

# 2018 Annual Report



**Grupo Promerica:** Ecuador | Costa Rica | El Salvador | Guatemala  
Honduras | Cayman Islands | Nicaragua | Panama | Dominican Republic

# 2018 Annual Report

***Produbanco***   
*Grupo Promerica*

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***Grupo Promerica*** 



## Message from the Chairman of the Board

Grupo Promerica



It is with great satisfaction that I am sharing with you that during 2018 we defined a brand platform based on a profound study and knowledge of what we are. Internally, through interviews to directors, top executives and officers, and externally, through studies based on interviews made to banking clients, which we performed in every country where we operate.

In this manner, we have found an essence that unites us all, a vision, mission, and shared values that will allow us to connect and to grow lasting liaisons with the communities with which we relate to as an organization.

At *Grupo Promerica*, we believe that all persons and companies in our environment should surpass their limits in order to reach the success they deserve. This is why we focus on boosting a bank that develops relationships and offers products

and services that help them overcome their limits, whether cultural, economic, personal, or geographic.

Our values are centered on maintaining ongoing empathy with those persons with whom we liaise, understanding their goals and boosting banking services based on shared trust.

Throughout the years, we have demonstrated that we are natural entrepreneurs and that we have never given up in light of obstacles that we have found along the way. Through this vision, we want to inspire everyone who is with us.

We are from here and we share a common culture; we know the challenges that bettering ourselves entail; through our experience, energy, and creativity, we overcome setbacks and we contribute efforts so that the companies and people

with whom we work may reach their dreams.

As part of our entrepreneurial spirit, we made history this year by being one of the few financial institutions in the region that has placed bonds into international capital markets. This issuance projects us as an international financial institution and represents an important recognition to the extraordinary team of executives that form a part of our organization.

*Promerica Financial Corporation – PFC* (Promerica) performed this issuance with an initial sale of USD 200 million (two hundred million US dollars) in bonds into international capital markets. This first issuance by *PFC* is documented under New York law and is registered at the *Luxemburg Stock Exchange*.

Following two years after acquiring *Banco Citibank de Guatemala, S.A.* towards the end of 2016, which comprised an important landmark for the Banking and Financial System in Guatemala in 2018, we requested the regulators at Guatemala and Panama, the issuance of the corresponding authorizations in order to execute the legal and operational merging of both banks. Thanks to the detailed work conducted by employees in all areas who joined efforts through a series of processes such as harmonizing policies, procedures, accesses, systems, banking products, and work teams, as well as by unifying clients among other tasks while consolidating operations in record time, this challenge was reached and today we have a bank that is unified, efficient, and focused on servicing our clientele.

At *Grupo Promerica*, sustainability forms a part of our culture and corporate strategy; this is why we work by promoting banking services that develop relationships, offer products and services to its communities while supporting future generations, thus guaranteeing balance among economic growth, care for the environment, and social wellbeing in the countries where we are located.

Through strategic alliances with international agencies and banks such as: *BCIE*, *IIFC*, *FMO*, *IDB*, *DEG*, *Proparco*, and *Norfund*, *Grupo Promerica* has received funds for

approximately USD 300 million in order to implement sustainability from the standpoint of banking products, for which it conducts market research in order to understand and promote improved sustainable development in the business sector. We have created *Green Credits* directed to small and medium-sized companies such as in consumer banking. We received the *Global Climate Partnership 2018* award for promotion of sustainable loans in Nicaragua and Costa Rica.

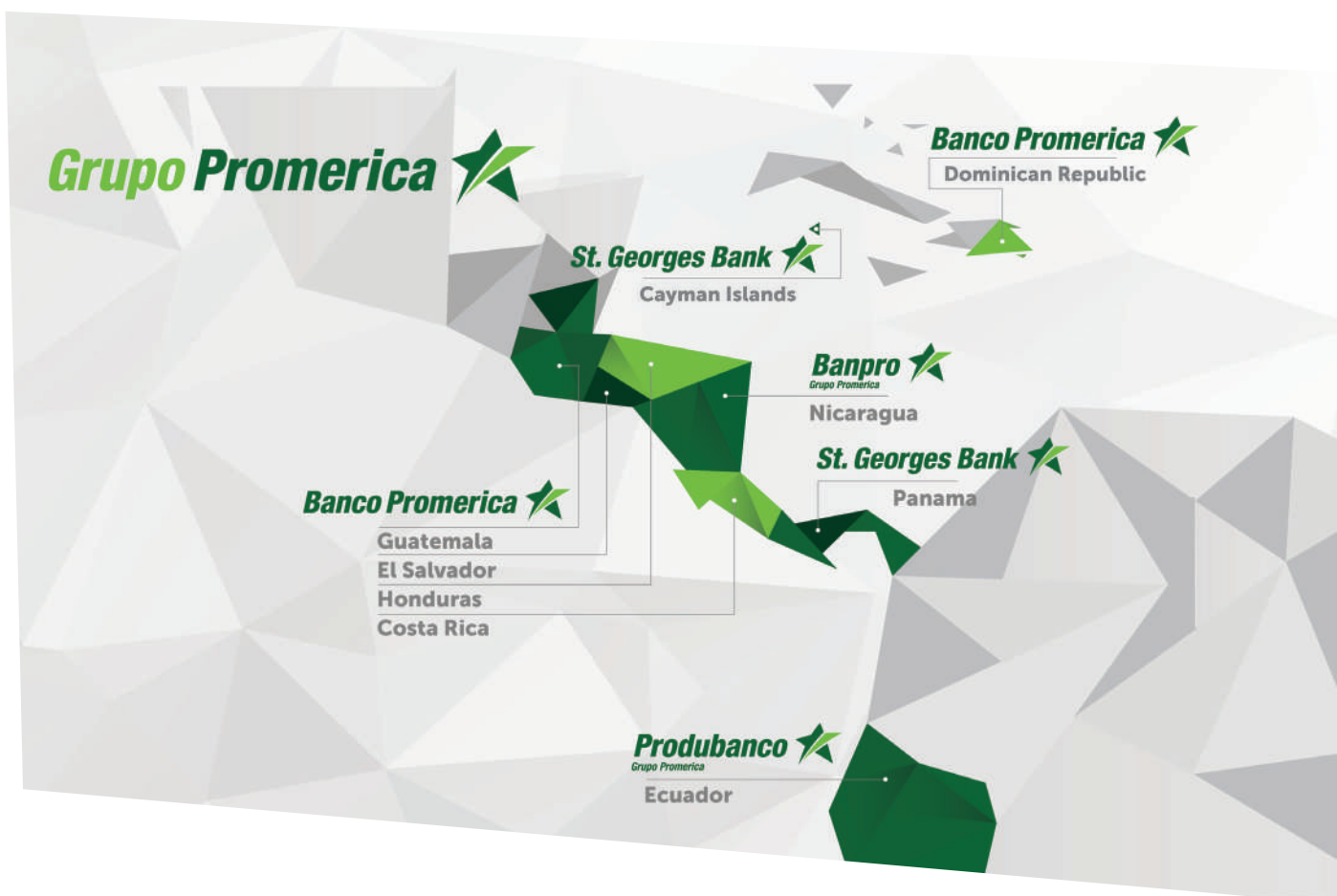
We have many reasons to celebrate and be proud of the achievements attained throughout the year thanks to our executives, employees, clients, shareholders, and directors; nonetheless, our challenge is to better ourselves and the challenges we encounter along the way in order to generate economic progress and growth for the communities we serve.

Thank you,

A handwritten signature in black ink, appearing to read 'Ramiro Ortiz Mayorga'.

Ramiro Ortiz Mayorga  
Chairman of the Board  
Promerica Financial Corporation

## Regional Presence



## Strategic Guidelines

### Grupo Promerica

#### Vision

At *Grupo Promerica* we believe that all persons and companies in our communities should surpass their limits in order to reach the success they deserve.



#### Mission

To promote banking services that develop relationships and offer products and services to our communities in order to help them surpass their limits, whether cultural, economic, personal, or geographic.

## Values



### Ongoing Empathy

To place us in the place of others and to understand their goals is our essence in order to find solutions together. We promote banking relationships that develop profitable businesses in the long term.

### Natural Entrepreneurs

We were born with the vision and entrepreneurial work principles to never give up when faced with cultural, economic, personal, or geographical frontiers. It is through this natural way of being that we wish to inspire others.



### Shared Trust

Our actions in the markets that we serve strengthen the trust and credibility that moves us to make joint decisions with our clients and to obtain mutually beneficial results.

### Common Culture

We are from here and we know our communities; we know of the challenges that represent bettering ourselves. We use our experience, energy, and creativity to overcome biases and setbacks and in this manner help our communities to reach their dreams.







## Message from the Chief Executive Officer

### Produbanco



I am pleased to share with you the Annual Report of *Banco de la Producción, S.A. Produbanco*, in which we present the results of the financial and commercial administration corresponding to the 2018 economic year at *Produbanco and its Subsidiaries*.

We are very encouraged by commemorating our first 40 years of institutional history, one that has left us with great satisfactions. We see the future with great optimism

and motivation and we want to everyday accompany the persons and companies in order to surpass their limits, to share in the best experiences, and to consolidate long-term relationships as expressed by our Mission Statement.

The main function in banking is to intermediate between the liquidity of depositors and investors along with the needs of financing of clients who require loans for their productive, commercial, or

personal activities. Therefore, our priority has always been the responsible, prudent, and technical administration of the financial resources of those who place their trust in us.

The dynamics in the administration of Produbanco and its Subsidiaries have been extraordinary. The strategies applied to the growth of the various business segments have contributed in the attainment of outstanding results.

In line with the digital transformation focused on agility, omni-channel presence, and innovation placed at the behest of our clients, we continue consolidating our growth and diversifying through the cultural transformation reflected in the new 2019-2023 strategic plan, where we ratify our vision and corporate values and delineate a new mission, we redefine our strategic pillars, and we establish strategic goals in order to offer our clients memorable experiences centered around comprehensive risk management and commitment of sustainability and corporate social responsibility.

The year 2019 will bring forth new challenges and opportunities we must make

use of while maintaining our commitment of professional transparency and ethics, as well as by promoting the best practices of efficiency and productivity.

Without a doubt, the outstanding success we have attained is due to the trust and loyalty of our stakeholders who believe in our work: clients, shareholders, directors, vendors, and the community at large, as well as due to the high degree of professionalism, experience, and dedication of our executives who have been a key factor in our growth.

The goals and commitment of *Produbanco and its Subsidiaries* with Ecuador are here for the long term.

Ricardo Cuesta Delgado  
Chief Executive Officer  
Produbanco – Grupo Promerica



# Strategic Guidelines

## Produbanco 2019-2023

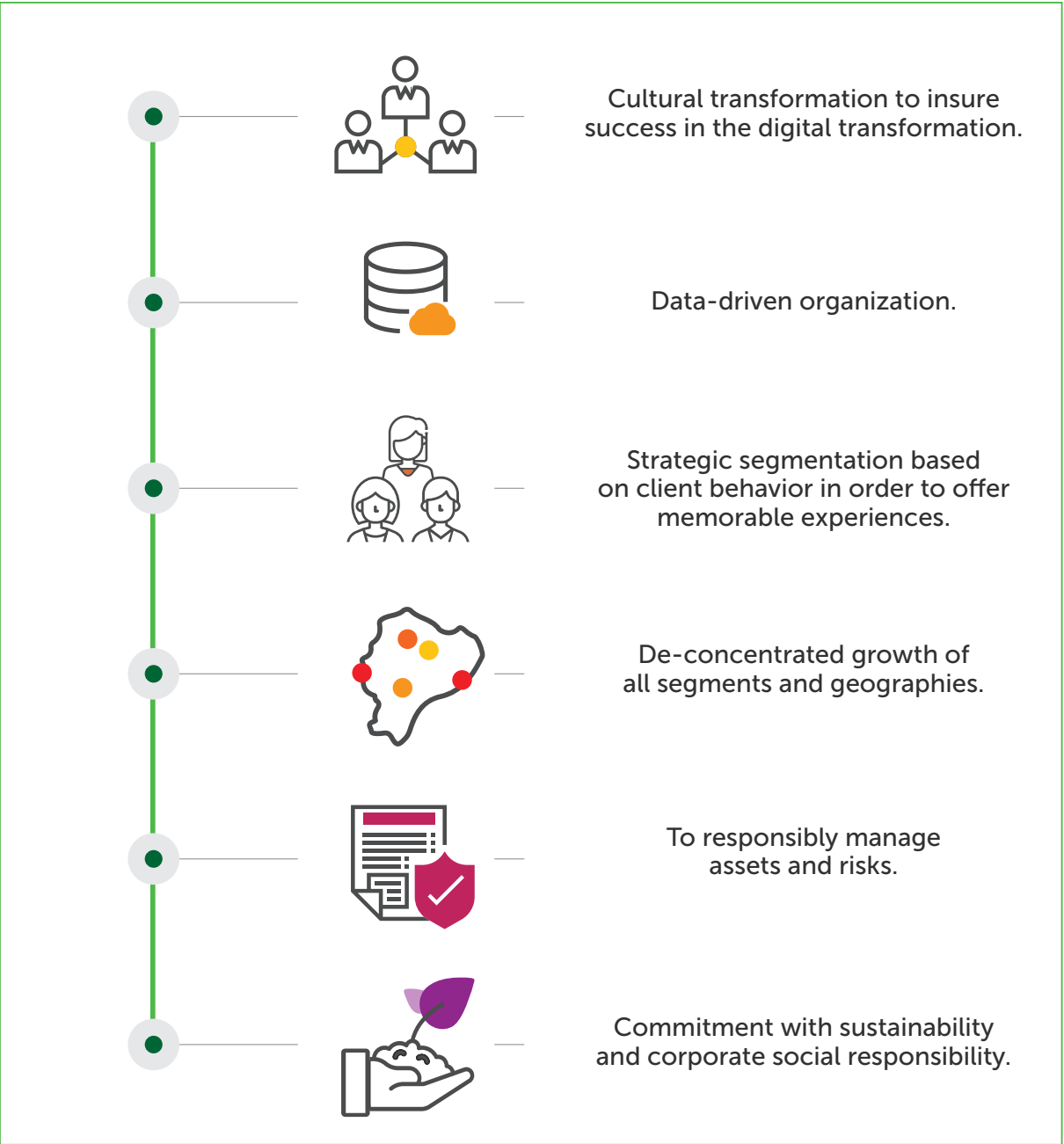
### Vision

To be the best of the best to better the lives of people.

