-mail:** employees have their own personal e-mail account by which they permanently receive communication; email use is regulated by the organization’s policy.
- **Impacto Magazine:** this is a printed medium of communication issued each quarter with an average print run of 7,000 copies, distributed to all Banco Pichincha and affiliate employees across the nation and as a courtesy to the group’s companies outside of the country. *Impacto* is a dynamic and entertaining form of communication that periodically provides information about important issues, such as training and management, among others. Following our policy to apply environmentally friendly practices, this magazine is printed on 100% recycled bond paper and vegetable inks are used.
- **Impacto Express:** a digital bulletin sent out each week via e-mail to all Banco Pichincha and affiliate employees.
- **Surveys / Follow-up:** a tool that allows us to learn about the readership and understanding of the different disseminated issues.

## CUSTOMERS AND SERVICE QUALITY

### OUR COMMITMENT

- Manage growth responsibly. •
- Create shared value for our stakeholders. •
- Offer services and products in line with the needs of each business segment. •
- Support sectors that have little resources and promote socioeconomic development. •

<b>INCLUSIVE FINANCIAL SERVICES</b> Support to microenterprises, small-scale producers, and sectors that have few resources	<b>INCLUSIVE BUSINESS UNITS</b> Pichincha Microfinance, CREDIFE, Community Banking, Growing Dependents, value chains with social responsibility, ¡Pichincha mi vecino!
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<b>1,258,980</b> MICROENTERPRISE CUSTOMERS	<b>8,056</b> NONBANKING CORRESPONDENTS (NBC) ¡PICHINCHA MI VECINO!	<b>54.45%</b> OF AGENCIES ACCESSIBLE by DISABLED INDIVIDUALS
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2013 CHALLENGES	CHALLENGES ADDRESSED	2014 CHALLENGES
To implement the new segmentation model and commercial action plan.	The new model for customer segmentation was designed and implemented, entering into use in July. We re-segmented 1,500,000 customers among Retail, Microfinance, and Business Banking, making changes based on their profile.	To implement the model in 35% of the offices across the country, representing 60% of the Bank's business.
To transform the transactions channels into customer-oriented commercial banks.	A multi-segment and multi-channel strategy was plotted for the Bank. Different critical projects and important initiatives were implemented and made significant advances.	To continue with strategy implementation and the consolidation of initiatives and related projects.
To implement satisfaction indicators	We defined the critical quality parameters for the customer.	To identify new needs in order to generate initiatives that

for external customers at the institutional level.	<p>These includes the following priority parameters:</p> <ul style="list-style-type: none"> <li>• Waiting time</li> <li>• Cordiality</li> <li>• Problem-solving</li> <li>• Transaction time</li> </ul> <p>Based on these parameters, we created eight institutional projects that leveraged customer satisfaction. These projects are in the control and rollout stage.</p>	improve service quality, basing them on knowledge generated by previous projects and corporate strategy.
		To upload all relevant Bank information onto the new data store and make reports available to all areas for information analyses.
* To obtain more information about this challenge, see the chapter on Good Corporate Governance, the section on “Creation of new areas-business intelligence”.		

**“We listened to the voice of our customers and have structured projects that impact them. We are focused on our customer needs.”**

### 3.1. MARKET SHARE

As an institution that is a leader in the private banking sector in Ecuador, we know that we play a major role in the country’s economic performance. For this reason, we make an effort to manage the growth of our business responsibly and to create value for the different stakeholders, mainly our customers, who are the reason that our business exists.

<b>MARKET SHARE TOTAL PORTFOLIO (IN PERCENTAGES)</b>							
Banco Pichincha	Bank 1	Bank 2	Bank 3	Bank 4	Bank 5	Bank 6	Others

### 3.2. OUR CUSTOMER PROFILE

Our commitment is to make an effort each day to get closer to our customers, offering them products and services tailored to their needs and that satisfy the needs and expectations of each segment, from the microenterprise to the large corporation segments. Within our customer portfolio we manage a total loan portfolio of

approximately US\$5.4 billion, distributed between Business Banking and Consumer Banking.

### 3.3. COVERAGE

We are present in all 24 provinces of the country, through different service channels, physical and electronic, that fit the demand of our customers. We continue in the constant search for new methods of service with better technology.

BANKING SEGMENTS							
	Segment	Total loan portfolio in \$*		Number of transactions		Number of customers**	
		2013	2012	2013	2012	2013	2012
Business	Large companies	1,653,668,370	1,471,828,007	6,407	6,177	2,686	2,582
	Legal entities	3,010,116	3,150,819	404	394	379	361
	Microenterprises	850,186,772	490,156,354	384,351	214,325	302,866	165,271
	Small businesses	1,254,550,125	1,004,941,267	97,144	74,529	56,451	40,663
Retail	Individuals	1,618,817,696	1,883,995,665	696,171	841,569	582,438	722,223
<b>TOTAL</b>		<b>5,380,233,079</b>	<b>4,854,072,112</b>	<b>1,184,477</b>	<b>1,136,994</b>	<b>944,820</b>	<b>931,100</b>
*Total loan portfolio is equal to current portfolio, plus past-due portfolio and non-accruing portfolio.							
**The number of customers and the amount of the loan portfolio for Microenterprise increased under the new segmentation model, given that customers transferred from Retail to Microenterprise.							

DISTRIBUTION OF CUSTOMERS BY REGIONS AND CITIES						
Regions	Number of Individuals*		Number of Companies**		Total Customers	
	2013	2012	2013	2012	2013	2012
Quito	746,315	753,783	199,471	95,030	945,786	848,813
Guayaquil	419,805	408,936	131,579	67,168	441,384	476,104
North Coast	231,778	240,500	133,482	72,288	365,260	312,788
Central Sierra	125,895	137,898	78,509	49,457	204,404	187,355
North Sierra	111,159	112,790	51,510	32,157	162,669	144,947
Central Coast	112,993	125,129	56,795	30,832	169,788	155,961
Cuenca	107,554	109,091	41,936	23,606	149,490	132,697
Machala	71,084	74,164	34,472	17,963	82,244	92,127
Eastern Zone	55,836	54,379	26,408	17,633	82,244	72,012
Spain	24,194	30,514	187	221	24,381	30,735
<b>Total</b>	<b>2,006,613</b>	<b>2,047,184</b>	<b>754,349</b>	<b>406,355</b>	<b>2,760,962</b>	<b>2,453,539</b>
*The BANCS system deactivates the accounts of customers that have not transacted in the last 6 months.						
**Includes Large companies, Small businesses, Microenterprise, and Legal Entities. The number of Company customers increased due to the new segmentation model of the Bank that includes the Small Business subsegment in the Business Segment						



### *Physical Channels*

We highlight that this year we inaugurated four pilot agencies for the Microfinance segment. This is part of the project that the Bank is developing with the Bill & Melinda Gates Foundation and Action International. These agencies, which are located in areas where the potential for the Microfinance segment has been identified, have a service model with special characteristics. They have a play zone for kids, videos with financial education themes, multifunctional deposit tellers, personnel trained in servicing the segment, and so on.

These agencies leverage the Bank's financial inclusion strategy and are monitored and evaluated by Action International to measure their effectiveness and to replicate them—totally or partially—in other agencies within the Pichincha network.

### *Electronic channels*

In terms of electronic channels, we have 975 self-service units installed and operating, 829 of which are automatic teller machines (ATM), 66 deposit machines, and 80 auto-service kiosks for consulting accounts, statements of account, payments, and other functions. This network makes us the financial institution with the greatest number of self-service units nationwide.

The amount paid through the automatic teller machines and dual function deposit machines exceeds US\$6.5 billion, with approximately 97 million satisfactory transactions. This confirms our position as the country's largest network.

With the goal of offering the best service and increasing the level of security of our customers, we have replaced 278 automatic teller machines with new ATM models that comply with Standard 2148 of the SBS, to read chip cards and to be quicker and more efficient. This implies that 93% of obsolete ATMs have been updated; we expect to conclude with the replacements in early 2014. Furthermore, new teller machines have been installed throughout the country. Obsolete equipment was disposed of in an environmentally correct way.

SERVICE POINTS OF PHYSICAL CHANNELS				
	2013		2012	
Agencies	237		231	
Special offices	13		13	
Tellers and TRX points	44		51	
Transactional agencies	9		9	
Nonbanking correspondents	8,056		3,500	
<b>Total Service Points</b>	<b>8,359</b>		<b>3,804</b>	
SERVICE POINTS OF ELECTRONIC CHANNELS				
<b>Drive-Through Teller Network</b>	<b>2013</b>		<b>2012</b>	
Automatic tellers	829		740	
Depositories	66		70	
Kioskos	80		81	
<b>Total</b>	<b>975</b>		<b>891</b>	
PRODUCTION OF THE ATM NETWORK (DATA IN MILLIONS OF TRANSACTIONS AND DOLLARS, RESPECTIVELY)				
Production of the ATM Network	Average number of transactions per month in millions		Annual total in millions	
	2013	2012	2013	2012
Successful transactions*	8.11	7.7	97	93
Satisfactory transactions**	6.61	6.2	79	75
Amount disbursed	557	511	6,868	6,127***
*Total amount of transactions requested in channel				
**Transactions in which the customer uses the self-service correctly				
***The data for 2012 was recalculated under the same criteria for 2013.				

### 3.4. FINANCIAL INCLUSION

Making the necessary means available to customers so that they may access the services of the formal financial sector will continue to be a priority for the organization. In this way we seek to include those who have been traditionally excluded. The goal of the Pichincha Microfinance segment is to turn the microenterprise segment more dynamic, improving the quality of life of microenterprise people, the family environment, and the country. Currently, the segment has 1,258,980 customers, representing 17.63% of the entire loan portfolio of the Bank.

We are accomplishing this mission through the following business units: CREDI FE, Community Banking, growing number of dependents and value chain, as well as through our new transactional channel: ¡Pichincha mi vecino! and Gates agencies.

### **3.4.1. CREDI FE**

CREDI FE is one of the subsidiaries that provide comprehensive financial services to microenterprises in all 24 provinces nationwide, with 126 offices. At the close of 2013, the CREDI FE sales force serviced approximately 566,000 customers with microenterprise profiles, representing a total loan portfolio over \$643 million and a stock of liabilities of US\$343 million.

Of the total number customers under management, approximately 147,000 have microcredit loans, with a total loan portfolio over US\$529 million, representing 10.09% of the total loan portfolio of Banco Pichincha. The amount disbursed this year was US\$519 million and the results of this portfolio show an annual growth rate of 8.18% with respect to disbursements made in the previous year, a 9.64% growth in outstanding loans, and market share that represents 15.46% of the microcredit industry in Ecuador.

Subsequent to the internal customer segmentation process undertaken by Banco Pichincha in 2013, the CREDI FE operation assumed the challenge and responsibility to directly manage more than 250,000 microenterprise customers that were found in other segments of the Bank. At the same time, in July 2013 approximately 9,000 customers, with a loan portfolio equivalent to US\$49, million were transferred to the Small Business segment by way of a graduation process.

In an effort to improve service quality, CREDI FE opened six new agencies and implemented the following initiatives:

1. Models for comprehensive customer management
2. Capture of cutting-edge information with technological tools
3. Geo-referencing of customers
4. Optimization of commercial processes
5. Credit and psychometric scoring models
6. Development of new products and services

In 2013, over 46,000 VIDAFÉ policies and close to 38,000 MEDIFÉ policies were sold in the micro-insurance segment. In comparison to 2012, this represents an increase of 45% and 41%, respectively. The Multi-risk insurance policy was incorporated into this portfolio and covers damage to microenterprises caused by natural disasters and

fires, and also cover the subsequent three payments of any outstanding loan. In nine months, 1,744 policies were sold.