### Mission

Everyday to accompany people and companies to surpass their limits, to share the best experiences, and to consolidate long-term relationships.

### Strategic Pillars



Produbanco will consolidate its growth and diversification through *cultural transformation* to allow it to become a digital leader in offering memorable experiences to its clients centered on a comprehensive management of risk and a commitment of sustainability and corporate social responsibility.

### Corporate Values



## Board of Directors

### Produbanco



Francisco Martínez Henares  
Chairman



Héctor Neira Calderón  
Vice Chairman



Oscar Soto Brenes  
Principal Director



Luis Rivas Anduray  
Principal Director



Gustavo Vásconez Espinosa  
Principal Director



Karla Icaza Meneses  
Deputy Director



Jaime Dávalos Fernández-Salvador  
Deputy Director



Mauricio Argüello Godoy  
Deputy Director



Francisco Rodríguez Vásconez  
Deputy Director



Diego Mosquera Pesantes  
Deputy Director



## Senior Executives

### Produbanco



#### Members of the Executive Committee

From left to right:  
Ricardo Cuesta Delgado, Chief Executive Officer  
Juan Manuel Borrero Viver, Vice President Management Oversight  
Martha Cecilia Paredes Díaz, Executive Vice President Management Support  
Rubén Eguiguren Arias, Vice President Retail Banking  
José Ricaurte Vela, Vicepresidente Banca Minorista



#### Members of the Business Units

From left to right:  
Sebastián Quevedo Holguín, Vice President Payment Channels  
Carolina Andrade Gallegos, Vice President Institutional Segment  
José Antonio Costa Viver, Vice President Guayaquil Branch  
María Isabel Román, Vice President Highlands Distribution



#### Members of the Staff and Control Units

From left to right:  
*Staff Units*  
Jorge Alvarado Carrera, Vice President Legal Affairs  
Fabián Garzón Abad, Vice President Planning and Development  
*Control Units*  
Fredy Sandoval Cerda, Internal Auditor  
Gustavo Orbe Montenegro, Vice President Risk Management  
Patricio Salguero Lozano, Compliance Officer



#### Members of the Support Units

From left to right:  
Esteban Váscquez Riofrío, Vice President Financial Oversight  
Eduardo Lafebre Quirola, Vice President People and Culture  
Rafael Roca Moreno, Vice President Operational Services  
Javier Hidalgo Estévez, Vice President Technological Services



## Report of the Board of Directors

We have finished a very special year in which we celebrated our first 40 years of institutional life. During this time we have guided persons and companies to surpass their limits, we have shared memorable experiences, and we have consolidated long-term relationships; this has been, and continues to be, our mission and greatest commitment.

Five years have passed since the *Promerica Financial Corporation* acquired majority shares from *Banco de la Producción S.A. Produbanco*, a period that has been accompanied by a volatile political and economic environment along with one of increased uncertainty. Despite this scenario, we were able to achieve an asset growth rate of 60.8%, which allowed us to generate accrued results amounting to USD 193 million, to distribute cash dividends of USD 46.8 million, and to increase equity by USD 157 million.

*Produbanco* represents 34% of the assets managed by *Grupo Promerica*, which at a consolidated level surpasses USD 14 billion, and has over two million customers, a human team of 12,400 employees, and 850 branches and agencies.

It is with enormous satisfaction that we share our outstanding results from 2018, a year in which we positioned ourselves solidly as the third Bank of the country by total assets, public deposits, and loan portfolio. The main balance accounts experienced annual growth rates much higher than the average of the banking system, which was reflected in an important market share gain when compared to 2017 in each one of the items. As such, with USD 4,768 million in managed assets, we went on from 11.0% to 11.6% of total assets of the system; with USD 3,688 million in public deposits, we increased our participation from 11.4% to 11.8%, and the greatest market share occurred in the gross loan portfolio, which rose from 10.6% to 11.3% until reaching USD 3,098 million. The credit card business grew from a rate higher than 50% until reaching a portfolio balance of USD 452 million, close to 175,000 cardholders, and invoicing in the amount of USD 980 million.

Thanks to the trust expressed by multilateral agencies and financial entities abroad, we obtained financing in the amount of USD 335 million in direct debt, and USD 114 million in subordinated debt, funds that were destined to credit lines directed at both medium and small companies, such as for development of green products focused on the efficient use of resources, environmentally cleaner technologies, and energy efficiency.

The above performance was translated into record results in the history of *Produbanco*, with net profits of USD 59.5 million, 48% higher to the USD 40.1 million of the previous year. Profitability indicators reached 15.3% return on equity (ROE), and 1.3% of return on assets (ROA), while the technical equity index, which measures equity capacity, was strengthened to 13.51% versus the 11.19% of 2017.

The responsible management of the assets is reflected in our excellent liquidity and coverage indicators for 25 of the 100 largest depositors, in equity solvency, in efficiency ratios in operational expenditures, and in the ratio of productive assets over total assets, within the tolerance limits to risk presented in the Report by the *Integral Risk Management Committee*. Our subsidiary *Trámites Profesionales S.A. Protrámites*, conducted intense preventive management and that of our non-performing loan portfolio with days of arrears, which allowed registering an overdue portfolio indicator of 1.74% and coverage for overdue portfolio of 195.7%. The risk scoring companies *Pacific Credit Rating* and *BankWatch Ratings* ratified the AAA- rating that confirms our solid position, profitability, reputation, and access to sources of financing with a positive perspective in the short and mid terms.

To the recognitions for financial performance by *Produbanco* awarded by prestigious specialized magazines, in 2018 various local and international awards were added such as *Customer Satisfaction*, *Corporate Government*, *Innovation and Digital Transformation*, which are expanded in greater detail in our Annual Report. In

addition, we are very proud of having been designated as the *Most Respected Financial Institution* by the *Ecuadorian Business Committee*, *PwC PricewaterhouseCoopers* and *Ecuavisa*.

The 992,000 clients we serve through a network of 110 branches, agencies, and banking offices, 334 ATMs, 66 *Servipagos* offices, and 3,953 *Pagoágil* points from our subsidiary *Exsersa*, throughout the country, endorse the trust deposited in *Produbanco* and its *Subsidiaries*.

In the national scenario, 2018 was characterized by weak economic dynamics with an annual GDP growth close to 1.1%, which influenced the resulting annual inflation rate that closed in 0.27%. This partially benefited the recovery of competitiveness of the country's exports impacted by the rise in the dollar due to the international economic environment.

The beginning of the year was marked by the *Popular Consultation and Constitutional Referendum* of February 4, whose results deepened the political departure from the current Administration with former President Correa, by eliminating indefinite reelection approved in 2015 and causing a change of direction toward an environment that pretended fostering dialogue and consensus, restoring independence and autonomy to the functions of the State, and providing aperture to the private sector so that it may take the lead as the motor of the economy through investment and employment generation. The appointment of economic authorities followed in this new direction and provided a signal of pragmatism in the new vision of the Central Government, which prompted the approval of the *Law on Productive Promotion, Attraction of Investment, Employment Generation, and Fiscal Stability and Equilibrium*, published in the Registro Oficial (Official Registry) dated August 21, whose main result in the year was the generation of fiscal revenue due to the fiscal remission that achieved fiscal revenues of USD 1,268 million.

The Government established as its goal to reduce its global deficit in a horizon in

the years leading up to 2021 through the gradual contraction of public spending and the increase in petroleum revenues. Within this environment, a review was made of the subsidy policy made for diesel for industrial use and to super, extra, and *ecopaís* gasoline.

Another relevant fact was the repeal of Decree 1218, which artificially reduced public debt following the recommendations of the *Controlador General del Estado* (Comptroller General of the State). The methodology was reestablished including the accounting of debts of the State with other State agencies such as the *Banco Central del Ecuador* (Central Bank of Ecuador), the *IESS* (Social Security Administration), *BanEcuador*, etc. The net public debt had a growth of USD 2,534 million, as explained by a bond issuance in the amount of USD \$3 billion at the beginning of the year. This level of indebtedness by the country was significantly lower than that acquired in previous years, which caused a lower growth rate of deposits into the financial system and consequently a decrease in the rate of credit growth.

Within this lower liquidity scenario, private banking continued boosting internal demand through credit. The total gross portfolio registered an increase of USD 2,717 million (11% per year), until arriving at a balance of USD 27,328 million.

On its side, public deposits reached USD 31,258 million, an increase of 1.8% equivalent to USD 567 million. The funding of banks had a very important component corresponding to financial obligations and to subordinated debt that in total, amounted to USD 2,637 million, with a growth of USD 575 million in 2018 resulting to a great extent from the financing granted by multilateral credit agencies, correspondent banks, and other foreign lenders. Profits from the banking system grew by 39.8% for a total of USD 554 million net, after reserves for payment of legal income tax obligations and employee profit sharing. These results are explained by the increase of close to USD 7 billion in the placement of credits during the last three years.



During the closing of 2018, we conducted the closing of our 2015 – 2020 strategic plan and we established the horizon for the next five years with our sights set on 2023. We ratified our vision of *being the best of the best in order to better the lives of people*, we designed our new mission, we reinforced our corporate values, we redefined our strategic pillars, and we established our strategic goals for the 2019 – 2023 period.

*Produbanco* will consolidate its growth and diversification through *cultural transformation* allowing it to be the digital leader as to offer its clients memorable experiences outlined within comprehensive risk management and a commitment of sustainability and corporate social responsibility.

These aspects have been preliminarily socialized to our Shareholders through our quarterly meetings, which we hold for their benefit since October 2018 as a mechanism of accountability and transparency of information in an ongoing and periodic manner, which has received great acceptance from our stakeholders.

In order to enhance the commemoration of our 40th anniversary, we promoted various cultural events such as an exhibition by Artist *Rufino Tamayo* of his work *Mexicano Universal*, and the launching of the book *Formas y Transiciones* (Forms and Transitions), which depicts a brief tour through four decades of evolution of Ecuadorian plastic arts, both events showcased as a symbol of the institutional transformation of *Produbanco*.

During 2018, we began an innovation process with our new *Digital Offices* inside *Supermaxi* at *Centro Comercial Iñaquito* (Iñaquito Mall) and *Mall El Jardín* in Quito, and at the *Santa Inés* office in the city of *Ambato*, all equipped with state-of-the-art technological equipment and a renewed design.

Aligned with the strategy of expanding our presence in the coastal region, we integrated ourselves to the *Parque Empresarial Colón* (Colón Business Park), with a modern and functional tower where we will located our *Guayaquil* Headquarters; in addition, we will position ourselves in the cities of *Milagro* and *Portoviejo* with two agencies located in areas of future business consolidation.

Likewise, we began the revamping of the historic headquarters office located in the *Iñaquito Building*, an icon in the history of *Produbanco*, thanks to which it will optimize its functionality and capacity to house a large number of employees, which today occupy several leases spaces with obsolete and non-productive equipment.

In another sphere, we implemented our *Cuenta Digital de Produbanco* ('be *Produbanco*' digital account), which reached over 85,000 clients. Aligned with the digital transformation, we renovated our *www.produbanco.com* webpage and our *Mobile App*, both of which also include a digital token or second factor of authentication; we launched the check deposit service via digital imaging, and we conducted the first loan disbursement with a digital or electronic signature.

Without the need to go to our offices, our clients performed their investments in over 30,000 *Digital Term Certificates* for an accrued amount of over USD 240 million. We added the new *Cuenta Verde* (Green Account), which will contribute toward care of the environment through savings directed to the generation of *green credits*.

Separate and consolidated financial statements, with the opinion of the external auditing firm *KPMG del Ecuador*, are up for scrutiny by Shareholders and form an integral part of our Annual Report.

Along these lines, the Board acknowledged and completely approved the opinions and reports issued, both by our Internal Auditor, as well as by *KPMG del Ecuador* in reference to our financial statements ending December 31, 2018. The external audit was drafted pursuant to the *Normas Internacionales de Auditoría – NIA* (International Auditing Norms) and to regulatory stipulations currently in force. The opinion ratifies that the general balance, the statement of results, of changes in equity, and of cash flows, reasonably present the financial situation of *Banco de la Producción S.A. Produbanco* and its Subsidiaries, and have been drafted in keeping with the accounting standards and practices established by the *Superintendencia de Bancos del Ecuador* (Banking Board of Ecuador) and the *Junta de Política y Regulación Monetaria y Financiera* (Monetary and Financial Policy and Regulatory Board), as well as by the policies and procedures approved by the Board of Directors.

The *Internal Auditor* reports that *Produbanco* complies with the established regulations, has an adequate level of internal control whose structure and procedures reasonably protect the assets of the Bank, and that there are controls in place to verify that the transactions are being duly authorized and registered. The *Auditing Committee* has provided ongoing follow-up to the reports and observations of the *Internal Auditor*, the *External Auditor*, and the *Banking Board*, as with the action plans established by the Administration. Following the analysis of the internal control environment, the Board read, approved, and at the same time took ownership of the following opinion by the *Auditing Committee* for its presentation to the *Shareholders Board*:

"The *Auditing Committee*, based on the reports presented and on the various aspects analyzed during the meetings maintained during 2018, as well as in the annual evaluation report on the internal control system issued by *Internal Auditing* corresponding to the above year, reports that the risk management structure is adequate concerning the size and complexity of the institution's operations, and has an appropriate internal control structure; there is no evidence of circumstances that could comprise important weaknesses in the internal control system of the Bank. Furthermore, compliant with the requirements of banking resolutions, the *Committee* hereby leaves record that it has followed-up on the observations and internal and external auditing reports and on those of the *Banking Board*, and it also ratifies that there is no evidence or knowledge of suspicious and irregular acts or behaviors or of conflicts of interest, in the terms of the norms alluded to herein".

*Produbanco* and its *Subsidiaries* comply with the legislation in force, including norms on intellectual property and with the guidelines foreseen by control agencies. Likewise, the necessary controls are maintained in order to prevent asset laundering and financing of crimes such as terrorism as based on the best international practices and on the regulations of the Banking Board and the *Unidad de Análisis Financiero y Económico – UAFE* (Economic and Financial Analysis Unit). In this sense, the Board approved the work plan of the *Unidad de Cumplimiento* (Compliance Unit) concerning prevention of asset laundering for the year 2019 along with the report issued by this Unit

corresponding to the year 2018, documents that are available for review by the *General Shareholders Board*.

Based on the above reports, the Board favorably pronounces itself and under its responsibility concerning the reasonableness of the financial statements of *Banco de la Producción S.A. Produbanco* and of its *Subsidiaries*, as well as concerning the sufficiency of the internal control system in order to prevent illegal activities including asset laundering and the financing of crimes such as terrorism.

In this sense, the Board read and approved the *Informe del Comité de Administración Integral de Riesgos (CAIR)* (Annual Report of the *Integral Risk Administration Committee*), which details credit, market, liquidity, and operational risk exposure and other indicators assumed by the Bank within the sphere of integral risk management, as well as by the limits defined and the control actions recommended for every position in liaison with the institutional risk matrix. It is important to highlight the implementation of the *Opportunity Risk Manager* application in order to manage operational risk events.

The continuity management system of the business maintains as its basis the ISO 22301 Standard in order to guarantee the application of the best practices concerning continuity, which have been incorporated into all policies, procedures, and methodologies of the Bank and its Subsidiaries. In reference to the technological continuity strategy, we inaugurated the new *Data Center* at the facilities of *CenturyLink*, a specialized company guaranteeing high availability in the TIER3 category.

We designed and approved the initial phase of the reputational risk management system focused on identification, measurement, control, and monitoring, for which we created the sub-department of Reputational Risk.

The *Remunerations Committee*, comprised by delegates from the *General Shareholders Board*, among other members, reports that the remuneration policy approved for all employees, main executives, and members of the Board, satisfactorily complies with the norms in force, without any exceptions to report.

The Board read the Report of the *Financial*

User Assistance Service Unit in which, besides the various quality programs, it reports compliance with time standards, timely assistance, and solution of requirements, service claims and others generated by the clients of all business units at the national level through our specialized area.

Likewise, the Board approved the *Financial Education Program* as part of the *Strategic Plan* of the Bank.

We successfully complied with the goal set for 2018 within our *Programa de Educación Financiera Aprende* (Learn – Financial Education Program), thanks to which it was possible to train 6,053 persons among children, youths, adults, and senior citizens in urban and rural areas of Ecuador through various activities that included face-to-face workshops, virtual simulators, and e-learning tools. Of all of our employees in the three companies, 2,546 employees were also trained in this program.

We published our 11th *Corporate Social Responsibility Report* under the guidelines of the *Estándares* (Standards) version of the *Global Reporting Initiative* within our sustainability focus as aligned with the *Objetivos de Desarrollo Sostenible – ODS* (Sustainable Development Goals – SDGs) and the principles of the *Global Compact* of the *United Nations*.

The Bank maintains and constantly improves its good *Corporate Governance* practices geared toward strengthening the organization, control, efficiency, independence, and transparency of its administrative structure, as well as the operation of the Board and its various internal

committees. The guiding members read and approved the *Corporate Governance Report*, which forms an integral part of our Annual Report.

Through *Memorandum No. SB-DS-2018-0010-O* dated December 26, 2018, the *Banking Board* granted all private financial entities the authority to distribute profits corresponding to the 2018 economic year pursuant to the pronouncement of the *Board of Shareholders*, once the requisites established by *article 405* of the *Código Orgánico Monetario y Financiero* (Monetary and Financial Organic Code) are complied with.

Furthermore, this Board read *Official Letter SB-DS-2019-0026-O* dated February 11 of this year, through which the *Banking Superintendent* authorized *Banco de la Producción S.A. Produbanco* to distribute up to 25% of profits corresponding to the 2018 economic year, and instructed that with the balance, a special reserve be created for future capitalizations. The Board and Administration are conducting meetings with the highest authorities at the *Control Agency* so that it may authorize the distribution of a net 30% cash dividend in keeping with institutional policy and with the solvency and quality of *Produbanco* indicators.

The Annual Report, which is at the behest of Shareholders, Clients, and general public, details the aspects contained in this report.

Our acknowledgement goes to the Shareholders, to the Board Members, to the Administration, and above all to all Employees for their commitment and ongoing contribution.



Francisco Martínez Henares  
Chairman of the Board



Ricardo Cuesta Delgado  
Chief Executive Officer

# Balance of the Economy 2018

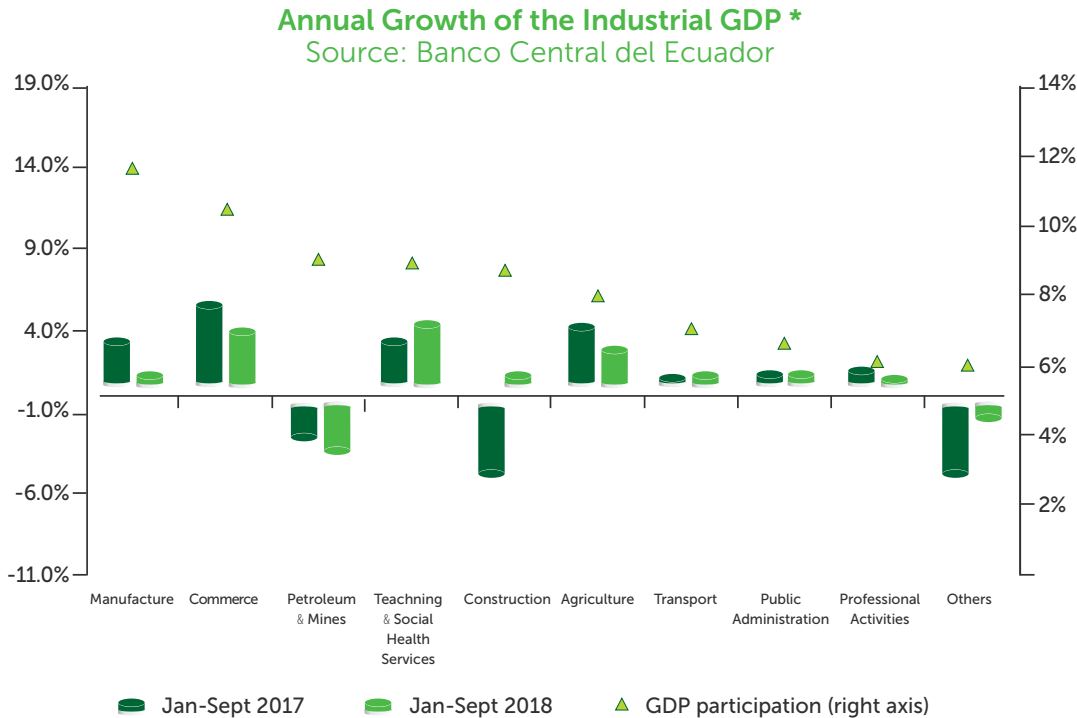
## Real Sector

The year 2018 was a year that evidenced the beginning of an adjustment process where the economic activity that began during the change in direction of public policies, now directed to promoting private investment and foreign trade as the new economic growth engines and to safeguarding the “dollarization” through the establishment of fiscal sustainability measures, was mainly outlined around contraction of capital spending. The adjustment of current spending is still a pending task of the Government.

The prevision of economic growth for 2018 by the *Central Bank of Ecuador* is set at 1.1%, a percentage very similar to the one published by various international agencies. Despite the growth of consumption in households, spending optimization became a determining factor in the deceleration of internal demand, which to a great extent explains the slow-down in growth during

this year. Final consumption in households and the fixed capital gross formation registered growths of 2.8%, while in 2017 these appeared at 3.49% and 4.53%, respectively. The general expenditure of the Government went through a similar situation whereby in 2018 it grew by 2.53%, whereas in the prior year it did so by 2.77%.

From a sectoral perspective<sup>1</sup>, *Teaching, Social and Health Services* represented the most dynamic sector of the economy during the 2018 January-September period<sup>2</sup> by presenting a growth of 4.11% with respect to the same 2017 interval; in contrast, *Petroleum and Mines* suffered a contraction of 3.35% given the decrease in investment in the sector. *Manufacturing* was maintained as the sector with the greatest GDP participation with a growth of 1.05% during the first nine months of 2018, in comparison with the same period in 2017.



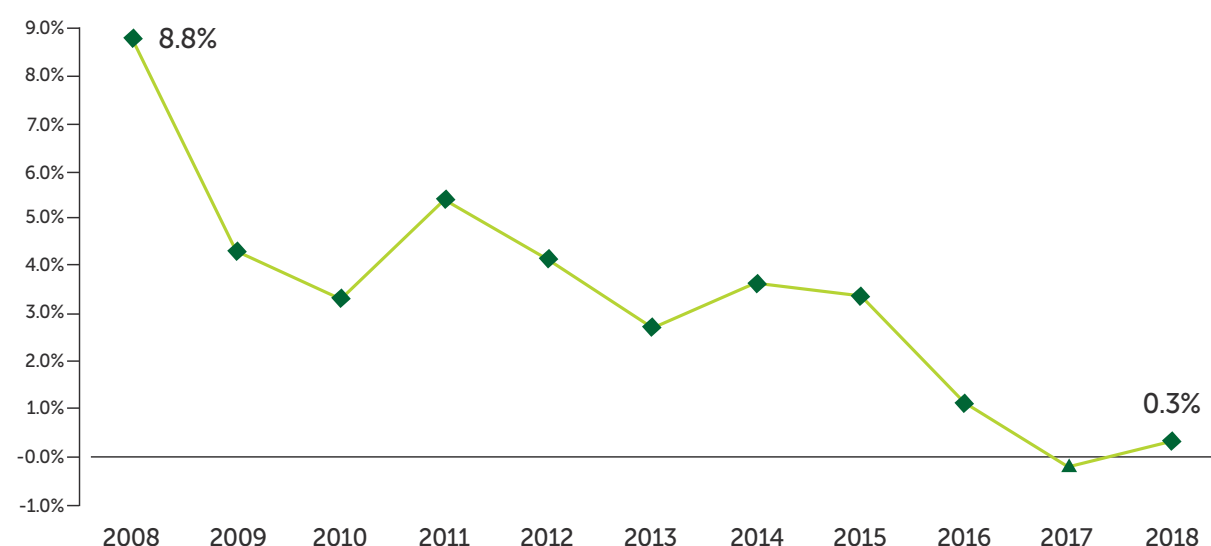
1. Only industries with a GDP participation above 6% are considered.  
2. Latest period with national account information available at closing of these Memoirs.



Inflation maintained an average of -0.22% during the year and reached 0.27% by December 2018. The slow-down of the economic activity directly influenced this result that allowed recovering competitiveness in the exportable offering of the country. On the other hand, the cost of the basic family food basket amounted to USD 715.16, whereas the family income defined for a household with four members with 1.6 recipients amounted to USD 720.53; this implies coverage of 100.75% over the cost of the basket.