On the liabilities side, more than 49,000 programmed savings plans were opened, which represents an increase of 97% in relation to the previous year.

PRODUCT AND SERVICE FIGURES				
Name of the product	Number of active customers	Number of active transactions	Operations sold in 2013	Volume (thousands of \$)
Individual microcredit	147,080	201,602	143,461	529,688
Other credit products*		28,470		85,336
Traditional, programmed and term savings	497,355	637,054	49,829	249,769
Payment protection insurance	147,080	201,602	143,461	NA
Medical insurance**	65,266	65,266	37,719	NA
Life Insurance***	67,246	79,897	46,429	NA
Programmed savings	73,088	66,587	49,829	4,492
Multi-risk insurance	1,744	1,744	1,744	NA
*This amount of portfolio was not generated by CREDI FE, but corresponds to the customers managed by its sales force.				
**This year the number of plans sold increased by 40% over 2012.				
***This year the number of plans sold increased by 45% over 2012.				

#### EVOLUTION OF PORTFOLIO AND ACTIVE LOAN CUSTOMERS

\*This table reflects the stock of customers and the balance of the microenterprise portfolio. Customers graduated to the small business segment add up to an additional 9,000, and the microenterprise portfolio, \$49 million.

Portfolio balance (thousands of \$, left axis)											
Number active loan customers (right axis)											
2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
16,438	24,040	34,507	50,142	66,379	80,339	85,668	81,962	93,390	118,470	141,950	147,080
9,394	27,988	45,082	79,687	135,570	184,390	253,650	241,790	309,960	453,560	528,390	529,680

#### OVERDUE PORTFOLIO INDEXES CREDI FE

>6/16 days

>30 days

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
2.1%	1.1%	1.8%	0.8%	1.5%	1.0%	1.7%	2.5%	1.5%	1.3%	2.0%	3.4%
5.7%	2.2%	2.6%	1.3%	2.0%	1.8%	2.3%	3.1%	1.9%	1.7%	2.5%	4.0%

#### PORTFOLIO PLACEMENT (AMOUNTS AND TRANSACTIONS)

Loans granted (thousands of \$, left axis)											
Number of loans granted (right axis)											
2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
26,640	32,830	41,050	56,720	71,150	81,970	86,300	69,410	90,830	119,800	123,000	143,400
20,180	48,130	74,270	120,700	192,900	240,600	296,900	242,600	332,300	465,100	480,000	518,600

PLACEMENT OF OTHER PRODUCTS (THOUSANDS)

					2012
					2013
49,829	25,301	30,850	26,817	32,609	31,962
Future Savings		MEDIFE		VIDAFE	

Emphasis was kept on loans for the agricultural sector, using a particular methodology appropriate to the needs of small-scale producers. This portfolio has a balance coming to 19.67% of the microenterprise portfolio.

In alignment with Banco Pichincha’s Corporate Social Responsibility strategy, CREDI FE continued implementing a series of actions, with the following highlighted:

- Development and redesign of financial products and services based on the true needs of the segment.
- Financial education for workers of the organization.
- Integration activities with employees’ families.
- Environmental protection activities.
- Volunteer work carried out by employees in provinces throughout the country.

### 3.4.2 Communal Banking

The main objective is to provide bank access to low-income persons living below the poverty line, which means that they earn less than \$2 a day, and who normally are found in rural or outlying areas where there is a scarce or nonexistent supply of banking services.

Through our services, we seek to support the poorest people, offering loans starting at \$50 for productive activities that help them to increase the family income and improve living conditions. During this year, we consolidated our presence in 22 provinces, incorporating services in Morona Santiago.

A group loan methodology is used for communal banks formed by organized individuals who live in the same area and know each other, and who share a productive activity and are joint guarantors of their loans. Customers need not go to the Bank’s agencies to apply for loans, since our bankers visit them at their place of work or at their home, and meet with them once or twice a month. We service customers with sales at or

below \$2000 per month, and the average loan term is seven months. Additionally, the average loan balance per customer is approximately \$600, and the average amount lent out is \$938.

<b>Figures regarding products and services</b>					
Product	Number of active customers	Number of active transactions*	Portfolio balance (\$)	Average term (months)	Average amount disbursed
Communal Bank	80,884	81,529	43,818,709	7.03	888.36
Solidarity groups	778	3,745	4,337,769	11.72	2,145.60
Individual loans	1,031	1,954	2,358,587	12.31	2,352.32
Agricultural loans	346	349	705,855	6.14	1,658.25
Total	83,039	87,577	51,220,920	7.19	938.48

\* The number of transactions is different from the number of customers, since customers may have two or more depending on their payment ability.

<b>Communal Bank Indicators</b>		
Data	2013	2012
Customers	83,039	91,022
Percentage of Women	69%	70%
Portfolio (\$)	51,220,920	52,328,960
Loans disbursed (\$)	141,036,415	138,612,930
Number of Communal Banks	7,836	8,295
Coverage	We have 14 offices in 22 provinces, 671 parish districts, 158 cantons, and two non-delimited zones.	We have 14 offices in 21 provinces, 607 parish districts, 155 cantons, and two non-delimited zones.

This year, we provided loans to communal banking, solidarity groups<sup>6</sup>, and individual loans, and we incorporated agricultural loans as a new product to cover the financial needs of small agricultural producers. The innovation of the year was the 120 consultants who, using a POS<sup>7</sup> enabled to make transfers from one account to another, became mobile nonbanking correspondents. Using state-of-the-art technology, bill collection, and the opening of Basic Xperta Accounts, they were able to provide greater ease and security to customers who used to have access only to a group transaction account.

<sup>6</sup> Solidarity groups are the smaller communal boxes for customers with greater payment ability for granting higher amounts and longer terms.

<sup>7</sup> Point of Sale is a portable device used to open Basic Xperta Accounts in the field.

We continue to focus mainly on women who are the heads of their households in this population group, striving to improve the living conditions of their families.

As an added value, we include voluntary medical insurance that covers all illnesses, prenatal care, and ambulatory services provided by a national network of clinics. This hospital insurance covers 82,116 customers and around 203,201 dependents; in addition to the borrower, it applies to the borrower's partner and up to four children or close family members. This year, 145,336 people began using this benefit. Additionally, 19 preventative medicine campaigns were carried out, registering 1,702 attendees and 666 patients. All of our customers are covered by life insurance.

Additionally, we incorporated financial education. The emphasis in 2013 was on the importance of saving to improve living conditions and to provide support beyond the vulnerability that families experience in this niche of the market. This year, the focus will be on healthy debt.

#### **3.4.3. *Growing Dependents***

Within the Microfinance segment, we have the Growing Dependents, who are those customers that receive a salary of up to \$350 and are over 25 years old. During 2013, we have served 343,437 customers with offers in assets and equities channeled through the different commercial forces that the Bank has available: agencies, call center, and sales forces with a portfolio of \$55,389,460. In 2014, we have the challenge of designing strategies for service through alternative channels to allow customers to carry out transactions through easier processes and in more flexible schedules.

#### **3.4.4. *¡Pichincha mi vecino!***

During 2013, we became the largest network of nonbanking correspondents in the country, strengthening our objective of bringing financial services to underprivileged areas to promote their socio-economic development.

Initially, this network provided deposit and withdrawal transactions, but today it offers the following services:

- Opening of an Xperta Account
- Loan applications (references)

- Cash deposits and withdrawals
- Balance and movement inquiries
- Payment of national public utilities
- Payment of private services (cash management)
- Payment of credit cards
- Collection for products and services (cash management)
- Pre-paid recharges (Movistar, Claro, CNT, DIRECTV)
- Payment of the Human Development Bonus

Segments served by the channel (Number of Transactions)											
1,203,576	140,010	510,101	671,474	141,707	656,990	634,072	1,438,115	1,036,114	1,053,556	375,177	40,612
Consumer	Business	Youth	Retail Banking A	Retail Banking A2	Retail Banking B	Retail Banking B2	Microenterprises	Not segmented	Others	Small Businesses I	Small Businesses 2

Coverage by land division					
24 Provinces		221 Cantons		1,221 Parish Districts	
2013	2012	2013	2012	2013	2012
24	23	212	202	755	621
100%	96%	96%	91%	62%	51%

Figures on products and services				
Product	Number of active customers*	Number of active transactions	Portfolio balance (\$)	Average per customer (\$)
Cards	29,683	34,532	9,729,003	327.76
Consumer loans	49,231	57,073	38,755,437	787.21
Other loan products	2,642	1,508	6,905,021	2,613.55
Checking accounts	5,509	5,552	3,238,780	587.91
Savings accounts	423,564	480,410	75,479,231	178.20
Fixed term deposits	1,504	1,577	8,424,559	5,601.44

\*A customer may have more than one loan transaction.

We have 8,056 active points at qualified places of business, including, among others, shops, hardware stores, and pharmacies, with coverage in 100% of the nation's provinces. By the end of 2013, this initiative carried out more than 10 million transactions totaling over \$667 million.

As part of the services that the Bank offers to NBCs to achieve quality service, we provide ongoing training and accompaniment as well as projects for financial education and access to banking in the most underprivileged areas through the opening of basic accounts (Xperta Account) focused on low- to mid-level income customers in need of a



quick and secure way to save. The account is ready to be used in less than a minute and has the benefits of both a traditional account and access to electronic channels. Correspondents receive a commission for the account sold and additional income that comes from customer visits at their place of business.

Upon joining *¡Pichincha mi vecino!*, the correspondent commits to complying with contractual obligations and also the regulations established by the Superintendency of Banks and Insurance, as well as the ethical and operational code that the Bank provides to guarantee the correct functioning of process and services in the network. If the correspondent does not fulfill the agreed-upon obligations, it is subject to suspension or closure. The NBC also has the freedom to end the contract at any time.

Benefits from this business model		
Customers and Providers	Anchor companies	Banco Pichincha
Access to formal financial services	Lower financing and administrative costs	Business volume and new customers
Business development and better quality of life	Focus on business	Socio-economic development of the country
Flexibility in terms of payment and collection	Fostering loyalty among customers and providers	Diversification / pulverization of risk
Greater negotiation power and payment ability	Greater flexibility in cash flow management	Lower sales and operating costs
Lower operating costs		
Healthy management of cash flows		

### **3.4.5. Value Chains with Social Responsibility**

I In 2013, we were able to strengthen the financing structure for customers in the Micro and Communal segments through the value chain system. Through this, we work so that large- and medium-size businesses can stop financing their providers/distributors with their own cash flow and focus on business objectives, while the Bank is able to diversify its loan portfolio with risks much more controlled.

The financing system worked with small-scale corn farmers in the Balzar and Mocache areas of the province of Guayas, where the loans are made in the form of materials and certified seeds so that the farmer truly applies the loan to agricultural purposes and not to others. At harvest, farmers ensure the sale of their production to an

anchor business, which helps the Bank collect payments on loans with a single payment term. In 2014, this same system is being applied to other crops: rice, soy, and palm.

NUMBER OF TRANSACTIONS					
Number of Transactions		Total amount (\$)		Average amount (\$)	
2013	2012	2013	2012	2013	2012
330	337	1,971,445	2,127,350	5,974.08	6,312.61

Additionally, a financing system was implemented through a processing and export company for fruit producers. This format has a line of credit for the export company, which buys the fruit from different suppliers on credit. Thanks to these services, the suppliers do not need to wait for the invoices issued to the anchor company to reach their due date in order to receive their payment, since they can receive the payments ahead of time with accessible financing costs and using a tool that allows them to make their transactions online, without having to go to the Bank or sign any additional documents. In this way, producers have access to liquidity that they can reinvest in their crops, something that was not possible before, since the company could not pay them ahead of time.

This same program is applied with other anchor companies, including transportation companies, services providers, and raw material providers. In 2014, the focus will be on value chains that are already operating, thus involving more suppliers and customers in order to broaden the range of action of each program and reach a greater number of customers in the different segments that we serve.

#### ***3.4.6. Principles of Microfinance Customer Protection***

We are moving forward on implementing a good business practice model proposed by the global initiative called The Smart Campaign with the objective of keeping customers as the Bank's *raison d'être*.<sup>8</sup>

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<sup>8</sup> Taken from [www.smartcampaign.org/sobre-la-campana/mision-y-objetivos-de-la-campana](http://www.smartcampaign.org/sobre-la-campana/mision-y-objetivos-de-la-campana)

With the strategic support of CRISFE Foundation, we crafted an activity plan to continue strengthening the culture of Microfinance customer protection that characterizes us. The Lago Agrio and Portoviejo agencies were chosen to implement the best practices pilot plan, where the following activities were carried out:

- 10 workers informed about customer protection issues.
- Training for 150 workers in financial education modules.
- Creation of a glossary of key terms for customers, with the objective of improving communication with agents. This will be distributed in 2014.
- Preparation of a Pocket Manual for loan agents, which will reinforce customer service good practices and will align nondiscriminatory practices with loan policies.

Through interviews and focus groups, we were able to listen to our customers' opinions regarding loans, savings, and insurance products. Forty customers were surveyed for the focus groups and twenty customers interviewed individually in the pilot agencies. The strengths found were that the customer understands the loan conditions, the customer believes that the information received from Bank agents is clear, the agent shows interests in helping the customer, the agent is concerned about the growth of the customer's business, the agent grants loans quickly and timely, the agent is proud about being part of the Bank, and the customer's business is growing thanks to our institution. As opportunities for improvement, the customers need further explanation regarding the risks of going over into debt, the benefits of saving, how health insurance works and what does it cover, and continuing to be advised during the entire loan request process. Customers also ask for quicker service at agencies.

### **3.5. PRODUCTS TAILORED TO OUR CUSTOMERS' NEEDS**

We are known for our respect of human rights as universal, inalienable, indivisible, and nondiscriminatory rights that protect people from action or inaction affecting their freedom and dignity. That is why Banco Pichincha has focused its products and services on guaranteeing attention anyone requiring our services for their different financial activities. It is important to note that we did not register any claims for nonobservance and disrespect of human rights in 2013.

Additionally, the institution is run in accordance with the law and its regulatory framework and is subject to oversight by the Superintendency of Banks and Insurance. This is why in our relationships with our checking account, savings account, and investment customers, all of our workers are required to sign a commitment to bank secrecy from the moment they are hired.

Portfolio of Products and Services			
Retail	Microfinance	Business	Other services
<ul style="list-style-type: none"> <li>Personal checking account</li> </ul>	<ul style="list-style-type: none"> <li>Savings account (traditional, electronic, Xperta).</li> </ul>	<ul style="list-style-type: none"> <li>Savings account.</li> </ul>	<ul style="list-style-type: none"> <li>Cashier's checks, certificates for abroad.</li> </ul>
<ul style="list-style-type: none"> <li>Savings account (traditional, electronic, Xperta)</li> </ul>	<ul style="list-style-type: none"> <li>Future growth savings account</li> </ul>	<ul style="list-style-type: none"> <li>Capital integration account</li> </ul>	<ul style="list-style-type: none"> <li>Cashing of checks and purchase of checks from abroad.</li> </ul>
<ul style="list-style-type: none"> <li>Future savings account (generic, young, and reserve)</li> </ul>	<ul style="list-style-type: none"> <li>Personal checking account.</li> </ul>	<ul style="list-style-type: none"> <li>Checking account</li> </ul>	<ul style="list-style-type: none"> <li>Domestic transfers, transfers between accounts, and interbank transfers.</li> </ul>
<ul style="list-style-type: none"> <li>Investments (<i>plazo-dólar</i>, <i>arma-dólar</i>, commercial papers)</li> </ul>	<ul style="list-style-type: none"> <li><i>Plazo-dólar</i> and <i>arma-dólar</i> investments</li> </ul>	<ul style="list-style-type: none"> <li>Euro and Miami accounts</li> </ul>	<ul style="list-style-type: none"> <li>Wiring abroad.</li> </ul>
<ul style="list-style-type: none"> <li>Savings account and Euro investments.</li> </ul>	<ul style="list-style-type: none"> <li>Loans for personal expenses, working capital, fixed assets, agriculture, ecological.</li> </ul>	<ul style="list-style-type: none"> <li><i>Plazo-dólar</i> and <i>arma-dólar</i> investments Euro-term investments, and commercial papers.</li> </ul>	<ul style="list-style-type: none"> <li>Negotiation of foreign currency</li> </ul>
<ul style="list-style-type: none"> <li>Preciso Loans, Preciso Mortgages, Open Lines, and Crediback for consumer needs</li> </ul>	<ul style="list-style-type: none"> <li>Group credit.</li> </ul>	<ul style="list-style-type: none"> <li>Production loans, Crediback, real estate, provider-distributor.</li> </ul>	<ul style="list-style-type: none"> <li>Home items (debit cards, E-Key cards, checkbooks, returned checks)</li> </ul>
<ul style="list-style-type: none"> <li>Loans for pursuing master's degrees</li> </ul>		<ul style="list-style-type: none"> <li>Discount on valued and leasing documents.</li> </ul>	<ul style="list-style-type: none"> <li>Online bank statements</li> </ul>
<ul style="list-style-type: none"> <li>Loans for light and heavy vehicles</li> </ul>		<ul style="list-style-type: none"> <li>Light and heavy vehicle loans.</li> </ul>	<ul style="list-style-type: none"> <li>Bank certificates</li> </ul>
<ul style="list-style-type: none"> <li>Loans for new homes, used homes, completion, remodeling or expansion, vacation homes, construction, multi-mortgage, and land.</li> </ul>		<ul style="list-style-type: none"> <li>External commerce, Cash Management / Electronic banking, bank guarantees.</li> </ul>	<ul style="list-style-type: none"> <li>Payment of taxes, internet transfers, direct payment</li> </ul>
<ul style="list-style-type: none"> <li>Migrant housing loan</li> </ul>		<ul style="list-style-type: none"> <li>Overdrafts, collections, payments, providers, payroll, third parties.</li> </ul>	<ul style="list-style-type: none"> <li>Receipt of remittances</li> </ul>
<ul style="list-style-type: none"> <li>Overdrafts, automatic payment system</li> </ul>			<ul style="list-style-type: none"> <li>Credit cards</li> </ul>

In the design and creation of new products, we consider a series of internal policies: loans to different segments of the Bank, knowing our customers, and the deterrence of money laundering. In addition, we follow the regulations, policies, and resolutions of the different oversight agencies that regulate us.

We follow the Project Management Office (PMO) method that is based on a process ensuring a comprehensive vision regarding the following factors: creation of each product, technological impact, profitability, and project life cycle. Finally, we undertake and document the following processes: a) survey on project needs and impacts; b) analysis of profitability, risks reported, corrective measures, and project objectives; c) design of the Statement of Work using a model that includes estimation of costs, effort, and schedule; d) follow-up and support in the creation stages of the product or service (the table on the previous page shows the portfolio of our products and services).

### ***3.5.1. Sustainable Products***

- **Xperta Account:** this account contributes to society, as it is a comprehensive product that works to get lower-income customers involved in banking. These customers are looking to save and make transactions easily and safely through our different electronic channels.

The product's features are as follows:

- ✓ The account is opened and activated through our ¡Pichincha mi vecino! network nationwide.
- ✓ Customers make deposits or transfers of up to \$3,000 per month, make cash withdrawals, and consult balances; their salaries are credited to the account; they buy cell phone airtime, pay utilities, and purchase in stores affiliated to the Visa network.
- ✓ An account is opened with \$5, a copy of the customer's citizen identification card, and signed contract.
- ✓ Companies can pay salaries through cash management.

ACTIVE XPERTA ACCOUNTS 2013 (NUMBER OF KITS)											
695	962	2,858	4,808	5,580	8,811	10,175	10,417	12,933	15,784	14,538	13,514
Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec

- Transaction Quota for NBCs:** in order for nonbanking correspondents to serve a greater number of customers, a transaction quota has been set. If the correspondent's bank account does not have enough funds to cover a transaction, the account is activated by transferring the additional funds. The funds are either replaced in the next transaction with the NBC; if not, the NBC has a term of eight days to deposit the difference.

- Credit Life Insurance:** to comply with the new regulations, we have stopped commercializing insurance and assistance; however, some products, such as loans, may by decree of the Banking Board require a credit life insurance as part of the contract policy, which serves to pay off any debt remaining should the main borrower or spouse pass away.

We offer this insurance to our customers for two reasons. Firstly, for social reasons so that a customer's heirs will not be left with any pending debts. The insurance pays off the entire remaining balance of the mortgage as of the date on which the insured titleholder dies. The coverage is valid irrespective of the cause of death, including suicide. Further, the insurance company pays the loan off to the creditor bank so that the institution will not suffer any losses or need to write off portfolio.

Additionally, customers that have an individual or accumulated loan of up to \$20,000 are automatically included in the credit life insurance policy as part of the normal risk, without needing to sign a Declaration of Good Health. Through mid-December, 2,390 cases had been settled with a total of \$8,620,698.32 paid. We have been able to extend coverage from 18 to 70 years of age for admittance, and up to 75 years of age for existing titleholders.

- Ecological Loans:** In 2012, the Ecological Loan was created to reduce environmental impact and contribute to the planet's sustainability, providing

customers with a line of credit service with preferential and differentiated rates for financing activities that are productive, responsible, and committed to the environment: creation and development of projects that include the efficient use of energy, improvements in environmental impact, purchase of equipment and infrastructure, ecological appliances, and agro-ecological enterprises.

The preferential interest rate is 1.5%, lower than the current credit rate for consumer loans, and takes effect provided that the customer justifies that the purpose of the loan is to protect and conserve the environment. A strategy in 2014 is to review feasibility in order to improve the characteristics of this product in the following facets:

- ✓ Preferential rate above the current rate.
- ✓ Agreements with commercial organizations for customer benefits.
- ✓ Business goals for placing products.

The weakness we have found about this loan product is that environmentally friendly products, equipment, vehicles, and so on tend to be more expensive in the country, which is why this product is not attractive for users to agree to this type of loan. Additionally, the interest rate benefits fail to appeal to the customer when considering whether to purchase the product.

### **3.6. CUSTOMER-ORIENTED**

#### ***3.6.1. Service to Disabled Customers***

In compliance with the Disabilities Law, we continue working on the design of a customer service model that promotes the inclusion of our disabled customers. To do this, we continue making accommodations to the infrastructure of our agencies: counters for physically disabled persons at special bank windows, low tables for filling out bank slips, ramps, and floor accessibility with anti-slip tape on the floor from the entrance all the way to the special service windows.

This year, we made these changes at 86 agencies nationwide, which represent 28.38% of our establishments. Currently, 54.45% of our Bank's agencies are inclusive agencies.

REMODELING AT AGENCIES (NUMBER OF AGENCIES MODIFIED)			
Counters at special windows	Low tables to fill out bank slips	Ramps	Signs for special windows
18	16	4	82

INCLUSIVE AGENCIES		
	2013	2012
Number of modified agencies	86	41
Percentage	28.38%	14.19%

### 3.6.2. Quality Customer Service

Banco Pichincha’s vision in 2013 was centered on service in order to improve the level of satisfaction of external customers. Eight projects were launched using the *Lean Six Sigma* methodology. Personnel were chosen from different areas, forming work teams for each project, and a pilot plan was carried out at five agencies in Quito: La Y, Iñaquito, Carondelet, CCI, and Portugal.