Concerning the employment market, the *Instituto Nacional de Estadísticas y Censos – INEC* (National Institute for Statistics and Census) revealed that as of December 2018, the national unemployment rate reached 3.69%, a drop of 0.93 percentage points (77,773 persons exited unemployment) with respect to the 2017 December indicator. On its side, the adequate employment rate was registered at 40.64%, a decrease of 1.63 percentage points, which implies that 155,404 persons exited formal employment.

**Annual Inflation**  
Source: Instituto Nacional de Estadísticas y Censos



## Fiscal Sector

The Government changed course in its handling of fiscal policy by incorporating the concept of fiscal sustainability as depicted in the *Ley Orgánica para el Fomento Productivo* (Organic Law for Productive Promotion). Within this framework, the Government seeks reducing its global deficit in a four-year horizon through the gradual contraction of public spending and the increase in oil revenues. In order to avoid a recessive effect in the economic activity, the Government established a series of fiscal incentives to encourage private investment with the objective of turning it into the new economic growth engine. During the fourth quarter, the Government received an important flow thanks to the tax remission that formed part of the above law. The goal for 2018 was USD 602 million; however,

the result of the total amount achieved was USD 1,268 million (USD 1,101 million in cash collections and USD 167 million in installment payments).

In particular, revenues by the *Sector Público No Financiero – SPNF* (Non-financial Public Sector) during the 2018 January-October period grew by 10.99% (in real terms) with regard to the same 2017 period. Oil revenues increased by 35.51% leveraged by the price of oil and non-oil products by 1.64% given the tax collection stemming from commercial activities.

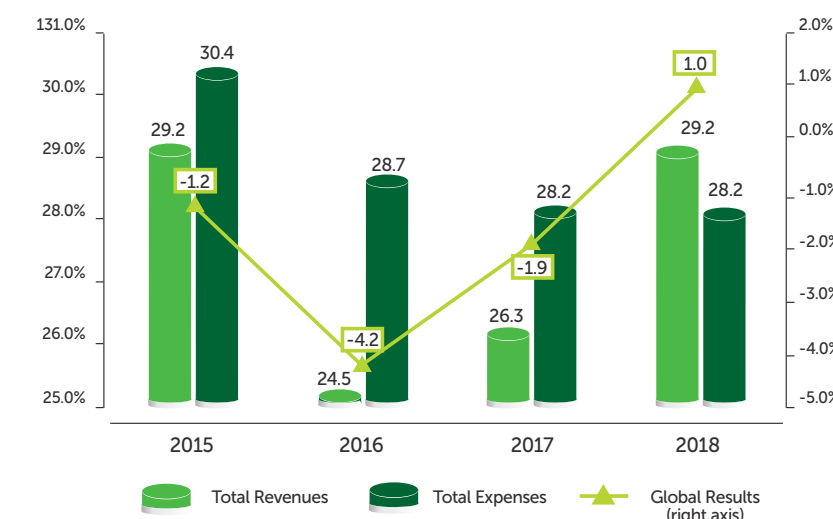
On its side, SPNF expenditures decreased by 0.11%. This situation determined the existence of an improvement of 149.89% in global results, which as of October 2018

represented 0.97% of GDP, in contrast with the -1.95% of the previous year.

Despite the deficit reduction, the Government saw the need to incur in external facilities to finance it, for which it approached multilateral agencies and

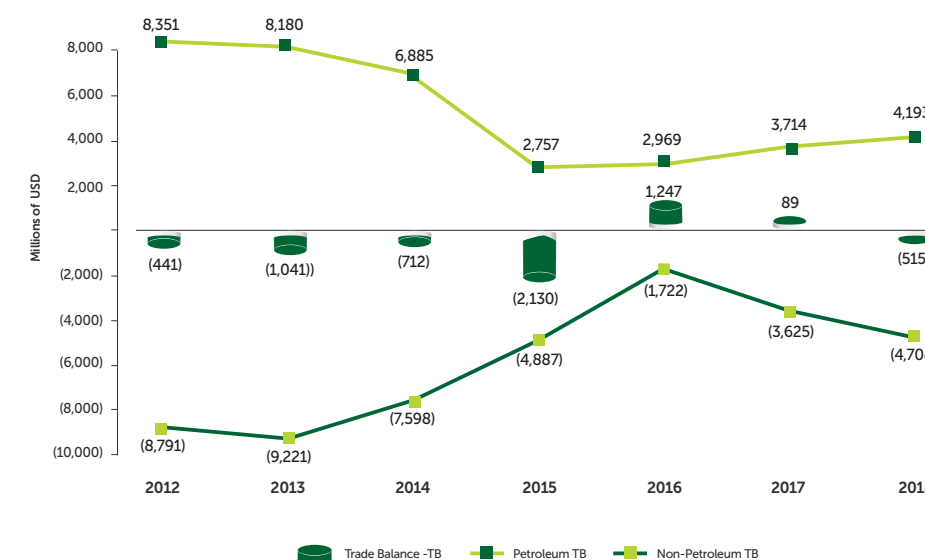
international markets through an issuance of bonds amounting to USD 3.0 billion (January 2018). Within this context, the net public debt increased by USD 2,533.56 as of October 2018, reaching a total of USD 49,069.36 (44.83% of GDP).

**Revenues and Expenses of the Non-financial Public Sector (January-October)**  
Source: Banco Central del Ecuador



## Foreign Sector

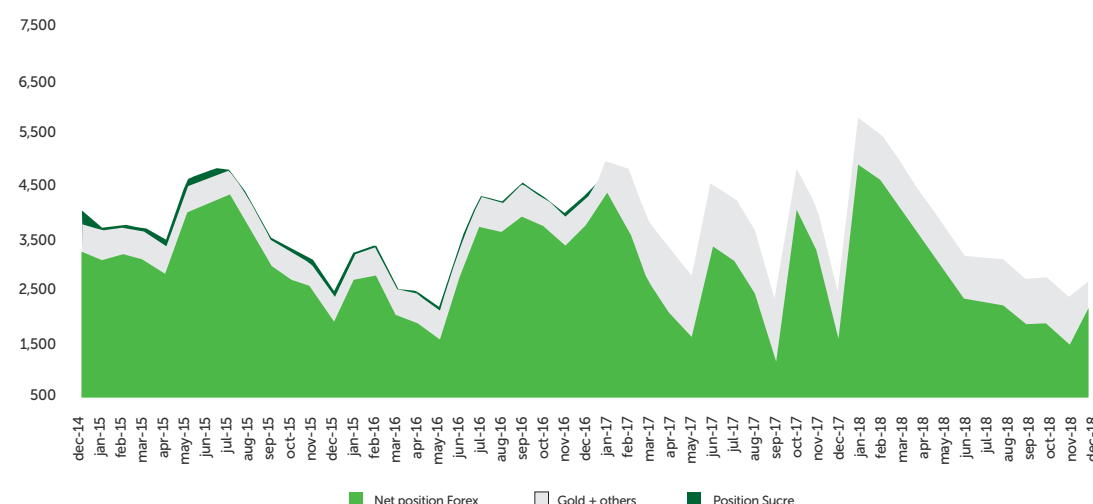
**Trade Balance (January-November)**  
Source: Banco Central del Ecuador



Within the foreign sphere, the commercial agreement with the European Union allowed various productive sectors to find this destination even more attractive and to leverage their exports while allowing consumers to have greater diversity of imported products. As such, non-oil exports amounted to USD 11,675.03 as of November

2018, an increase of USD 585.83; while non-oil imports amounted to USD 16,382.55, an increase of USD 1,946.10 million. The non-petroleum trade balance (USD 4,707.52 million) was compensated, in part, by the resulting petroleum balance (USD 4,192.72 million). The global effect of the trade balance was a deficit of USD 514.80 million.

Free Liquidity International Reserve  
Source: Banco Central del Ecuador



The *Reserva Internacional de Libre Disponibilidad – RILD* (Free Liquidity International Reserve) closed 2018 at USD 2,676.52 million, i.e. USD 225.46 million more than in December 2017.

On another side, the financing obtained by the Government allowed an improvement of 6.78% of the total liquidity of the economy as measured by the *Monetary Aggregate M2*.

In reference to the private banking system, obligations with the public amounted to USD 31,258.48 million at closing of 2018, a variation of 1.85% per annum (USD 566.85 million). In parallel, the gross portfolio reached USD 27,328.48 million, an increase of 11.04% (USD 2,717.44 million), which was financed by a rise

in deposits as well as by an increase of 27.13% of financial obligations and subordinated debt. The credit increase granted by the national financial system during 2018 comprised one of the most important factors in the attainment of economic growth during the year, since it was leveraged thanks to the credit consumption of households.

The movements mentioned above resulted in an adjustment to the decrease in the liquidity indicator that went from a level of 29.41% in December 2017, to 27.89% in December 2018.

Finally, return on equity (ROE) was 13.65% and return on assets (ROA) was 1.35%. In 2017, the first one reached 10.36%, and the second one reached 1.02%.

## Report on Corporate Governance

Pursuant to the principles of transparency and information, and by being aware of the importance that it represents for the Bank and its Subsidiaries to have a dynamic *Corporate Governance System* and one that is based on the standards and functioning of associated entities and administration of interests by the Organization, its Shareholders and Clients through the creation of value in the long term and the strengthening of the institutional standing through effective management, we are hereby presenting the Corporate Governance Report to the Board of Shareholders of *Banco de la Producción S.A. Produbanco*, in keeping with the guidelines established by the *Resolution of Banking Meeting No. JB-2011-2073* and its reforms, for which we hereby attach the Annex of the aforementioned norm, containing all required information. In addition, and as part of the policies of *Good Corporate Governance*, we include herein the reports presented by the *Remunerations Committees* and of the committee on *Ethics and Corporate Social Responsibility* together with the results of the *Financial Education Program* for acknowledgement by the Shareholders.

Periodic meetings of our Shareholders with the Administration have been implemented as an additional mechanism for accountability and transparency, as well as for close interaction, which include the presentation of our quarterly results and other aspects of special relevance and interest.

On its side, the Board approved a self-evaluation methodology as an important tool to measure and analyze aspects related to the aptitudes and diversity of the Board, training, implementation of sessions, corporate governance, and conflicts of interest, risk management and control, as well as the non-inclusion in supervening facts or that cause conflicts of interest with the exercise of its functions. Similarly, the Governing Body performed its evaluation of the *Chief Executive Officer* and the fulfillment of his objectives.

Along these lines, the Board reformed its Regulation of operations, including

important aspects such as gender equality. In addition, it also modified the operations policy concerning the various Bank Committees and the *Code for Good Corporate Governance* in order to update it to the best practices on this subject as well as recommending reforms to the Social Statutes of the Bank, especially concerning the attributions of the Secretary General, and to the Regulations of the *Shareholders Board*, including in the latter, all aspects related to the training of Shareholders in financial topics.

The self-evaluation tool for internal control implemented by the Bank concerning Corporate Governance, Planning, Policies and Procedure, Personnel Management, Control Systems, and Management Information Systems, is developing normally and reaching important results.

On their side, the main socialization systems of institutional information, such as the webpage, account statements, informational boards, and Legal Secretariat are being permanently reviewed and updated, thus guaranteeing transparency in informational content prior to contracting products and services offered by the Bank.

We maintain a comprehensive focus on *Corporate Social Responsibility and Sustainability* within the economic, social, and environmental spheres through the support of the Bank via various social, educational, cultural, and environmental projects. During the drafting of the Social Responsibility report, we made the transition toward the standards version of the *Global Reporting Initiative* thus maintaining its commitment of becoming an efficient and sustainable organization benefitting various stakeholder groups. Furthermore, we conducted a materiality study charged to an external consultancy group based on relationships with said stakeholder groups in the quest for strengthening the sustainability strategy of the business and the creation of value by highlighting a high level of implementation in reference to aspects of corporate governance, values, transparency and ethics, environmental management, social investment, and



human rights; likewise, it mentions aspects of improvements in efficiency and customer care, employee development, and vendor management.

Concerning the results of the *Financial Education Program* of the Bank, it mentions that this forms part of the *Strategic Plan* of the Bank and that last year it trained 6,053 persons through various tools, including 2,546 employees of the Bank and its Subsidiaries.

The *Remunerations Committee* puts at the behest of the Board of Shareholders that it has read and approved the general policy for salary administration of the Bank and has recommended the policy for diets of the Board along with the policy for remuneration of top management pursuant to *Resolution No. JB-2013-2694* dated November 19, 2013, and *Resolution No. JB-2014-2755* dated January 15, 2014, which establishes salary ranges for administrators and legal counsel of the institutions of the private financial system, as well as for all Bank officers. In addition, it has read and approved the implementation of the new variable remuneration model for the entire strategic population of the Bank.

Since May 2018, with encouraging success, we implemented a confidential complaint channel called *Ethical Line*, which efficiently managed 45 cases during the year. This entire process has been reinforced with a communication campaign focused on the employee, called "*You are not alone in this situation; when you report it, we walk together*".

In addition, during the year, the *Ethics Committee*, ascertained the generic reports of this Ethics Line channel, as well as 12 cases of non-compliance of the *Code of Ethics and Conduct of Produbanco* and its Subsidiaries; following the respective analyses, corresponding actions were taken.