The following objectives were accomplished:

1. To identify, eliminate, or optimize processes and activities with “no added value.”
2. To implement process metrics in and between agencies following optimized processes.
3. To implement the new structure in and between agencies.
4. To define the resources necessary for commercial, transaction, and control management in and between agencies.
5. To implement a service standard for transactions at teller windows in terms of customer expectations.
6. To implement a service standard for balcony transactions and banking consultants in terms of customer expectations.
7. To guarantee that requests will be answered at the first point of contact with the call center.
8. To reduce the percentage of customers served outside of specification, from 81% to 40%, which would generate a twenty-point reduction in the percentage of customers that score the Bank as being “worse” than the competition.



In 2014, the projects will be repeated nationally, thanks to the excellent results obtained.

Additionally, an internal customer satisfaction diagnosis was carried out to understand in-house service, as well as to improve and optimize the service provided to our external customers.

SATISFACTION RESULTS BY AREA (INTERNAL CUSTOMER, PERCENTAGES)					
				Baseline	December
				September	Average
Administrative	Marketing	Risk Analysis	Appraisals	TCS	

Surveys were used as methodology, and the results of in-house customer satisfaction averaged 56.28%. Then in September a new survey was conducted and the level of satisfaction had raised 6.76%, giving a final result of 63.03%. Finally, in December, a 1.58% increase was achieved, with a total satisfaction average of 64.61%.

Results of the satisfaction index provided information at the national level, making it possible to analyze the actual situation by region and by zone. The data was useful for taken action to improve the service by our employees.

**3.6.3. Security in Line with Human Rights**

As part of our offer of service value and customer protection to all of our stakeholders, we work so that our armed security service providers train their employees in human rights. We have five service providers and 860 guards at our facilities nationwide.

Contracts with armed security service providers establish specific training requirements every four months, which include: progressive use of force, quality service, human relations, and fulfillment of the Law of Vigilance and Private Security, which demands that training plans include human rights and first aid issues. The companies

must present the Bank with their supporting documents, results, and certificates. At the close of 2013, the companies had complied with this requirement.

Additionally, 860 guards have been trained in complementary issues: the basics of occupational health and safety, fire extinguisher use, quality service, etc.

<b>GUARD TRAINING</b>		
<b>Issues</b>	<b>Type</b>	<b>Average</b>
Human rights	Mandatory	7 hours
First aid	Mandatory	10 hours
OHS basics	Complementary	5 hours
Extinguisher use	Complementary	4 hours
Quality in service	Complementary	4 hours

The security companies are working in parallel with having their guards certified by the Ministry of the Interior. From 2011 to date, 330 guards, or 38% of all guards, have been certified. The security companies are waiting for the Ministry to make a new convocation in order to continue with this certification process.

Additionally, Bank employees train the guards at each region on general and specific security procedures, modes of bank fraud, service protocol, etc.

#### ***3.6.4. Transparency in Products and Services***

All of our fees and interest rates comply with the laws in force. Upon establishing a business relationship with our customers, we give them information on the benefits and costs that our products and services have, and we do so through various channels of information. With our business efforts, information is available at visible sites at our agencies, branches nationwide, on the Bank's website ([www.pichincha.com](http://www.pichincha.com)), and on the webpage of the Superintendency of Banks and Insurance.

This year, we redesigned the webpage to provide an attractive and modern online environment for our customers, with a friendly site map for browsing, new search functions to find services on maps, search by current location, online product requests, claims, and simulators. Access was also included for ¡Pichincha mi vecino!, Management Transparency, and Social Responsibility, as well as the new Bank segmentation (Retail, Business, and Microfinance). This website has the options of an English version and a mobile version for cellular phones.

### ***3.6.5. Responsible Communication***

Marketing communication strategies are designed for leveraging institutional objectives. To foster that idea, this year brand architecture was defined for organizing the structure of products and services focused on customer needs and on the division into segments. In this way, the basic structure includes the segments of Retail, Microfinance, and Business, which, in turn, are divided into Accounts, Loans, Services, and Investments. Based on this structure, the entire Bank was organized and unified into a single line of communication for all in-house and external material.

A structure was created with in-house departments and with our advertising agency to serve communication requirements and coordinate strategies and messages, and implement the campaigns that the Bank conducts to promote its products and services.

An important part of these changes is the creation of guides and manuals to ensure the permanence of this structure, thus achieving that future work be done following the regulations and parameters agreed with the Bank's general management. We meet all legal parameters, which is why no official observations about law infringements have been made with respect to our Bank.

Information is disseminated about the Bank's channels to expand the use thereof. Such information comes in the form of consistent reminders about the coverage we have achieved and about the physical proximity and efforts for securing customers' emotional closeness to the brand. These are all communication goals presently pursued and that mark the path for this year.

- **Campaigns:** with the objective of bringing our products to customers, lowering response time, and facilitating the delivery of cards, we conducted campaigns for assets (loans and credit cards) and liabilities (savings plans, accounts, E-Key card), as well as communication campaigns to explain the benefits of our products, stimulate saving, and announce current offers. The communication campaigns are displayed on ATMs, the Internet, and kiosks.

NUMBER OF CAMPAIGNS		
Assets	Liabilities	Communication
41	1 (valid all year)	48

The assets campaigns in 2013 achieved approximately 116,577 consumer loan transactions amounting to \$562,524,134 and 2,174 productive loan transactions totaling \$28,478,841.

- Mi Vecino Magazine:*** This was created as a means of information and education for NBCs, with the purpose of gaining loyalty within the network and strengthening each correspondent's sense of belonging to the Bank as a strategic partner. The magazine also provides financial education and supplies information about business, the home, personal wellbeing, and frequently asked questions regarding the NBCs.

### 3.7. MONEY LAUNDERING DETERRENCE

The money laundering deterrence program is managed keeping in mind continuous improvement and innovation. In 2012, the new system of transaction monitoring began to work. The system consolidates customer's overall transactions and in 2013 a quantitative and qualitative risk matrix was implemented alongside a process of integrated monitoring applied also to our customers' products. The parameters were defined for rules of analysis in order to follow-up on cases documented through this tool.

The segmentation of the customer database in the categories of extreme, high, medium, and low risk allows us to efficiently detect and prioritize unusual transactions.

In compliance with the legal framework regarding the deterrence of money laundering and criminal financing, Reports of Unusual and Unjustified Operations (ROIU, *for its acronym in Spanish*) were forwarded to the Financial Analysis Unit (UAF, *for its acronym in Spanish*), and the manual, along with money laundering and criminal financing deterrence policies, were updated and approved.

During this year, a new multi-mode program was designed to support e-learning training in the deterrence of money laundering and criminal financing for all of our employees, as well as live training directed toward specific segments and third parties

that provide services to the Bank, such as support for the activities that they undertake, for avoiding that products, services, and channels of the institution be used to move resources from illegal activities.

<b>IMPORTANT INDICATORS</b>		
	<b>2013</b>	<b>2012</b>
Segmentation of active customers by exposure to Money laundering risks (number of customers)*	3,372,226	2,979,082
Customers monitored	12,042	13,604
Comprehensive customer analysis	82	148
Analysis of specific transactions**		2213
Report on Unusual and Unjustified Operations (ROI)***	974	231
Employees trained through e-learning****	6,806	5,503
Employees who received live training	917	754
Requirements by oversight agencies	290	211
Requirements by foreign agencies	95	--
Requirements by local agencies	27	--
*Variations in this figure are due to an increase in the number of Bank customers, mainly from opening Xperta accounts through ¡Pichincha mi vecino!		
**The number of specific transactions is incorporated into monitored customers.		
***The increase in this figure is due to the change in monitoring procedure applied in 2013.		
****Includes former Bank employees trained in 2013.		

The Compliance Unit team received external training so that each one has a UAF certification as Expert in the Deterrence of Money Laundering. Also, the team attended the course for Forensic Analysis applied to Sarlaft and participated in Day Courses on Money Laundering Deterrence, given by the Association of Private Banks of Ecuador.

The participation of the Compliance Unit and the team in charge of implementing the *Foreign Accounts Tax Compliance Act* (FATCA) was also important. They completed the high-level final operative model phase and the guide for global requirements.

### **3.8. RESPONSIBLE RISK MANAGEMENT**

Our focus on risk management seeks the sustained growth of our customers through the development of their capabilities within the institution, awareness among our customers regarding environmental and social risks, requirements to comply with environmental laws, and the availability of financial products promoting sustainability.

- **Compliance with Environmental Laws:** we continue to apply our Environmental Loan Policy, which has a requirement for our business, corporate, and small business customers with credit risk starting at \$200,000 and that are categorized with a high environmental risk. They are required to submit their environmental license and audits to have loans approved. This way, we make our customers aware of the adverse consequences of their impacts, the need to prevent and mitigate them, and the possibility of turning them into business opportunities.

We keep a record of exceptions about customers that do not have an environmental license, to whom we provide a term of 270 days for their loan to be regularized and approved. There are cases in which the term granted is insufficient and extensions are authorized when it is determined that the oversight agency has not met the timeframes established in the process or when the customer implemented measures, such as structural changes, changes to equipment, and so forth. There are cases of customers that did not complete the regularization process and were registered as an expired exception, which is part of the official's portfolio evaluation.

Additionally, the following indices have been designed:

- *Index of Environmental Loan Risk (IRA, for its acronym in Spanish):* in our portfolio, this shows the percentage of financing of activities with an environmental risk (high, medium, and low).
- *Index of Management of Exceptions in Environmental Policy (IEA, for its acronym in Spanish):* measures the level of customers' compliance with the term to complete their environmental regularization, determining the sectors in which we have a greater concentration of noncompliance to evaluate why customers failing to complete environmental regularization. The obstacles we have found are reaction time by oversight agencies that are different in each area, no standardization of processes by some oversight agencies, lack of qualified consultants for the current demand, and no follow-up on the process by the customer.

- **We Build up Our People’s Skills:** since the creation of the Environmental Loan Policy in 2010 to warrant that our customers have the appropriate environmental permits, we have created diverse training programs so that our employees understand the policy and so that we may advise them in the most effective fashion. During this year, the information on this policy was made available on the intranet for inquiries by employees and it is part of the basic training for our personnel acting in loan processes. During 2013, 326 business executives passed the sustainability module through the BID LAPE program, and for this year, online training will be designed to keep our personnel up to date on the application of environmental risks and on changes in Ecuadorian law.
- **We Contribute to Our Customers’ Sustainability:** we gave talks on social responsibility for business and microenterprise people in Ambato, Ibarra, Santo Domingo, and Milagro. Ninety-eight customers attended. The objective was to promote construction of business strategies with sustainability criteria.

### 3.9. CLAIM MANAGEMENT

We align our activities with the current law in order to improve service standards, prioritizing claim processing, requirements, and complaints. In 2013, the Citizens’ Participation and Social Oversight Council assigned Banco Pichincha a Customer Defender, to whom we have provided all access as necessary to perform her duties.

- **Available Service Channels:** our customers have different channels available to them through which they may submit their claims and requests.
  - ✓ 303 agencies nationwide
  - ✓ Electronic banking: [www.pichincha.com](http://www.pichincha.com)
  - ✓ Call center: 24 hours a day, seven days a week
  - ✓ Social networks: Facebook, Twitter

Below, we have charted down the number of basic transactions completed.