The approach of complaint management is performed through the Unit established for such action, which addresses customer complaints in an agile and efficient manner and implements their control and follow-up, which allow it to comply with the assistance standards established as well as to generate statistics to identify problems in a timely manner. The report presented by the *Assistance Unit for Financial Users* presents the complaint and consultation statistics performed. In this regard, we have policies clearly established to handle complaints as well as self-evaluation mechanisms always based on quality of service, as well as a Committee that oversees *Customer Requirements and Experience*. Similarly, the *Customer Defender of Produbanco* has been normally and independently developing his functions.

In light of the above, the Board of the Institution hereby instructs presenting the report herein, together with annexed information and its indicators related to the set of relations, mechanisms, and activities that form part of the *Good Corporate Governance* system that the Organization carries forth in compliance with its institutional objectives.



Dr. Jorge Iván Alvarado Carrera  
Secretary General – Legal Procurator

## Report of the Integral Risk Management Committee (CAIR)

### Introduction

Ever since its foundation 40 years ago, Produbanco has maintained among its priorities the prudent and proactive administration of its risks, thanks to which it has been able to successfully face changes in the internal, external, and regulatory environments. This focus has allowed the Bank to maintain solid indicators of equity, liquidity, and arrearage sufficiency throughout time.

Our management model is based on an exhaustive analysis of the environment, an ongoing evaluation of risk; a design of mitigation, monitoring, and reporting strategies, a robust internal control system, and the continuous development of our risk-based organizational culture instituted at *Produbanco* and its *Subsidiaries*.

The *Risk Unit* permanently monitors that exposure and indicators per type of risk fall within the limits and levels of tolerance established by *Produbanco* in keeping with the risk appetite defined based on its business strategy, capacity and size. This is complemented with the analysis of various scenarios in which the Bank operates, including changes in macro-economic variables, liquidity, and other events that could affect the continuity of the business. These practices make it possible to assess the resiliency of *Produbanco* and to update risk prevention guidelines as well as action protocols.

Besides maintaining traditional financial risk assessment methodologies updated, during 2018, *Produbanco* focused on monitoring liquidity and the risk management of our balances; the development of the management framework of our reputational risk; the consolidation of the *Administración de Riesgos Ambientales y Sociales – SARAS* (Environmental and Social Risk Management), and the strengthening of information security standards, and of the culture of risk prevention.

The follow-up scheme is supported by the ongoing review of the limits defined for each one of the types of existing risks. Among its

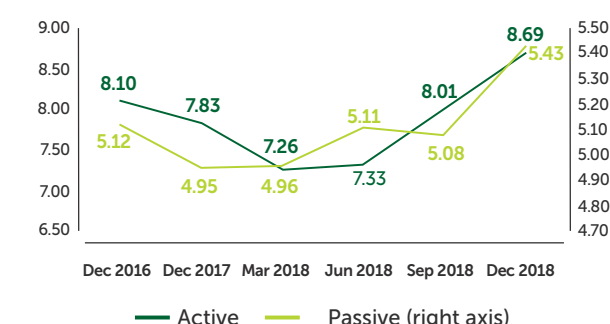
policies, *Produbanco* has defined various limits, some of which highlight aspects such as: concentration, exposure per class of instruments, liquidity, and market limits.

### Liquidity and Market Risks

The growth of deposits registered throughout the year by entities of the financial system as well as by alternate sources of external financing, allowed to finance, in part, credit growth to the various sectors of the economy.

The referential interest rates of the market experienced pressure to rise due to a moderate contraction of the national liquidity during the last semester of the year, a scenario that ensued mainly due to the reduction of external funding on behalf of the Government. This fact marked an increase in the funding cost of the financial system.

Referential Rates



Within this context, *Produbanco* maintained its prudent liquidity position as one of its greatest strengths, with an indicator (Available Funds / Total Short-term Deposits) going from 27.35% in December 2017, to 30.98% in December 2018, a result that was even above the one registered by the private banking system as reported by the control agency.

In reference to the management of liquidity, *Produbanco* maintained its strategy of investing resources managed by Treasury into high-quality assets and under a scheme of short-term periodic maturities. Throughout the year, at least 75% of these resources had a maturity of 7 days.

In line with the aforementioned, the Bank strengthened its monitoring and control system of the liquidity component through the consolidation of its follow-up schemes concerning the monetary and financial sector, of short-term liquidity, and of stress analysis, and through the construction and improvement of early warnings and indicators of concentration, volatility, and seasonal standing.

Within the regulatory framework, *Produbanco* fully complied with requirements relative to liquidity gaps, structural liquidity (first- and second-line), minimum liquidity reserves, domestic liquidity coefficient, weekly legal banking reserve, and contributions to the *Liquidity Fund*.

Concerning market risk management, this year we maintained the modeling procedures for the measurement of possible impacts to equity and financial margin due to possible interest rate fluctuations. In addition, we maintained a conservative strategy on the side of duration of the asset. The effect of a 1.00% variation in rates could only impact 1.39% of equity, which falls within internal limits.

Liquidity Risk Indicators	
Normative	
Indicator	Compliance regarding limit
Minimum Liquidity Reserves	✓
Coefficient of Domestic Liquidity	✓
First-line Structural Liquidity	✓
Second-line Structural Liquidity	✓
Minimum Liquidity Indicator	✓
Group	
Indicator	Compliance regarding limit
PFC Coverage Days	✓
Market Risk Indicators	
Normative	
Indicator	Compliance regarding limit
Equity Sensitivity	✓
Sensitivity to Financial Margin	✓
Group	
Indicator	Compliance regarding limit
Interest rate risk in investment portfolio	✓
Interest rate risk in bank books	✓
Internal	
Indicator	Compliance regarding limit
Exposure counterpart of investment portfolio	✓
Exposure by type of instrument	✓

## Credit Risk

Within the *SME Segment*, we have maintained our goal of making credit ever more inclusive, which is the reason why in 2018 we focused on reaching a greater geographic diversification. To this end, we directed resources and efforts to obtaining a better understanding of the dynamics of the locations where the Bank had a lesser participation, which allowed us to increase the placement of portfolio while at the same time maintaining its quality. This objective will continue being an important challenge for the following year.

Aligned with the institutional strategy and that of the Group, we have incorporated in our unit a specialized department for the analysis of environmental and social risks, whose purpose is to safeguard that credit decisions are made socially and environmentally responsible.

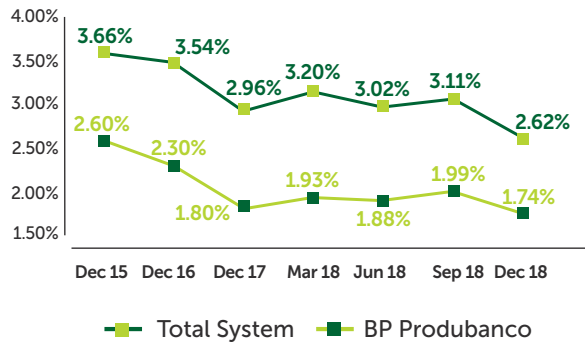
In the *People Segment*, based on the achievements reached during 2017, in reference to data mining and analysis, we geared our efforts around technological innovation and the creation of various communication fronts with the end customer. This is how this year we concluded the point-approval project for Credit Cards, which provides an improved user experience through a personalized offering, quick response, and speedy processing. This has allowed automatic and real-time decision-making while prioritizing the quality of the assets placed.

During 2018, we achieved an institutional landmark: the *People Segment* reached a portfolio balance of USD 1 Billion through which we contribute to the fulfillment of hundreds of thousands of dreams: owning a home, buying a new vehicle, studies, world travel, among many others.

Another one of the objectives prioritized during the year was the reinforcement of the functional model of the non-performing loan recovery process, which has four basic phases clearly differentiated. In *preventive arrears*, we strengthened communication with the customer through various electronic channels through which we expanded information and coverage. Regarding *early arrears*, we consolidated an automatic call system, which generated administrative efficiency and ease of contact. In reference

to *medium arrears*, collections employed focalized strategies liaised to processes, tools, and control indicators as well as to adequate information in order to negotiate and provide the best possible offering to the customer toward the solution of their needs. Lastly, concerning *advanced arrears*, we reinforced the written-off portfolio and follow-up with outside legal counsel. These multiple actions focused on the client, allowed generating communication channels that are integrated and effective, along with feedback on the collection strategy applied to the *People Segment*.

## Non-performing Loan Indicator



Market Risk Indicators	
Normative	
Indicator	Compliance regarding limit
Normative Credit Limits	✓
Group	
Indicator	Compliance regarding limit
Concentration Index 25 largest debtors	✓
Internal	
Indicator	Compliance regarding limit
Limits of Internal Concentration	✓



## Operational Risk

*Produbanco* maintains an operational risk management model outlined in the legal framework in force; it has a strong corporate government supported by policies, methodologies, and procedures that is duly documented, updated, and socialized, which when applied, allow identifying operational risk events and mitigating them through action plans that have the commitment of the co-managers of the various processes, with their main focus hard-pressed on critical processes.

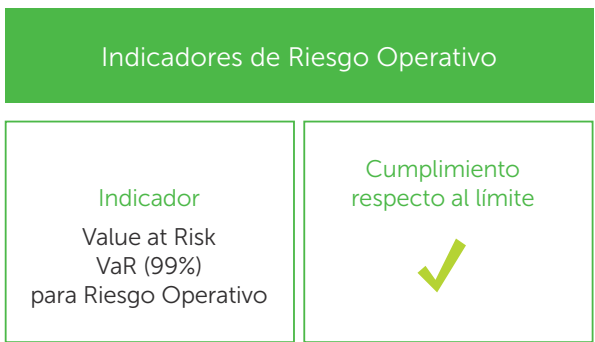
We manage a matrix of probabilities and impact based on the loss model expected by process and type of event. In addition, we conduct a comparison among the materialized risks and the limits established by the *Value at Risk VaR* (99%) for operational risk, which generates early warnings when the frequency, severity, and impact ranges approach predefined tolerance limits. The events related to external fraud and failures in technology are those of greater impact and represent 85% of the total number of events throughout the year. During 2018, we generated a net loss included within internal limits.

*Integral Risks* monitors the implementation of key controls through a follow-up scheme to evaluate operational risk management, which considers management indicators, management of the events database and threshold determination. The results are coordinated and reported to the co-managers of the processes, to Top Management, and are presented to the Board, to the *Integral Administrative Committee*, and to the *Business Continuity Committee*.

We concluded with satisfaction the implementation of the application *Opportunity Risk Manager (ORM)*, through which we automated processes such as: timely follow-up alerts, drafting of risk matrices, and thresholds control, thus going from event recording tools to a control system that integrates qualitative and quantitative operational risk management. Starting with its launching in March 2018, we have worked on its socialization, fine-tuning, exploration of new functionalities, and daily use of event registry, risk analysis, and issuance of reports.

As part of the program to foster the

operational risk management culture, we executed an important virtual training campaign through an *e-learning* course on operational risk and business continuity, which allowed us to massively reach officers of the Organization. Face-to-face coaching reinforced said training with co-managers of the processes, highlighting their responsibility and participation in the prevention of operational risk.



## Business Continuity

The continuity management system of the Bank is based on the *ISO 22301 Standard*, with a view to guaranteeing the use of practices in this subject. Standard guidelines have been incorporated in all policies, procedures, and methodologies applicable to the management of continuity in *Produbanco and its Subsidiaries*.

Within this context, the main focus of attention in 2018 was that of *technological continuity*. We outsourced housing services to a company specialized in managing data centers with which we improved the integrity of operations of the main data center; concurrently, we effected significant reforms in the technological infrastructure of the alternate data center located in the facilities of another specialized company in Guayaquil (also under the modality of *housing*). The proper operation of the technological continuity scheme was certified through a trial executed in December and that covered operations nationwide.

Contingency plans of critical processes were validated and approved during this year, thus guaranteeing their proper execution in light of a real continuity risk event. Trials simulated real stress situations and even considered operations from the operational contingency site.

With vendors being a potential source of risk for continuity, we have subjected them to a valuing process to identify those most critical as to conduct with them a due diligence process that would guarantee that the services hired will continue to be delivered despite adverse situations the vendor may face.

This year we also updated our business impact analysis, known as BI for its abbreviation of *Business Impact Analysis*, which provides important elements of analysis to Management for objective decision-making concerning maximum acceptance times of interruption and potential acceptable losses in the wake of catastrophic events that affect the continuity of operations of the Bank.

## Information Security

Reinforcement of the methodologies and policies of technological risk mitigation continued being a priority. The *Information Security Committee*, in hand with the *Technology Unit* and of the rest of the Institution, maintained its follow-up of continuous improvement in the protection of the various channels, systems and applications that provide support to the Bank.

In fulfillment with annual planning, we continued with the advances made in the implementation of the ten security domains defined by *Grupo Promerica*:

1. Human Resources
2. Domain Configuration
3. Internet Surfing
4. e-Mail
5. Physical Access to Devices
6. Hardware and Software Inventory
7. Updates
8. Logs
9. Network
10. Databases

In this process, during the year we reinforced the awareness-creation scheme for the entire personnel by instituting face-to-face meetings and a virtual interactive course depicting the main topics related to Information Security. Along these lines, we maintained the updating and socialization process of policies, as well as the generation of diverse recommendations with specific information in order to seek reinforcing the best practices in personal safety.

We implemented certain solutions that supported not only continuing to improve security but also to gain efficiency in certain processes. Among them we can highlight:

- Tool for unblocking and autonomous restoration of networked accounts.
- Expert solution for validation of e-mail, as well as new security schemes for use in mobile devices.
- New-generation antivirus schemes.
- Social network monitoring service, a process that seeks supporting adequate follow-up of the institutional brand.

The participation of the *Information Security Department* in the various institutional projects was maintained as a priority. The intervention of the team in each one of the sensitive projects seeks insuring that each one of them employs the best practices for the protection of client information and assets of *Produbanco*.

We updated the security protocol for the *international SWIFT Customer Security Program*, whose objective is to insure in the best possible manner, the various environments that interact in the international transfer process of all participants in the global network. The process recruited the collaboration of the units of Operations, Risk, and Technology, together with the accompaniment of Internal Auditing.

We made important strides in the filtering process of financial application profiles (83% at user level).

Finally, we addressed and resolved information security incidents as part of the institutional operational risk process.

Reputational Risk

Corporate reputation is understood as the most important intangible asset of the Institution. In this regard, Produbanco has designed and approved the initial stage of a reputational risk management system that has four phases: identification, measurement, control, and monitoring. The sub-department of *Reputational Risk* was created and organized for such purpose.

During 2018, in coordination with various units, we worked on the identification and solution of events that represent a risk for the image and/or reputation of the Bank. This is how we developed and put into motion formal communication protocols toward a proactive administration that enables action and containment plans of possible impacts so that the construction of reputation is imbued into all business lines and support processes.

The Institutional Risk Matrix as of December 31, 2018, is presented below:

Institutional Risk Matrix	
Type of Risk	Residual Risk
Liquidity	Low
Market	Low
Credit	Low
Operational and Business Continuity	Low
Residual Risk Profile	LOW

Oscar Soto Brenes  
President of the Integral Risk  
Management Committee

Report of Activities on the Prevention of Asset Laundering and Financing of Crimes such as Terrorism as of December 31, 2018

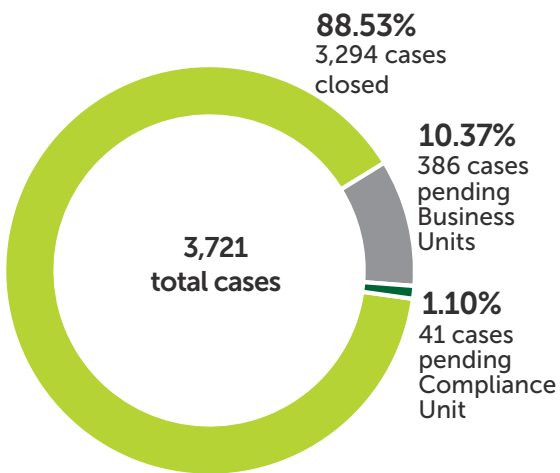
Pursuant to the guidelines of *Libro I – Normas de Control para las Entidades de los Sectores Financieros Público y Privado, Título X, Capítulo III, artículo 42, literal e de la Codificación de las Normas de la Superintendencia de Bancos del Ecuador* (Book I – Control Norms for Entities of the Public and Private Financial Sectors, Title X, Chapter III, article 42, paragraph e of the Coding of Norms of the Banking Board of Ecuador), the report herein informs about the main actions taken during the year 2018 so that Produbanco is not used as a means for asset laundering and financing of crimes such as terrorism.

Know your Customer and Market Policy – Monitoring

During 2018, we executed the customer monitoring processes through the specialized technological tool. Said platform allows for the generation of risk factors and specific control conditions with a special emphasis placed on significant variations between the transactions performed and the transactional and/or behavioral profile declared by the client, thus allowing to identify possible typologies in asset laundering and/or financing of terrorism in application of the risk methodology of the *Prevención de Lavado de Activos y Financiamiento del Terrorismo – PLAFT* (Prevention of Asset Laundering and Financing of Terrorism).

It is noteworthy that the analysis is conducted based on the integral relationship with the client, i.e. through the consolidation of all active product and services that the client maintains as of the review date, which generates alerts that are prioritized based on relevance and impact.

As part of the execution of the processes described previously, and in compliance with the *Política Conozca a su Cliente* (Know your Client Policy), between January and December 2018, we opened 3,721 cases that required additional analysis on behalf of the Business Units.



The previous graph depicts that as a result of the work performed by account executives, at closing of December 2018, 88.53% of cases investigated were adequately supported, while 10.37% are under scrutiny within the term established for their closure on behalf of the Business Units, and 1.10% of the cases under investigation are pending review by the *Compliance Unit*.

In addition, the main technological system (banking core) allow maintaining preventive controls in line, among which are:

Alerts due to Risk Activities

Prior to the registry, creation, and acceptance of the commercial relationship with a client, we make use of controls that allow the identification and alerting of market segments and/or activities considered as being high risk, in keeping with international standards on the *Prevention of Asset Laundering*. As a result of the application of this control, we reviewed 1,503 cases through the year.

On another side, we entered 13,130 records into internal control lists and we permanently updated confidential lists such as those of: *OFAC, INTERPOL, Federal Bureau of Investigation – FBI, United Nations – UN, European Union – EU*, among the main ones. Said process is performed through interfaces connected with the core of the Bank.



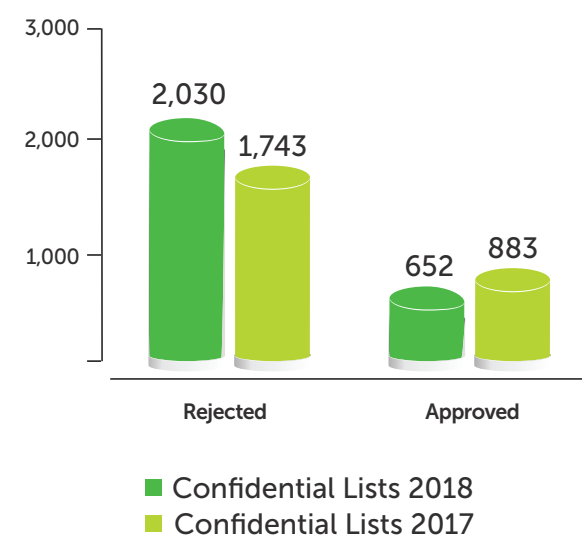
## Alerts on Coincidences

This consists of the generation of alerts due to coincidences among the names of persons included in internal control lists and/or international confidential lists, *Personas Expuestas Políticamente* – PEP (Politically Exposed Persons), among others, and that therefore require complying with a due diligence process. During 2018, 14,487 cases were presented under these conditions.

Applicable control processes are:

- **Client creation or updating**  
Approval flows generated toward the Compliance Unit due to coincidences with the lists, which have to be left as repealed or rejected. Under this concept, we analyzed 2,682 cases, of which based on the analysis performed, we authorized the beginning of a commercial relationship with 652 clients.

Confidential Lists  
Approved or Rejected Clients



- **Alerts for international transfers sent and received**  
Alerts are automatically generated with control lists for coincidences related to: Originator, beneficiary, and high-risk countries included in the text of the SWIFT message. We reviewed 11,805 cases corresponding to 2,898 flows of transfers received along with 8,907 flows of transfers sent

## Know Your Correspondent Policy

During the course of the year we received the visit of the *Compliance Officers* of several correspondent banks and we addressed requirements of *Expanded Due Diligence*, Certification of the *Patriot Act*, and forms of *Know Your Client*, from local and foreign banks and institutions. We conducted an exchange of SWIFT keys for delivery and receipt of funds and we replied to specific queries from the correspondent banks concerning information in reference to fund transfers to and from external sources related to clients. Similarly, we updated the form *Know Your Client* developed for domestic financial institutions with which the Bank maintains commercial relations, with the end of insuring that they are availed of policies and procedures destined to the prevention of asset laundering, financing of terrorism, and other crimes.

## Know Your Employee Policy

Together with the *People Unit*, we performed the annual updating of the Bank's personnel with the verification of the officer's lead. In addition, we implemented a control for monitoring of equity variations based on the declarations performed by each one of the employees. The analysis and review process is still pending completion.

In addition, we applied control procedures regarding the process of hiring and discharging of personnel.

## Training

The *Compliance Unit*, in coordination with the *People Unit*, provided induction training to 807 new employees through the *e-learning* tool.

## Control Validation for Asset Laundering Prevention

In accordance with the legal norm in force related to the *Política Conozca a su Cliente y Mercado* (Know your Client and Market Policy), we performed various reviews to the controls established for the start and ongoing commercial relationship (product

opening) (forms depicting origin of funds and transactions).

## Creation of New Products

The *Compliance Unit* supported the implementation of new products with the end of maintaining the standards of control for the prevention of asset laundering.

## Proposal for New Controls on the Prevention of Asset Laundering

Throughout the year, the *Compliance Officer* participated in various internal multidisciplinary forums with the purpose of proposing and/or strengthening the controls related to:

- Process for *Debida Diligencia Ampliada* – DDA (Expanded Due Diligence) for individuals who are shareholders of corporate clients.
- Definitions concerning client information within the main technological system of the Bank as related to: origin of revenue, type of company, profession, level of study, position, and occupation.
- Documentation required for opening a de-facto association, foundation, NGO, faith-based account, funds and trusts, among others.
- Review and improvement of forms for *Declaración de Origen y Destino de Fondos* (Declaration of Origin and Destination of Funds).
- Renewal and improvement of forms for *Conozca a su Cliente – Sujetos Obligados* (Know your Client – Compelled Subjects).

## Reports for Competent Agencies and Authorities

During 2018, and on a monthly basis, we submitted to the *Unidad de Análisis Financiero y Económico* – UAFE (Unit for Financial and Economic Analysis) the *Reports on Economic Operations and Transactions* that equal or surpass the *Threshold (RESU)* within the times foreseen for such purposes. Prior to delivery

of said information, we performed general validation controls.

Concerning the daily E02 structure submitted to the *Central Bank of Ecuador*, which includes transfers to and from external sources, we performed a validation of coincidences with internal and international control lists.

In addition, we delivered on a monthly basis to the *Superintendencia de Bancos del Ecuador* – SB (Banking Board of Ecuador), the information related to the following structures:

- E04 (statistical report based on information provided to the UAFE)
- E21 (clients registered as assets at the Institution).

The *Compliance Officer* reported 79 cases considered as unusual or unjustified transactions to the *Unit for Financial and Economic Analysis*; similarly, we responded to 2,079 official letters from control agencies (SB, UAFE, Office of the Prosecutor, among others) concerning processes under investigation.

## Internal Procedures of the Compliance Unit

The *Compliance Unit* conducted the drafting and updating of the procedures performed in the area with the purpose of establishing clear guidelines in the execution of processes that fall under its responsibility.

We performed the verification of certain alliances and customers of the subsidiary *Exsersa*.

We created alerts concerning cases that did not comply with the requirements of control agencies pursuant to policies and controls established for such purpose.

We maintained an automatic control of cash deposits that equaled or surpassed USD 5,000 through the form for *Declaration of Origin of Funds*. Through this mechanism, the Bank registers in its system the description of the source of income, which at the same time facilitates the analysis and review of customers when significant variations are identified in their transactional and behavioral profile.

We performed specific controls on 368 clients, who given the characteristics of their business or industry, handle a large volume of cash. As a result of the analysis performed, said customers signed the *Formulario Anual de Licitud de Fondos* (Annual Licit Fund Affidavit), which allows streamlining the daily operational process.

We actively participated in meetings with the UAFE, as well as with the *Comité de Oficiales de Cumplimiento de la Asociación de Bancos del Ecuador – ASOBANCA* (Compliance Officers Committee from the Banking Association of Ecuador), where we addressed recommendations and proposals for improvements to legislation, instructions, and training, among others.

### Internal and External Auditing, Regulators and others

During 2018, the *Compliance Unit* was the object of review by various control agencies, by international firms, and by internal and corporate auditing, as detailed below:

- *Superintendencia de Bancos de Panamá* – August (Banking Board of Panama)
- *Superintendencia de Bancos del Ecuador* – September and November (Banking Board of Ecuador)
- *Auditoría Corporativa Promerica Financial Corporation* – PFC – September (Corporate Auditing of the Promerica Financial Corporation)
- RSM US LLP (November)
- Internal Auditing concerning the *Política Conozca a su Cliente* (Know Your Client Policy) – *Monitoreo Transaccional de Clientes* (Transactional Monitoring of

Clients); *Reporte de Operaciones o Transacciones Económicas Inusuales o Injustificadas* (Report on Unusual or Unjustified Economic Operations or Transactions); *Política Conozca a su Empleado* (Know Your Employee Policy) – *Monitoreo de Transacciones Extra Rol* (Extra Payroll Transactions Monitoring); Structure, Obligations and Functions of the Board, *Compliance Committee, Compliance Unit and Officer*; Compliance with the FATCA Law, and progress of the annual work plan of the *Compliance Officer*.

- External Auditing: during 2019, the KPMG firm will present the results of their 2018 review. Presently, these are under review concerning evaluation of compliance with *PLAFT* norms and policies.

### Conclusions

The activities performed by the *Compliance Unit* were conducted in agreement with the annual work plan and were presented for review by the *Compliance Committee* and by the Board through monthly reports presented by the *Compliance Officer*.