Channel	Type of Transaction	Number of Transactions 2013	Number of Transactions 2012
E-Banking	Payments	3,008,383	2,904,345
	Transfers	7,762,073	7,300,568
Teller Windows	Deposits	48,868,568	48,812,998
	Payment of Checks	12,752,222	12,825,976
	Withdrawals	16,326,800	16,019,670
ATMs	Deposits	521,853	635,726
	Payments	22,282	30,297
	Withdrawals	110,830,048	92,452,169
Nonbanking correspondents		7,901,504	1,138,303
Mobile banking		488,736	462,886
<b>Total</b>		<b>208,482,469</b>	<b>182,582,938</b>

### 3.9.1. Claims Submitted

We carried out more than 208 million basic transactions during the year and received 110,696 claims, representing 0.05% of those transactions. At December 31, 97.31% of cases, which is the equivalent of 107,713 claims, had been settled; 2.96% are claims that were in the analysis stage.

The percentage of claims in relation to the number of active customers (2,760,962) that we have is 4%. Our average claim processing time is four to five days, considering that differential time standards are used depending on the type of claim, and we comply with the legal framework established by the oversight agency.

- Money Claims: Fraud and Scams:** since we are concerned about the safety of the sums entrusted to us, we have implemented different security measures to avoid having our customers affected by crime. Some of these measures include the implementation of an OTP (One Time Password) security element for transfers made online and the monitoring of transactions made at ATMs. These efforts bore positive results: in 2012, 9,085 fraud and scam claims were settled and in 2013, 5,150 were resolved, representing a reduction of 43.31%. The work is ongoing, however, and we are attentive and vigilant as to how we can better contribute to this endeavor to make it difficult for criminals to harm our customers.

In the Number of Claims and Amounts chart, we provide information about the number of settled fraud and scam claims and the corresponding amounts. They are



classified by mode and the way they were settled by the Bank. In 2012, the amount related to fraud and scams was \$8,876,219.68 and in 2013 it was \$4,608,427.86, representing a 48.08% reduction.

<b>SETTLED FRAUD AND SCAM CLAIMS</b>		
	<b>2013</b>	<b>2012</b>
Fraud in ATM transactions	4,344	7,288
Fraud in POS purchases	252	NA*
Cases investigated: payment of checks and withdrawals with incorrect signature, etc.	554	1,797
<b>Total</b>	<b>5,150</b>	<b>9,085</b>

\*Subtype created in 2013.

<b>CLAIMS ACCEPTED</b>			
<b>Type of claim</b>	<b>Number of claims received 2013</b>	<b>Number of claims received 2012</b>	<b>Variation</b>
Withdrawals from ATMs	38,799	35,655	▲
Claims on credit cards	25,888	36,044	▼
Purchases made with Xperta cards	14,787	14,210	▲
Undelivered bank statements	12,009	19,216	▼
Fraud, scams, and losses	4,864	8,463	▼
Internet transactions	3,461	4,283	▼
Inconsistencies in transactions	2,841	7,093	▼
Returned checks not received	1,758	4,721	▼
Collection claims	1,435	1,160	▲
Others	1,388	1,657	▼
UAC special cases	1,090	1,797	▼
Claims through oversight agencies	983	1,497	▼
Undelivered debit cards	783	0	▲
Complaints	610	630	▼
<b>Total</b>	<b>110,696</b>	<b>136,426</b>	<b>▼</b>
<b>Transactions</b>	<b>208,482,469</b>	<b>182,582,938</b>	<b>▲</b>
<b>Ratio between claims and transactions</b>	<b>0.05%</b>	<b>0.07%</b>	<b>▼</b>

NUMBER OF CLAIMS AND AMOUNTS INVOLVED								
Type	Number of claims				Number of claims (\$)			
	Denied	Approved	Partial	Total	Denied	Approved	Partial	Total
ATM Transaction Fraud	1,504	2,820	20	4,344	439,360.39	1,158,340.62	36,033.30	1,633,734.31
POS Purchase Fraud	82	141	29	252	28,243.23	96,292.65	14,772.88	139,308.76
Cases investigated	293	218	43	554	2,180,321.55	466,516.92	188,546.32	2,835,384.79
<b>Total</b>	<b>1,879</b>	<b>3,179</b>	<b>92</b>	<b>5,150</b>	<b>2,647,925.17</b>	<b>1,721,150.19</b>	<b>239,352.50</b>	<b>4,608,427.86</b>

CUSTOMER CLAIMS	
Number of Customers	119
Number of reconsideration motions	116
Number of review appeals submitted to the Banking Board	71
Number of reposition appeals presented to the Bank Council	30
<b>Total appeals lodged</b>	<b>217*</b>
*The number of appeals is greater than the number of customers since up to three appeals may be filed.	

CASES RESOLVED BY SBS (Superintendency of Banks and Insurance) IN 2013		
	Number	Percentage
Resolved in favor of Banco Pichincha	19	51.35%
Paid by Banco Pichincha	9	24.32%
Disputed at the Administrative Court	9	24.32%
<b>Total cases resolved by SBS</b>	<b>32</b>	<b>100.00%</b>

### 3.10. ADMINISTRATIVE CHALLENGES

Regarding the refund of amounts claimed by customers and issued by the Superintendency of Banks and Insurance (SBS), in the cases in which the Bank considered the claim to be unfounded (after making the relevant technical analyses), we have filed a dispute claim with the oversight agency in reference to the refund.

Provided below is a chart of the administrative disputes filed by the Bank, as well as—with respect to the cases resolved by the oversight agency in 2013—details on the disputes resolved in favor of Banco Pichincha, the cases in which the Bank had to pay, and the cases in which disputes have been filed with the Administrative Court.

### 3.11. FINANCIAL EDUCATION FOR ENTREPRENEURSHIP

The financial education model is a priority issue for our Sustainable Management Model. Under this context, we look to strengthen the financial culture among our

employees, customers, and non-customers, with the objective of improving the relationship between the community and the financial system.

Through the CRISFE Foundation, the financial education program has continued to advise, train, and provide informative material. Three thousand and sixty Banco Pichincha and affiliate employees were trained at the induction schools and in modular workshops to delve deeper into the issues and improve the ability to manage their money and apply practical tools in customer management. Training was also given to microenterprise customers and non-customers, including adults, children, and adolescents.

The creation of an animated series about the Morillo family has been very important in this process. This family became the spokespeople for sending financial education messages in a fresh and colloquial way through *El bolsillo de los Morillo* (“The Morillo Pocket”). Each character plays a role in the family and their stories educate while offering thought-provoking messages.

**PROVIDERS: ALLIES GROWING TOGETHER!**

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2,797 local providers

100 international providers

Transparency and equal opportunities

Mutually beneficial negotiations

Standardized purchases

The relationships with our providers are based on clear policies and regulations for conduct that ensure ethical and long-lasting commercial relationships.

Good Business Practices	Human Capital Management	Environmental Awareness	Occupational Health and Safety
TRAINING THEMES FROM THE RESPONSIBLE MANAGEMENT PLAN			

<b>95.27% OF PURCHASES ARE LOCAL PURCHASES</b>	<b>331 PROVIDERS TRAINING IN CSR</b>	<b>247 PROVIDERS EXTERNALLY QUALIFIED</b>
--	--	---

<b>2013 CHALLENGES</b>	<b>2013 ACCOMPLISHMENTS</b>	<b>2014CHALLENGES</b>
To follow up on progress and compliance with the Responsible Management Plan (PGR, <i>for its acronym in Spanish</i> ) with providers, at 60%	Five proposed stages were designed for the plan between 2012 and 2013. The last training and formation phase was 75% completed.	To bolster the plan with a new round of audits on providers to verify whether each one has made improvements.
To train 50% of the PGR providers in sustainability themes	We trained 53% of providers on business sustainability, evaluation of working environment, performance evaluation, occupational health and safety, and environmental management.	To continue with the provider training program to reach 70%.
To qualify new providers under the parameters of economic sustainability, specific to external qualification firms.	Qualification has been done for all of the new providers who, according to the Purchasing Manual, need to undergo the process. Additionally, all of the providers defined by the risk area as priority (247) have been qualified in transparent and strict fashion, with the endorsement of external companies.	With external support, to qualify critical and new providers that are required to undergo the process as per the Purchasing Manual.
To train providers with good opportunities for improvement to achieve optimal qualification.	23 providers that obtained a low score in the evaluation process have been trained in order to motivate them to implement good business practices.	To devise new training plans based on the results of the audits and needs evidenced.

<b>NUMBER OF PROVIDERS BY ORIGIN</b>	<b>2013</b>	<b>2012</b>
Local	2,797	3,235
International	100	67
<b>Total</b>	<b>2,897</b>	<b>3,302</b>

<b>AMOUNT PAID TO PROVIDERS (DOLLARS)</b>	
323,996,354.85	16,103,122.42
Local	International

#### **4.1. OUR COMMITMENT TO LOCAL DEVELOPMENT**

Maintaining a responsible relationship with our supply chain allows us to minimize costs, identify a competitive edge, and control risks. Additionally, it fosters the development of our business and of our service providers by reinforcing business relationships, ensuring legal compliance, and aligning values and management standards, along with respect for human rights.

We continue to be committed to the sustainable development of society through actions that leverage the creation of indirect jobs through our service providers and contractors. As in previous years, in 2013 local companies represented the bulk of our service providers, that is, 96.55% of all providers.

#### **4.2. TRANSPARENCY AND EQUAL OPPORTUNITY**

Relationships with our providers are based on equal opportunity and transparency. For this reason, in our procurement to acquire goods and services, we warrant the following:

- **Transparent Negotiations.** We fully and clearly comply with negotiation processes to maintain an excellent and mutually beneficial business relationship.
- **Qualified Service Providers.** We work with providers that have undergone a stringent qualification process involving compliance with strict quality standards and legal obligations to their workers. In 2012, one group of providers obtained C and D scores. For this reason, we devised a Training Program in 2013 to help them improve. Twenty-three companies attended the course. The modules directed at this group were:
  - Human Capital Management
  - Occupational Health and Safety
  - Operational and Commercial Management
  - Financial Aspects
- **Standardized Purchasing Process.** This was established in the *Manual for Purchasing Procedures and Policies*.

- **Overall Evaluation of Product or Service to be Requested.** We evaluate qualitative and quantitative factors for products and services, with the objective of obtaining better market options in terms of both price and quality.

Tenders were submitted in sealed envelopes or over the TODO 1 digital platform, depending on the contract price, the quantity, and specific characteristics of the goods or services to be quoted, thus guaranteeing equal opportunities for all providers. Due to a change in the online platform, this tool functioned until the month of June. However, internal review and tender processes continued to be managed based on the Banco Pichincha Purchasing Manual. It is expected that the new online platform will be implemented by June of 2014.

Additionally, we performed a telephone survey for all employees that entered a request for purchasing a service in order to find out their level of satisfaction regarding the service provided by the department and by our providers. Listed below are most relevant results.

Satisfied with the provider's service or product	83%
Satisfied with the attention and service received from the purchasing department	81%

### **4.3. FOSTERING GOOD LABOR PRACTICES AND HUMAN RIGHTS**

In the qualification process, the following documents are requested: Regulation on Occupational Health and Safety or Risk Prevention Plan, operating permits, and legal documentation to verify the company's transparency, legitimacy, and certifications of employer obligations to the Ecuadorian Institute of Social Security that verify the payment of legally established salaries and benefits to their employees.

Regarding occupational health and safety, we have begun implementing a contract clause that requires compliance with the Audit System for Labor Risks (SART, *for its acronym in Spanish*).

#### **4.4. ETHICS AND VALUES WITH RESPECT TO OUR PROVIDERS**

The Banco Pichincha Internal Work Regulation establishes the conduct to be adopted by workers in their relationship with service providers. Receiving gifts or any other form of payment for services rendered or to be rendered is considered breach.

In the provider qualification process, Banco Pichincha requests a sworn statement showing that the provider has no relationship whatsoever with any Bank official. The Bank also requires other documents that support the legality and transparency of their business.

To validate this management, we have a Process Manual for Contracting Providers, an Internal Policy Manual, and the Bank's Code of Ethics.