During the course of the year, we established improvements to the control processes for the prevention of asset laundering and financing of crimes such as terrorism, which reinforced the internal controls of Produbanco.



Diego Mosquera Pesantes  
President Compliance Committee



Patricio Salguero  
Compliance Officer

## Report of the Unit of Customer Care for Financial Users

### Service Quality Program

Being a reference institution in Service Quality is one of the main strategic objectives of Produbanco, which is achieved by centering ourselves on the customer in order to satisfy the needs during his or her financial life cycle: this is our reason for being.

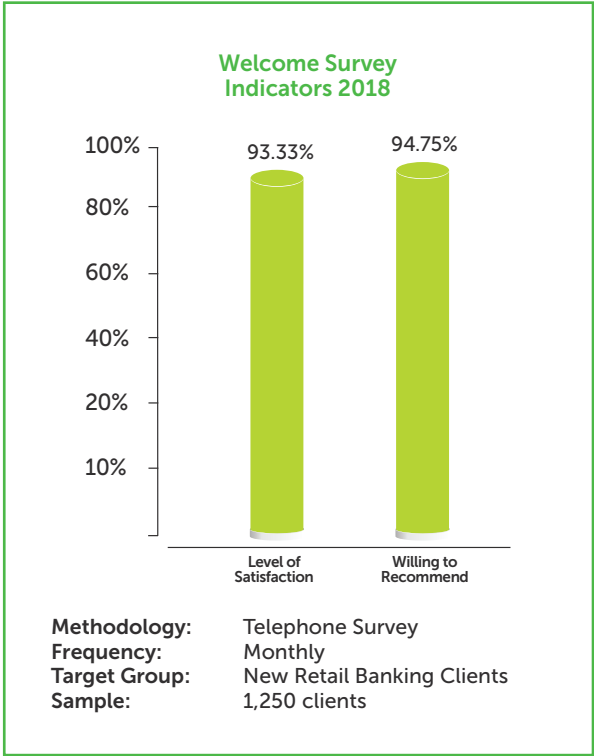
The year 2018 saw important steps taken concerning Service Quality; we implemented the following projects: *Medición de Cliente Interno* (Measuring the Internal Client) and *Customer Experience Management – CEM*, which will allow us to implement differentiation strategies. We received the *2018 EKOS de Oro* award, achieving first place in *Service Quality, Large Banks* category.

Our daily management and the ongoing feedback from clients obtained through existing evaluation schemes, have allow identifying improvement opportunities in order to work on action plans focused on generating memorable experiences at each point of contact, and converting them into truly positive moments thus creating satisfaction, remembrance, and emotional liaisons in our clients and future fans of our service.

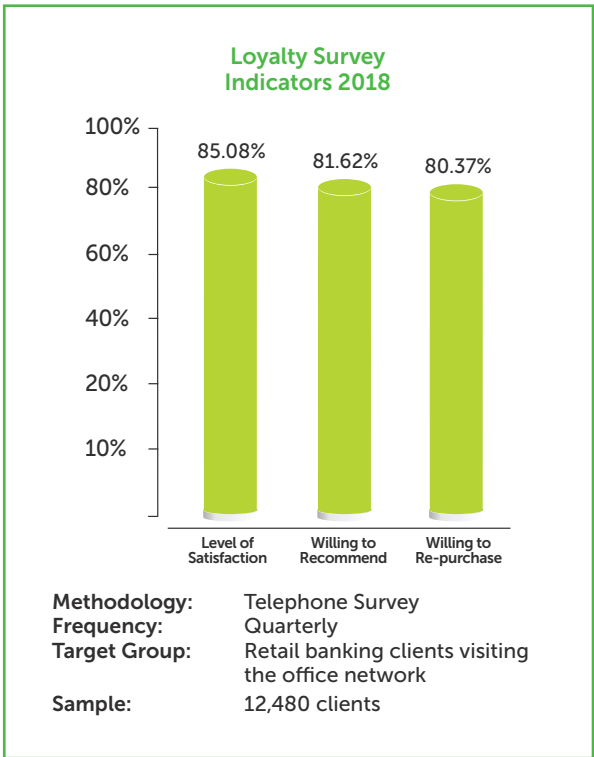
The behavior and evolution of service quality indicators for 2018 reflect a constant growth trend. The annual indicator was 88.83%, with an increase of 3.17 points in comparison to 2017.

### Indicator Resultados 2018

#### Welcome Survey



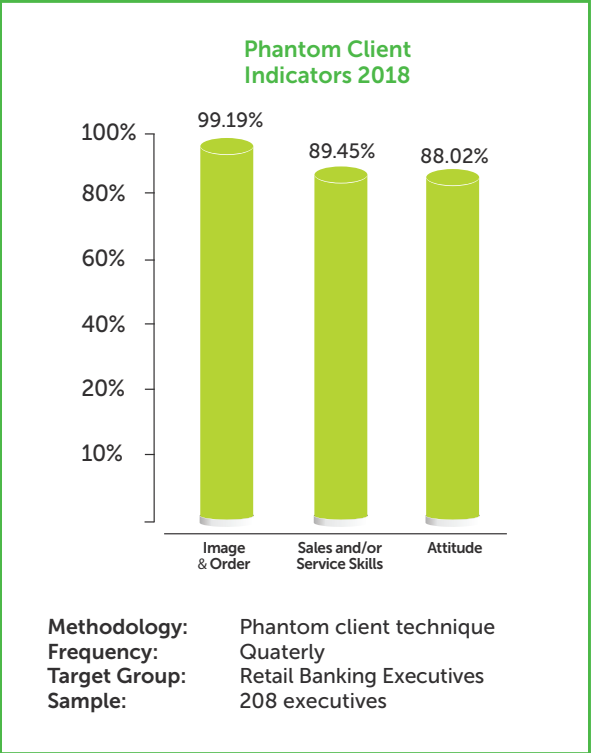
#### Loyalty Survey



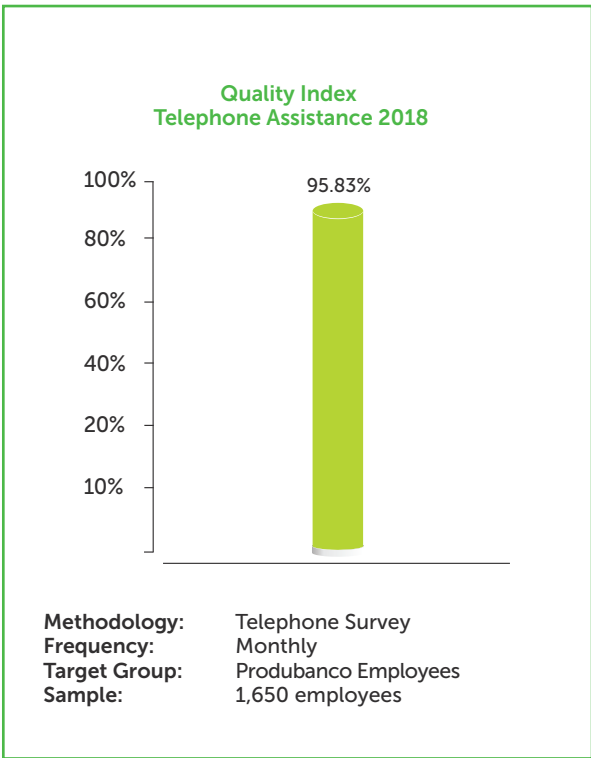


Indicator  
Results 2018  
(continued)

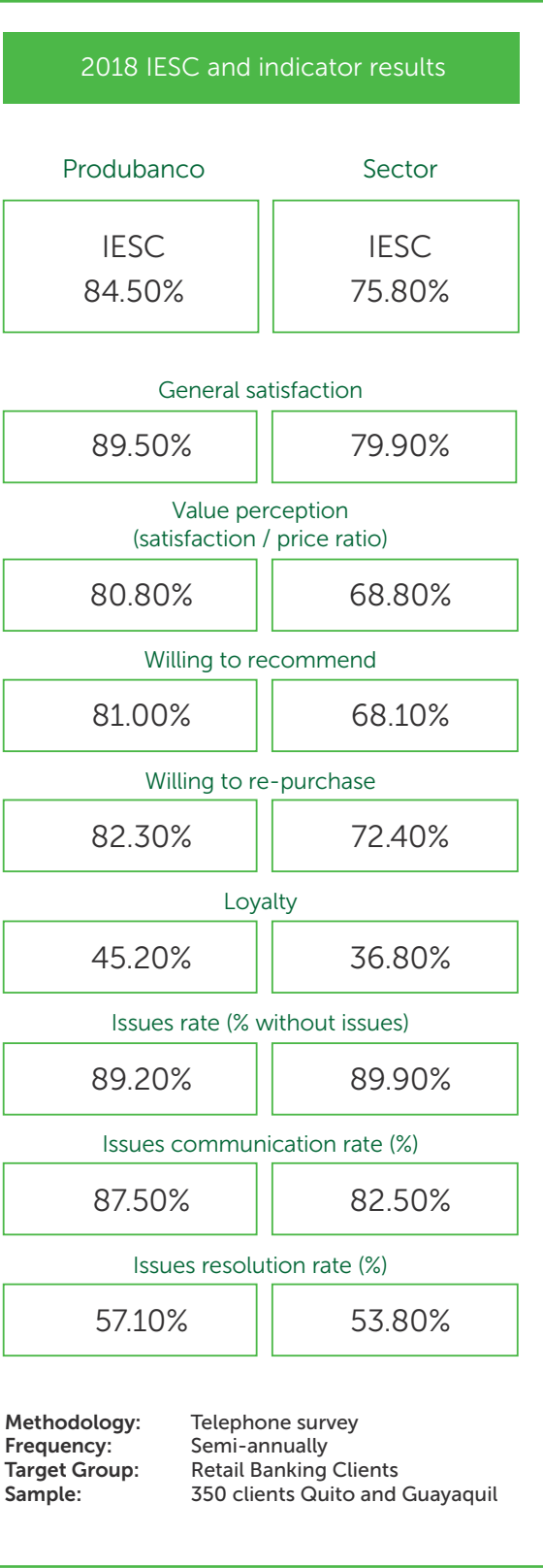
Phantom Client



Telephone Assistance



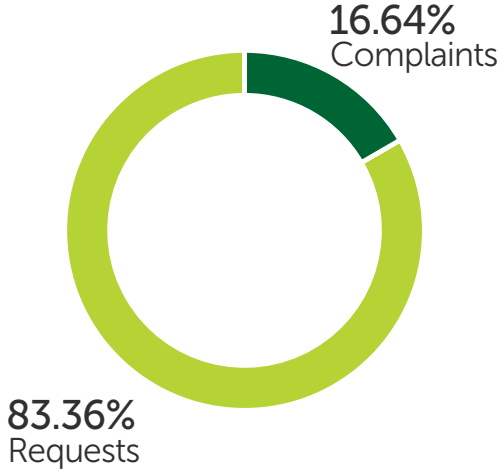
Ekos Index for  
Customer Satisfaction (IESC)



Requests  
and Complaints

During 2018, we registered at the *Unidad de Servicio de Atención al Usuario* (Service Unit for Customer Care) 346,718 events, of which 289,012 (83.36%) represented requests and 57,706 (16.64%) that represented complaints.

Total Cases 2018



Complaints and requests were solved by 83.20% during the time stipulated within the customer care ticket with an average of 5.14 days for solution.

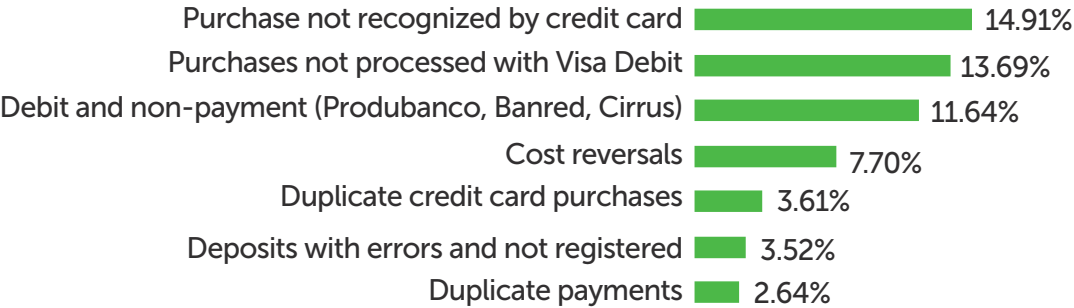
During 2018, there was an increase of cases in comparison to the year 2017 given the growth of products and clients.

Requests increased by 27.29%, going from 227,054 during 2017, to 289,012 in 2018.

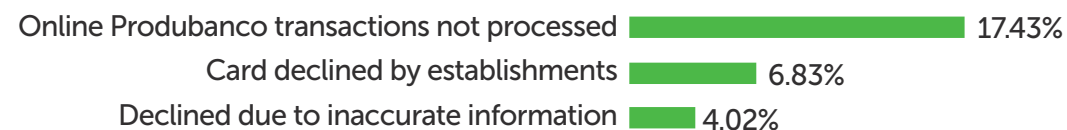
Complaints rose by 29.59%, going from 44,531 in 2017, to 57,706 in 2018.