#### **4.5. WE TAKE CARE OF THE ENVIRONMENT THROUGH OUR VALUE CHAIN**

In previous years, we developed an environmental audit process for a group of 70 priority providers. The results of this activity made way for the Responsible Management Plan with providers, which was disseminated among and implemented with this group in 2013. One of the challenges for the coming year is follow-up with each of our providers to ensure they comply.

#### **TESTIMONY FROM A PROVIDER**

MICROFILM Sistemas y Servicios

“The training programs have allowed us to better understand the new regulations regarding environmental laws, recycling, and responsible collection, occupational health and safety, rights and obligations of employers and employees, as well as responsibilities and rights of providers with respect to their clients. I appreciate the Bank's initiative to train its providers on key issues for our comprehensive development. As providers, we will continue putting the issues into practice and taking part in the trainings and other initiatives.”

#### **4.6 WE CONTINUE BUILDING SUSTAINABLE RELATIONSHIPS**

As members of the Global Pact, in our value chain we seek to strengthen and disseminate adherence to regulations and respect for human beings and the environment. For this reason, in 2012 we began the Responsible Management Plan with Providers. The Plan consists of the following phases:



1 Identification and raising awareness
2 Self-diagnosis
3 Results and plan of action
4 Audits on providers
5 Training and development program

During 2012 and 2013, we were able to move forward in the first four phases and part of the fifth in the cycle. Once the process is completed, we plan to conduct new audits on providers in order to learn about their progress and knowledge of CSR issues.

Various workshops were conducted and 37 providers received training, motivating them to evaluate their business practices, raising awareness about environmental care, and fostering good practices in human capital management. Additionally, we trained 65 providers in administrative areas nationwide on issues related to Occupational Health and Safety. The following contents were covered: getting work permits and analysis of safety in tasks, handling chemical products, work in high and low temperatures, working in confined spaces, high-altitude work, administration, and overseeing contractors.

**TESTIMONY FROM A PROVIDER**

EATEC

“The workshops recommended practices to have better labor relations. Additionally, we have been brought up to date on social responsibility regulations that the oversight agencies demand today. By applying the regulations, we will be able to achieve the much-desired sustainability.”

Banco Pichincha, alongside the Inter-American Development Bank (IDB) and the CRISFE Foundation, developed the IDB LAPE program, which consists of online training to improve business administration in a sustainable way. Thirty-four people from nineteen providers signed up in the month of December. For the coming year, the participants will be ready to attend eight modules on planning, banking finance, laws and oversight, and other topics.

#### **4.7. OUR PROVIDERS AS PART OF THE BIG PICHINCHA FAMILY**

To close out the year, we launched the Sustainable Christmas campaign in order to make our providers aware of environmental care and solidarity during the holiday season. We sent a communiqué with ideas and practical advice, and invited them to prepare Christmas ornaments with recycled or reusable materials. We gladly received some ideas that our providers shared with us.

**CONTRIBUTING TO THE CARE OF OUR PLANET**

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Our philosophy is  
to reduce our environmental  
fingerprint

**RETHINK, REDUCE, REUSE, RECYCLE**

**NATURAL RESOURCES**

**Reduction of paper use**

- Electronic Statements of Account • Appraisal and Reappraisal requests • Loan documents • Documents for opening accounts and savings plans

**Reduction of energy and water**

- Saving energy at new computer center of Grupo Pichincha • EnergyStar computer equipment • Water-saving valves pilot

**WASTE MANAGEMENT: RECYCLABLES AND HAZARDOUS**

- Generation and final disposal of waste under environmental and safety measures • Pilot project for classifying and the recycling of waste in establishments and processes •

**EFFECTS FROM GREENHOUSE GAS EMISSIONS**

**Reduction of greenhouse gas effects**

- 183 climate control systems with gases that do not damage the ozone layer • Videoconference pilot • Automation system for the asset transportation process

**Reforestation**

- 300 volunteers participated in the planting of 300 trees

<b>18</b> ENVIRONMENTAL INDICATORS REPORTED	<b>\$6,137,203.40</b> IS THE YEARLY SAVINGS RESULTING FROM THE DIGITALIZATION OF SAVING AND CHECKING ACCOUNT STATEMENTS IN THE RETAIL SEGMENT	<b>256</b> TONS OF ENVIRONMENTALLY MANAGED WASTE
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<b>2013 CHALLENGES</b>	<b>CHALLENGES ADDRESSED</b>	<b>2014 CHALLENGES</b>
To increase the volume of the correct final disposal of recyclable and hazardous waste	256 tons of recyclable and hazardous waste was finally disposed of following environmental measures. We raised the volume and added types of managed waste, and standardized the report units for comparisons in the future.	To involve more establishments and processes across the country in waste classification and recycling.
To broaden the scope of environmental indicators so they can measure the actual environmental footprint of Banco Pichincha.	This year we reported 12 more indicators compared to 2012, representing a total of 18 environmental indicators with greater coverage and scope, by considering the Bank's sources of environmental impact. This gives a more accurate measurement of the environmental footprint.	To improve quality and coverage of environmental indicators by implementing information collection tools.
To design a program for staff members to take action for reducing and reusing resources, such as energy, water, and waste.	The 4R (rethink, reduce, reuse, and recycle) philosophy was designed and then communicated to all staff. To	To create environmental initiatives with the participation of staff from five cities in the country.

	do this, we gave tips on reducing and reusing resources; in addition, we held contests and initiatives that drew strong participation.	
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**We are committed to environmental care by incorporating environmental measures into our operations to promote sustainability among our stakeholders and to shrink our environmental footprint.**

### 5.1. ENVIRONMENTAL INVESTMENT AND EXPENDITURES

With the purpose of minimizing, controlling, and compensating large environmental impacts, we incurred several expenditures and investments to improve environmental management and thus significantly increased the amounts this year. This reflects greater commitment to the best environmental practices. The figures are provided below.

TOTAL OF ENVIRONMENTAL INVESTMENT AND EXPENDITURES (IN DOLLARS)*		
	Cost in 2013	Cost in 2012
<b>Description</b>		
Environmental accommodations made to our facilities**	25,500	30,320.16
Management of hazardous wastes***	2,365.87	2,126.21
Campaign for environmental communication	700	1,059.75
Environmental protection programs****	571,048.13	NA
<b>TOTAL</b>	<b>\$599,614.00</b>	<b>\$33,506.12</b>
*The reported values do not include value-added tax (VAT).		
**This comprises the implementation of kits and buckets for safely managing fuel spills.		
***This data includes payment for the collection, treatment, and final disposal of fluorescent and hospital waste.		
****This comprises projects, such as the recycling of wastes, equipment with environmental features (climate control, lighting, power generators, videoconferencing), and reforestation. Eighty-two point zero three percent of the costs correspond to the purchase of climate control system with gases that do not affect the ozone layer.		
NA: Information is not available since this information was not collected.		

This year we proposed that 100% of the establishments managing fuel have measures to address environmental emergencies.

We have considerably increased financial income from the sale of recyclable waste to qualified managers. In particular, ATMs have been discarded nationwide and a new process is in place for destroying inactive files containing six years of accumulated information.

## **5.2. ENVIRONMENTAL FOOTPRINT**

Due to the nature of our business, environmental management is geared towards the efficient use of available resources (water, energy), daily supplies (paper), and reduced emission of pollutant gases. Managing our environmental footprint is a real commitment to environmental care and preservation.

**5.2.1 Consumption of Materials.** The main material consumed is paper, which is used for printing in administration and also in transactions with customers and providers. The paper used is made from the chaff of sugar cane and pulp that is ECF whitened. This means that elemental chlorine gas is not used in the whitening process, preventing the formation of dioxins.

We have equipment capable of duplex (multi-page), confidential, and ecological printing. This year the goal is for employees to increase their quota of duplex and therefore reduce paper use.

We are working on making our processes more and more eco-efficient. The *Eco-Efficient Initiatives* chart highlights two practices followed throughout 2013.

Since September, our actions have been aimed at reducing paper (see the *Initiatives to Reduce Paper* chart).

<b>PAPER USE NATIONWIDE*</b>		
	<b>2013</b>	<b>2012</b>
Total sheets of paper used internally	57,106,445	50,869,181
Total sheets of paper for use by customers and providers**	104,066	72,859
Total number of sheets of paper used by staff members in the year***	7,949	7,411
*The data for paper use corresponds to the number of sheets printed by operations at Grupo Pichincha, including affiliates (BPAC, CREDI FE, CRISFE, PAGUE YA). Not included are the sheets printed by TCS, which is in charge of technology management.		
**Paper use corresponds to checks printed from the payment area for both customers and providers.		
***Calculations made by dividing the total number of sheets of paper used internally (57,106,445), by the average number of Grupo Pichincha staff members in 2013 (7,184). Compared to 201, paper used per staff member increased 7% this year because of the additional 49 pieces of equipment.		

<b>ECO-EFFICIENT INITIATIVES</b>		
<b>Initiative</b>	<b>Yearly savings in paper</b>	<b>Description</b>
Electronic Statements of Account	17,793,028	Digital delivery of savings statements and plans to our customers in the retail segment. Checking account statements are also included as of November 2013. This action facilitates customers' safe access to information, increases service time efficiency, generates economic savings, and saves paper.
Appraisal and Reappraisal Requests	49,692	Digitalization of support documentation for appraisal and reappraisal requests, optimizing customer service time. What used to be done in 17 days is now completed in 5 days on average. We reduce the environmental impact involved in transporting documents from city to city, printing requests, and copying documents. In addition, 12,423 envelopes were not used. Appraisers are now asked to digitally prepare and forward their appraisal reports. This indirectly saves 49,692 sheets of paper a year.

<b>PAPER REDUCTION INITIATIVES</b>		
<b>Initiative</b>	<b>Monthly savings in paper</b>	<b>Operation</b>
Loan documents	23,797	Reduction in printing loan documents from Banco Pichincha and CREDI FE. Four loan formats were merged into two.
Documents for opening accounts, savings plans, and checking accounts.	53,830	Documents for opening savings and checking accounts were merged for the following segments: retail, business, and microfinance; and documents for savings plans for the following segments: retail and microfinance; reducing the use of paper as shown in the following chart.  <i>Chart</i>

Next year we will include the delivery of electronic statements for the credit card segment.

### ***5.2.2. Waste Management***

We are advancing in our process to manage and recycle hazardous and nonhazardous waste by complying with standards. This year, managed waste increased in weight at the national level and residues not managed were included.

One new waste is paper produced from the destruction of inactive files from the different units, departments, and offices across the country. When documents are kept in the files after a certain period of time, they are destroyed using safe and environmentally focused systems and then later recycled and reused in the production of toilet paper.

Across the nation, the collection and final disposal of hospital wastes, printer toners, and assets with an expired shelf life increased in weight this year. Written-off assets include automatic teller machines, electronic wastes, metallic wastes, and plastic wastes, which were delivered to a qualified environmental manager.

The headquarters in Quito continued to manage waste in the form of paper, cardboards, plastics, and fluorescent lights. The recycling of nonhazardous wastes increased by 769 kg compared to last year.



FINAL DISPOSAL OF WASTE NATIONWIDE			
Type of waste	Unit	2013	2012
Hospital waste*	kg	31	14
Toners		2,426.25	1,258.11
Inactive files**		111,420	0
Assets		138,534.20	***
Total		252,411.45	1,272.11
<p>*Generated waste comes from the two medical centers of Banco Pichincha in Quito and Guayaquil.  **The volume of destroyed paper consists of paper containing information accumulated in six years.  ***In 2012, 4,198 asset items were environmentally discarded; however, this was not reported since the units cannot be compared to those in 2013.</p>			

FINAL DISPOSAL OF WASTE AT HEADQUARTERS			
Type of waste	Unit	2013	2012
Nonhazardous			
Paper, cardboards, and plastics*	kg	3,233	2,464
Hazardous			
Fluorescent tubes and bulbs	Units	2,328	2,459
<p>*The reported quantity is an estimate based on the ratio of the number of Bank staff members at the Quito headquarters to the amount of waste generated in kilograms. This is an estimate given that the Bank shares its facilities with another company.</p>			

### *Pilot Projects*

- Waste Classification and Recycling Project:** In June, a waste classification and recycling pilot project was implemented at the main buildings and warehouses in Quito, Guayaquil, and Cuenca. The project is called: *En Banco Pichincha, ¡Todos vamos a reciclar!* (All of us at Banco Pichincha will recycle!)

One hundred and three garbage bins were placed and distributed on all floors to classify waste into paper, cardboard, and plastic bottles. Garbage cans were also placed in certain places for regular waste.

Correctly classified wastes are collected, stored, and delivered to qualified environmental managers for their second useful life.

An extra 1,114 kg was managed thanks to the awareness raised among staff nationwide about recycling and hazardous waste management.

- **“Recycle Your Cellular Phone and Talk to Earth”**

Together with Telefónica-Movistar, staff at the Quito and Guayaquil headquarters took part in a cellular phone recycling campaign. One hundred and five cellular phones were collected and will be finally disposed of in proper fashion.

### 5.2.3. Energy and Water Consumption

We continue to measure electrical power and water consumption by improving this year’s coverage of data with respect to the number of the Bank’s commercial and administrative establishments across the country.<sup>8</sup> Nonetheless, we are working on having all water and electrical power measured.

<b>ENERGY AND WATER CONSUMPTION</b>		
	<b>2013</b>	<b>2012</b>
<b>Direct energy (GJ)*</b>		
Electricity generators	1,956.88	NA
Bank’s own transportation fleet	1,427.81	NA
<b>Indirect energy (GJ)</b>		
Electricity	95,105.99**	95,737.85
Electricity per staff member	16,15	NA
<b>Water (m<sup>3</sup>)</b>		
Consumption of water	162,531***	149,654
Water per staff member	27.60	NA
*GRI protocol EN3 indicator conversion factors were used for calculating.		
**Corresponds to approximately 88% of coverage nationwide. This represents 270 establishments at which 97% of our staff members are located.		
***Comprises around 53% of national coverage, representing 162 establishments at which 66% of our staff members are located.		
NA: No data available since this information was not collected in 2012.		

<sup>8</sup> Establishments include agencies, drive-through tellers, payment service centers, teller windows, and administrative offices of Banco Pichincha. Automatic teller machines were excluded.

### *Initiative for Using Water and Energy Efficiently*

Committed to reducing our environmental footprint, we implemented measures to help reduce the use of water, energy, business trips, and greenhouse gas emissions. These measures include the following:

- **Water:** water-saving valves were installed in washbasins and sinks. Also, toilet hardware sets and supply hoses were changed in 78 establishments in Quito, 15 of which had reported high water consumption. These improvements are for reducing water flow, maintaining a uniform flush, avoiding leaks and waste, and saving money.
- **Energy:**
  - Led Lighting: led lights were installed at three agencies as part of a pilot project for reducing the use of electricity. The energy and money saved will be evaluated next year.
  - In the Guayaquil region, which has 70 establishments, a new maintenance system was implemented in October for climate control systems. The system includes comprehensive service for preventive and corrective maintenance and for changing equipment. The goal of this process is to reduce the use of electricity and operating costs, which will be evaluated this year.
  - A new computer center for Grupo Pichincha in Quito was created in February. The center groups the previous computer centers into a single establishment certified in Tier III.<sup>10</sup> For constructing the center, energy saving measures, such as sealing and encapsulating cold hallways, were considered for mitigating the risk of exposing equipment to cold and for keeping the air flow sealed to reduce the intensity of the climate control system and consequently save energy. Since November, this measure has resulted in monthly savings of about 11.520 kW.
  - We have purchased 913<sup>11</sup> pieces of Energy Star computer equipment in the year.

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<sup>10</sup> Specifically, Tier III for a computer center implies that each capacity or distribution component necessary for supporting the IT processing environment may be maintained as planned without IT environmental impact ([www.isertec.com](http://www.isertec.com)).

<sup>11</sup> The Banco Pichincha equipment is used by our employees, CREDI FE, and TCS, our technology provider.

#### 5.2.4. Carbon Footprint

This indicator shows the impact of our organization’s greenhouse gas (GHG) emissions, mainly generated from consuming resources and taking business trips.

We have included the measurement of gas emissions from using the transportation fleet<sup>12</sup>. The coverage of data regarding electricity consumption and business trips has improved. We keep emission reports for the use of electricity generators and the emission generated from using air conditioners have not been included. We are working on this aspect and will report on it in the future.

<b>GREENHOUSE GAS EMISSIONS</b>			
	<b>Unit</b>	<b>2013</b>	<b>2012</b>
<b>Scope<sup>1*</sup></b>	Tons of CO <sub>2</sub> e		
Emissions from using electricity generators		138.44	176.65
Emissions from the Bank’s own transportation fleet		109.09	NA
<b>Scope<sup>2**</sup></b>			
Emissions from consuming electricity		9,246.42	8,463
<b>Scope<sup>3***</sup></b>			
Emissions from business trips		638.78	543
Emissions from hired transportation fleet		523.84	NA
<b>Total CO<sub>2</sub>e emissions</b>		<b>10,656.57</b>	<b>9,182.65</b>
<p>* For calculating GHG emissions from electricity generators and the transportation fleet, the GHG Protocol (2007) method was followed.</p> <p>** For this year, the electrical power report concerns around 88% of national coverage, that is 270 establishments where 97% of our employees work. For this calculation, electricity consumption was multiplied by the electrical power emission factor of Ecuador. This data is generated by the International Energy Agency (350 ton CO<sub>2</sub>/GWH) in its CO<sub>2</sub> Emission Report, 2013 edition.</p> <p>***For this year, the calculation took international trips into account. Business trip data are expressed in approximate values. Information from the Ecuadorian Civil Aviation Office and air travel calculators were used to obtain air travel kilometers. Land travel kilometers were obtained from Google Maps. The Defra 2012 method was used. For calculating emissions from hired transportation, the GHG Protocol 2007 method was followed for calculating fuel use. Data regarding domestic travel within cities that have a hired taxi service (Quito, Guayaquil, and Cuenca) were not taken into account.</p> <p>NA: No data available because this kind of information was not collected for 2012. Total GHG emissions cannot be compared because of the different coverage and reach of the information explained above.</p>			

<sup>12</sup> Transportation is used as a commercial and administrative resource for the organization. The Bank has its own transportation and also hires transportation.

- **Ozone Depleting Substances:** we have 261 pieces of gas-driven climate control equipment that is not destructive to the ozone layer. We have 1,122 pieces of equipment that hold 3.12 tons of ozone-depleting refrigerant; this is equal to 5.6 tons of HCFC 22<sup>13</sup>. In 2014, environmental friendly climate control systems were installed in all new agencies for saving energy. We are working to gradually replace old climate control systems.
  
- **Practices for Reducing and Compensating Part of the Carbon Footprint:** we have put certain actions into place for reducing and compensating CO<sub>2</sub> emissions. These measures include:
  - A personal technology tool for videoconferences was implemented for 178 users to connect at the same time. Three rooms were installed in Quito, Guayaquil, and Cuenca. The tool is in the trial phase.
  - An emergency generator was replaced for one that complies with TIER I<sup>14</sup> ecological standards, which minimize nitrous gas emission levels.
  - We installed a total of 144 gas-operated climate control systems that do not cause damage to the ozone.
  - An automation system was implemented for the asset transportation process to more effectively service staff members and for segmenting geographical service zones, planning service circuits, and for not having to start the process over again. Thanks to this action, 60% of circuits were optimized compared to 2012. This year we will evaluate the reduction of greenhouse gas emissions.
  - We held a reforestation day in Quito to plant 300 native trees donated by an outside party. More than 300 volunteers—Bank employees and their families—participated in this project to compensate part of the carbon footprint and to contribute to the conservation of forests and biodiversity.

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<sup>13</sup> The GWP (1.810) conversion factor for HCFC 22 gas issued by the IPCC was used

<sup>14</sup> The Environmental Protection Agency, EPA, has a Tier category to demand that pollutants generated by diesel motors (NO<sub>x</sub>, HC, MP) be reduced to protect public health and to preserve natural resources. The first level of this standard is Tier I.

#### **4R Philosophy:**

##### **Rethink, reduce, reuse, and recycle**

Campaign for promoting initiatives and actions for environmental care and responsible use of our resources.

In this campaign, 95 employees nationwide received live and online training.

- 1. Rethink our relationship with the planet:** critically and constructively think about our way of living, producing, and consuming, and about how we relate with nature.
- 2. Reduce:** tips and actions for cutting down on the use of resources.
- 3. Reuse:** tips and actions for extending the life of each product, from purchase to disposal.
- 4. Recycle:** classify wastes to transform them into new materials that can be used or sold as new products or raw materials.

I print on both sides of the paper and only when necessary. I prefer electronic files.

At Grupo Pichincha, We cut down on paper use

Tips on How to Save Paper

- Print and photocopy on both sides and only when necessary.
- Digitalize documents and file them electronically.
- Print in draft quality to avoid wasting ink and facilitate the reuse of paper

Each one of us uses about 7,000 sheets of paper a year or 1 ream of paper a month.

### **5.3. ENVIRONMENTAL AWARENESS**

We continue with the campaign to raise environmental awareness. The campaign is directed to our staff members through releases sent out to internal communications under the slogan “*Actúa. Tú puedes proteger el planeta*” (“Act now. You can protect the planet.”). Specific campaigns include those indicated below:

*Together, we can do a lot*

- **World Environment Day at Banco Pichincha:** on June 5 we celebrated World Environment Day with a speech by the CSR Manager and a high profile environmental corporate customer. A pilot project for waste classification and recycling was presented. In addition, prizes were given for the environmental photography contest.  
Eighteen staff members participated in the contest with photographs conveying 4R philosophy messages or actions. All of the photographs were displayed in the hall of the Quito headquarters.
- **Let's Live a Sustainable Christmas:** an internal contest on celebrating Christmas responsibly with nature and society. The Bank's employees participated with Christmas arrangements made out of recycled and reused materials.
- **Conference Given in Guayaquil:** *Do you what your environmental impact is? Do you know how to improve your health conditions at work?* Fifty-six employees participated in order to raise awareness within the Bank on the appropriate use of natural resources and good health practices at work posts.
- **Environmental Friendly Microfinance:** Seventy-one microfinance segment customers were trained in the cities of Ambato, Santo Domingo, and Milagro on the best environmental practices applicable to their businesses in order to contribute to sustainability, competitiveness, environmental care, and sustainable use of natural resources.
- Through our monthly *Mi Vecino* magazine available to the network of Nonbanking Correspondents, we have informed on impacting data about local and international environmental problems for people to become aware of this topic and encourage pro environment actions.

SUSTAINABLE CHRISTMAS – FIRST PLACE WINNER

**Sintia Giler**

Microfinance Service Advisor

“I used the following materials: plastic cups, cardboard, folders, and light bulbs no longer used. That is how I promoted recycling materials, creativity, and family time.

ENVIRONMENTAL PHOTOGRAPH – FIRST PLACE WINNER

**Martha Jiménez**

La Magdalena Agency, marketing

“The idea for the picture came about when thinking that the best present for our children would be air that is clean, fresh, and without smog. Also, we, as society, should encourage everyone to use bikes more often. Every day we see many young bikers on the streets, who have chosen that means of transportation as a way of life, and they don’t mind when the weather is bad. One bike means one less car on the road and consequently less pollution.”



## RESPONSIBLE WORK WITH THE COMMUNITY

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Banco Pichincha invests in the community

CRISFE FOUNDATION

OTHER FOUNDATIONS AND  
ORGANIZATIONS

How We Work

We procure to develop replicable services that ensure sustainability and  
greater dissemination about our initiatives among our beneficiaries.

SPONSORING AND ALLY INSTITUTIONS	BANK'S OWN PROGRAMS AND ALLIES' PROGRAMS  CRISFE FOUNDATION  REPLICABLE SERVICES	ORGANIZATIONS AND OTHER SOCIAL ACTORS  BENEFICIARIES	BENEFICIARIES
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<b>AROUND \$4.2 MILLION OF SOCIAL INVESTMENT IN THE COMMUNITY</b>	<b>34,947 DIRECT BENEFICIARIES OF CRISFE PROJECTS</b>	<b>262 VOLUNTEERS FROM BANCO PICHINCHA</b>
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<b>2014 CHALLENGES</b>
To work on the implementation of methodologies FOR results validation and evaluation and program impact in order to generate innovating solutions in line with the current and future needs of potential beneficiaries.
To find adequate channels so that CRISFE initiatives impact a larger number of beneficiaries by developing replicable services.

**“We actively contribute to the development of the Ecuadorian society, especially the vulnerable sectors of the population.”**

One fundamental characteristic of the Bank’s philosophy is to raise social awareness about the communities we serve. We directly meet that commitment with the country by sponsoring and donating to foundations and organizations that serve Ecuadorian society. Another part of our action is taken through CRISFE Foundation, which is our strategic ally for meeting this commitment.

**6.1. DEVELOPMENT PROJECTS**

CRISFE Foundation looks to improve the living conditions of Ecuadorians in a situation of vulnerability, by developing replicable services that will impact a larger number of individuals. To achieve this objective, CRISFE focuses on three areas of opportunity: education, entrepreneurship, and social work. These are channeled through eight different programs: Formal Education, Financial Education, Art and Culture, Entrepreneurship, Community Development, Cooperation for Development, Volunteers, and Comprehensive Program for the Disabled (new program). One of the foundation’s main sponsor and ally for carrying out these programs is Banco Pichincha.

In 2013, as part of a structural reform that impacted the functionality of the foundation’s programs, changes were made for measuring the impact of the programs.

The result was a total of 56,245 direct beneficiaries, while in 2012 a total of 105,744 beneficiaries<sup>15</sup> were reported. For 2014, a reliable methodology will be crafted to measure and classify the benefits of the programs depending on the impact generated and, in this way, show the real reach of the work undertaken.

AREAS OF OPPORTUNITY			PROGRAMS	DIRECT BENEFICIARIES
EDUCATION	ENTREPRENEURSHIP	SOCIAL WORK	Formal Education	2,312
			Financial Education	18,596
			Art and Culture	3,239
			Entrepreneurship	541
			Community Development	4,992
			Cooperation for Development	4,519
			Volunteers	748
			Comprehensive Project for the Disabled	Pilot
			<b>Total</b>	<b>34,947</b>

### ***6.1.1. Formal Education***

CRISFE Foundation initiated a process for restructuring educational programs for people to get a high school diploma and for teachers to receive a college education. This way, school scholarships will continue to be granted to people who did not complete high school or college, maintaining international indexes on school desertion.

- **High School Education:** this initiative allows poverty-stricken individuals 18 to 45 to opt for this adult education alternative that offers live/online or just online education.

<sup>15</sup> No comparison was made with the number of beneficiaries in 2012 since new measurement technology and a new definition for beneficiary were used.

- **College Education:** This alternative allows low-income students to complete their college education. The candidates are screened before being selected. Qualifying candidates will receive accompaniment during the time of duration of their education.

<b>Item</b>	<b>Number of Beneficiaries</b>
School scholarships	1,931
High school graduates	339
College graduates	42
<b>Total</b>	<b>2,312</b>

### ***6.1.2. Financial Education***

This program seeks to improve personal and family financial behavior of Bank employees, customers, and the public in general. Processes for education, advice, and information for managing their personal finances and healthy financial production are followed. A series of methodological tools has been crafted and disseminated through advice, training, and informative material via mass communication channels. In the workshops we conducted, 18,596 people were trained using different methodologies, depending on each group. In 2014, the talks for Communal Banking customers nationwide will be completed.

- **Banco Pichincha Microfinance Customer Protection Principles:** a joint effort by Banco Pichincha and CRISFE Foundation to plan activities for continuing to build up the Microfinance customer protection culture that characterizes us, by implementing a model of good business practices proposed by *The Smart Campaign*, a global campaign. See chapter on Customers and service quality.

### ***6.1.3. Art and Culture***

Art and culture help create solutions and address challenges in a creative and different way. Indisputably, art and culture complement education. For this reason,

CRISFE Foundation wants more children, teens, and adults to have access to events and artistic and cultural workshops. In addition, Ecuadorian artists are given support for their professional development, offering them a space to display and promote their work.

This year, 73 cultural initiatives were carried out at 22 establishments nationwide, with the participation of 3,239 beneficiaries. Further, 24 cultural events were held with 1,600 spectators who attended. In addition, the CRISFE Cultural Center was opened in Quito. The center has eight classrooms for carrying out the activities generated by this program.

For the Art and Culture Program, the following activities were carried out:

- **Artistic Workshops:** courses on different forms of art at educational centers and the CRISFE Cultural Center.
- **Cinema Forum:** movies shown to communities and sectors of the country without access to a lot of cultural programs.
- **Cultural Displays:** cultural opportunities for workshop beneficiaries to display to the community their work alongside well-known artists.
- **Cultural Trips:** cultural trips for children and teens from schools in the marginal urban areas of Quito and in rural areas so they can learn while visiting museums and heritages sites, and attending cultural events.
- **Teacher Accompaniment Processes:** support for teachers to learn about creative and participative ways to teach their students.
- **Professional Development Workshops:** short seminars given for building up skills as a way to encourage professionals to do a better job.

#### ***6.1.4. Entrepreneurship***

The Entrepreneurship program supports skill building and reinforcement in individuals, fostering an entrepreneurship attitude towards life and improving skills, such as leadership, achievement-oriented, customer-oriented, commitment, perseverance, and practical vision. In this process, the beneficiaries gain personal growth while contributing to the creation of wealth in the country.

To achieve this, CRISFE Foundation supports entrepreneurs with training, financing, and/or accompaniment for getting their projects started. This support is channeled through two initiatives.

- **Emprendefe:** in 2013, Emprendefe took a new turn with the implementation of methodologies to invite entrepreneurs to different stages from time to time in order to identify those with the profile required by the program in order to train them, evaluate the business models presented, and select the individuals who will receive technical accompaniment and financial support. As a result, Emprendefe trained 136 entrepreneurs and benefitted 31 business ventures to get their projects started. The business projects will receive accompaniment and technical assistance in 2014.
- **Young Entrepreneurs:** in 2013, 511 young adults benefited from the tools and knowledge supplied to promote skill building in order to enable them to gain an entrepreneur attitude in life. The young adults form part of the Basic Accelerated Cycle of the Municipality of Quito.

#### ***6.1.5. Cooperation for Development***

CRISFE Foundation supports the work of nonprofit organizations with technical assistance for projects and programs, enabling them to enhance their internal skills and as well as the impact generated for people living in poverty. In this way, the foundation contributes to the development of said organizations, creating processes and improving technical attention and service levels.

The qualification process for selecting organizations for technical assistance is based on a technical analysis that takes into account different variables related to sustainability topics and the impact of presented projects.

SCOPE	
Sustainability	Legal
	Financial
	Social
Institutional Solvency	Previous Experience
	Institutional Alliances
Impact – Technical Tender	Problems
	Innovation
	Logical Framework
	Budget
	Sustainability Scheme

Premised on this process, over 60 organizations were qualified and 11 projects given support during 2013 in benefit 4,519 individuals.

Given the potential scope of its impact, Compañía de Jesús del Ecuador is one organization that has shown more significant results in this evaluation process because of the execution of its *Ser más para servir mejor* (“Be more to serve better”) program. The program’s first phase called Institutional Reinforcement has begun to better search for administrative, financial, operating, and methodological capacities for serving vulnerable populations with 16 projects by Compañía de Jesús. The impact at the end of the program is around 135,000 individuals.

#### **6.1.6. Community Development**

The Community Development program is a work model that looks to support sustainable local development based on the facilitation and execution of processes for reinforcing the economic potential of each territory, supported on existing social, cultural, and environmental relationships. Currently, the program is channeled through *Faros del Saber Ciudadano* (FSC) (“Lamps for Citizen Knowledge”).

The FSC form a network of strategic centers, which are inclusive and sustainable. With their adequate infrastructure, permanent services, alliances with different

stakeholders, and commitment with the individuals forming them, promote the socioeconomic development of communities where they are found.

The FSC allow for channeling the different services of the foundation's programs with communities, as well as those developed for their own purposes.

- **Technological Accessibility:** these work as telecenters providing access to computers, the internet, and other equipment to facilitate access to information technologies.
- **Training:** training and trade workshops, afterschool homework assistance, schools for parents, etc., in coordination with other stakeholders.
- **Community Diagnoses and Action Plan:** diagnoses performed on areas where FSC exist for defining priorities in terms of investment and work to improve the living conditions of communities.

In addition, other services that are the product of the FSC's own work and the work of the foundation with other stakeholders are brought together.

The FSC gave training and workshops to 4,967 individuals in 13 places nationwide. In addition, 25 trainers learned about family education and financial education to replicate the knowledge acquired in the communities.

This program is successful thanks to inclusion—work done with all segments of the population, mainly vulnerable groups: women, young adults, children, and disabled individuals— and the participation of local and national stakeholders warranting the process's sustainability.

#### ***6.1.7. Comprehensive Project for Disabled Individuals***

In 2013, the CRISFE Foundation started to create activities propitiating the inclusion of disabled individuals within the different ambits of their daily lives. The purpose of the activities was to make people aware of their surroundings so as to achieve



that the physical environment accommodates disabled individuals to make their inclusion real.

Together with Banco Pichincha, the Foundation planned the preparation of awareness workshops and accessibility as the starting point, complemented by the creation of guide manuals promoting the inclusion of disabled individuals. In parallel, efforts were made to give scholarships to disabled individuals so they could complete their basic education.

<b>VOLUNTEERS</b>			
<b>Component</b>	<b>Bank Employees</b>	<b>Other</b>	<b>Total Number of Volunteers</b>
Accommodating Physical Spaces	197	418	615
Technical Advice	27	16	43
Education and Training	38	52	90
<b>Total</b>	<b>262</b>	<b>486</b>	<b>748</b>
*This data does not include employees of Banco Pichincha affiliates, community members, and foreign students.			

#### **6.1.8. Volunteers**

The Volunteer program is the support and cooperation bridge for different social organizations. Volunteers, who live in different situations, come together because of the projects and substantially improve the quality of life of girls and boys, young adults, adults, and senior citizens.

In 2013, their reach touched 23 communities with a total of 16 initiatives and the cooperation of 748 corporate and community volunteers. The following initiatives were taken to implement the volunteer program.

- **Accommodating Physical Spaces:** we contribute to improving the Bank's facilities in environmental and recreational terms and also for producing income.

The organization, beneficiaries, and voluntaries always work together in this initiative.

- **Technical Advice:** we cooperate in terms of ascribing sustainability to the requesting institution through technical assistance in the Bank's administrative, productive, and technological areas.
- **Education and Training:** volunteers train or offer support by sharing their knowledge with the Bank's personnel.