Number of requests and complaints 2018		
Month	Requests	Complaints
January	18,472	4,191
February	18,763	3,574
March	21,723	4,521
April	21,378	4,614
May	23,641	5,032
June	21,812	4,685
July	23,735	5,023
August	27,511	5,229
September	27,723	4,916
October	33,745	6,076
November	28,132	5,024
December	22,377	4,821
2018	289,012	57,706

Complaints with Greater  
Economic Impact 2018



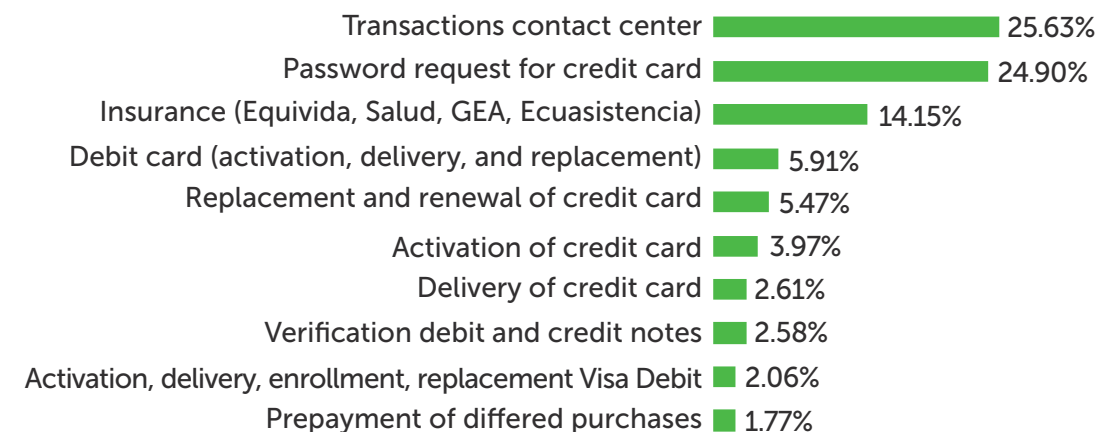
### Complaints without Greater Economic Impact 2018



### Online Produbanco transactions not processed 2018

Transaction	Cases	%
Error upon enrollment	2,063	20.52%
Mobile Application	1,173	11.66%
Error upon making payment	1,103	10.97%
Error upon making transfers	825	8.20%
Access to produbanco.com	721	7.17%
Error upon prepayment /refinancing web	657	6.53%
Notification errors sent to customers	596	5.93%
Notifications not sent	492	4.89%
Transaction could not be processed	491	4.88%
Error upon visualizing movements	338	3.36%
Error in miles accreditation	273	2.71%
Error upon creation of beneficiary	228	2.27%
Account statement not available	219	2.18%
Unprocessed programmed payments	170	1.69%
Error upon generation of bank certificates	151	1.50%
Error upon parameterization of quotas	108	1.07%
Token via SMS not received	102	1.01%
Error upon updating data	102	1.01%
Failed sign-in	58	0.58%
Error upon performing advances	47	0.47%
Error upon registering additional user	47	0.47%
Error upon generation of images	37	0.37%
Image does not belong to user	29	0.29%
Error upon obtaining online banking	26	0.26%

### Requests with Greater Impact 2018



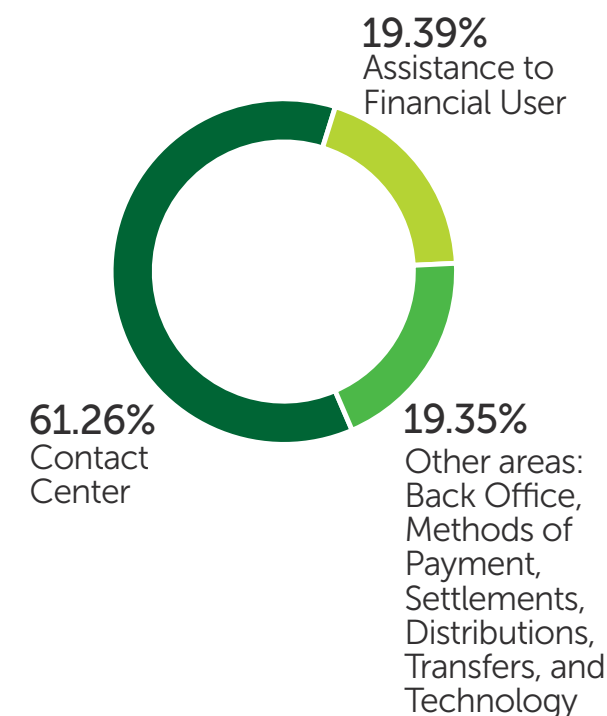
### Operability

During 2018, we solved 342,937 requests and complaints, while 3,781 were under a process of being solved as of December 31.

Of that volume, 61.26% (210,078) cases were solved by the *Center for Customer Care* (Contact Center) as the first level of contact with the client.

The second level, which is the *Area for Assistance of Financial Users*, solved 19.39% (66,505) cases.

The third level, composed of specialized areas such as *Operaciones Medios de Pagos, Conciliaciones, Distribución, Transferencias y Tecnología* (Operations for Means of Payment, Settlements, Distribution, Transfers, and Technology), solved the remaining 19.35% (66,354) cases.



María Dolores Prócel  
Unit for Assistance Service to Financial Users



# Report of the Ethics Committee and Corporate Social Responsibility

The integral focus of *Corporate Social Responsibility* that guides the actions of *Produbanco and its Subsidiaries*, allows us to fulfill the commitment of delivering financial solutions to our stakeholders, which have been developed by safeguarding the equilibrium among economic growth, care for the environment, and social well-being, striving in this manner to insure prosperity for future generations.

We are hereby presenting to the *Committee on Ethics and Corporate Social Responsibility*, the *2018 Annual Activity Report*, in which we detail all of our actions as well as the projects and objectives reached with which we are turning into a reality the commitments assumed in the social, economic, and environmental sphere.

## Investment

Initiative	908,133.2	100.0%
<b>Social</b>	<b>460,006.8</b>	<b>50.66%</b>
Su Cambio por el Cambio Foundation	382,906.8	
Telethons (Guayaquil and Manta)	26,000.0	
Fudrine (cerebral palsy)	24,000.0	
Atucucho (medical dispensary)	14,400.0	
Christmas 2018 (SOLCA Cuenca and Ambato, Atucucho, among others)	6,300.0	
San José Foudation (gerontological care)	4,400.0	
Sponsorships	2,000.0	
<b>Sports and recreation</b>	<b>229,662.0</b>	<b>25.29%</b>
Fundeporte	217,359.4	
Employee sports sponsorship	7,242.6	
Races and sporting events	5,060.0	
<b>Program for the 'Learn' Financial Education</b>	<b>101,620.5</b>	<b>11.19%</b>
<b>RSE Report and Materiality Study</b>	<b>54,436.6</b>	<b>5.99%</b>
<b>Environment and sustainability</b>	<b>38,963.0</b>	<b>4.29%</b>
Carbon Neutral	17,695.0	
Alliances (Global Pact, CERES)	8,900.0	
Recycling	7,068.0	
Others	5,300.0	
<b>Arts and Culture</b>	<b>23,444.3</b>	<b>2.58%</b>
El Apuntador Foundation	18,000.0	
Sponsorships	5,444.3	

During 2018, we invested USD 908,133.20, of which 50.66% was destined to the social and health sectors, 25.29% to sports and recreation, 11.19% to the *Programa de Educación Financiera* (Financial Education Program), and into other projects and sectors.

## Social Environment

### Fundación Su Cambio por el Cambio (Your Change for Change Foundation)

We maintain our commitment of economic support and volunteering to the Foundation thus consolidating ourselves as an essential pillar for the development and continuity of their project in Quito and Guaranda.

The *Proyecto Educativo Su Cambio por el Cambio* (Educational Project Your Change for Change) in Quito helps approximately 173 children and adolescents between the ages of 6 and 18 years that come from dysfunctional environments where poverty, immigration, or violence impinge in their behavior and development. The objective of the Foundation is to provide integral attention to this group (including their families) striving to improve their quality of live and insertion into society.

Through an agreement with the *Fundación Enseña Ecuador* (Teach Ecuador Foundation), which is dedicated to improving the educational processes in the country, we have two *Profesionales Enseña Ecuador – PECs* (Teach Ecuador Professionals) who impart mathematics and language classes to the school's students in Quito, which allows reinforcing and optimizing the pedagogic practice.

At the Guaranda Project, located in the *San Simón* parish in the Province of *Bolívar*, we are fostering the development of sustainable production favoring the advancement of the locality and its population, which amounts to 400 families. The program contemplates educational plans, nutrition, production, self-management, and community actions. The production is sold on a weekly basis at the *Echandía* market in *Guaranda* and to our employees of the city of Quito.

For the fourth consecutive year, we spearheaded the *Apadrina* (Sponsor) *Christmas Campaign*, where this year our employees voluntarily sponsored 151 children and 64 senior citizens from Quito and Guaranda through the delivery of presents. In this particular case, the Bank lent its support through the organization of the Christmas party at both cities; its success was corroborated in the smiles of all attendees. The total of 88 teenagers and 66 administrative employees were also

sponsored by *Produbanco* and received their Christmas gift.

In November, we structured an arts program directed to all beneficiaries of the Foundation in Quito and Guaranda, which had the purpose of introducing them to the world of plastic arts and painting. During December, we organized an exhibition of the works created in the various modalities (clay, water color, water markers, among others); this was taken to our main headquarters and presented as an open exhibition to the public in general.

In addition, it is worthwhile to mention that we are making progress in the delivery of recycled materials to authorized waste handlers with this resulting in an internal campaign of waste separation. The economic value generated by this activity is delivered to the Foundation so that it may be managed according to their needs.

### Other Contributions

By continuing with the social sphere, our contribution also allows for other organizations to manage various causes; it is in this manner that through *Fudrine*, we helped children with physical or motor disabilities to prepare themselves so that their normal performance and inclusion into society be as seamless as possible.

At the *Atucucho* community, through the medical dispensary that we sponsor, it was possible for us to continue providing general medical services to the community of children, youths, and seniors.

Every month we deliver groceries produced by the *Fundación Su Cambio por el Cambio* (Your Change for Change Foundation) to the *Albergue San Juan de Dios* (Saint John of God Shelter), and in reference to the elderly, we also provide economic support to the *Fundación San José* (Saint Joseph Foundation).

### Arts and Culture

We ratify our commitment to continue fostering the arts in the country by motivating creativity and international projection of Ecuadorian artists through the sponsorship of the *Fundación el Apuntador*

(El Apuntador Foundation), which directed the publication of *Formas y Transiciones* (Forms and Transitions), a compendium of the works of eight plastic artists of Ecuador: José Unda, Pilar Flores, Marcelo Aguirre, Ana Fernández, Xavier Patiño, Juana Córdova, Carlos Echeverría Kossak, and Jannet Méndez. The book was produced in commemoration of the 40-year anniversary of *Produbanco*. The exhibition was open from November 23 to December 15 at the Auditorium of the Headquarters building located at Ekopark through an exhibition open to the public.

Between August and December, with the support of the *Fundación Ortiz Gurdíán* (Ortiz Gurdíán Foundation), we sponsored the works of the Mexican modernist painter *Rufino Tamayo* in Quito, Cuenca, and Guayaquil. This initiative comprised a cultural space to transmit to our Clients the commitment of *Produbanco* of facilitating access to the arts.

We also present as sponsors in various cultural events that were held in various cities.

## Sports

We contributed with our sponsorship of *Fundeporte*, a grand sports site located to the South of Quito and whose infrastructure provides recreation opportunities for the entire family. It is noteworthy to highlight that inside this complex, the facilities of the *Colegio Su Cambio por el Cambio* (Your Change for Change School) operate.

We were sponsors of the triathlon team from *Produbanco*, and we provided support for various sporting activities with the participation of our employees; a special mention is given to the sponsorship provided to *Marco Cutiopala* who achieved several triumphs during the year and is being groomed as an up-and-coming field and track figure.

Another important sponsorship was provided to *José Alfredo Campo*, BMX world silver medalist, who is included among the best five athletes in his category. During the year, José participated in various competitions among which he received the gold medal in the *BMX* category at the *Panamerican Championship* held in

*Cochabamba, Bolivia*. We are supporting him with the goal of classifying for the 2020 Olympic Games in the quest for the gold medal.

In addition, we sponsored the *Carreras 5K* (5 Km Races) at the *Liceo Los Andes* and the *Rotary Club* in Guayaquil.

## Sustainability

In July, we obtained the *Carbono Neutro* (Carbon Neutral) certification for the buildings of the Main Headquarters (third year running), and at *Orellana* (first time) in Guayaquil, as well as for the main headquarters of *Produbanco* located at the *Ekopark Corporate Center* in Quito.

During the second semester, we implemented recycling stations at the main buildings located in Guayaquil, Cuenca, Ambato, and Manta; around these activities, we created audiovisual materials as an application guide for this practice.

In October, thanks to our *Líneas Verdes* (Green Lines) program, we received a recognition for best practices for integration of the concepts of the *Objetivos de Desarrollo Sostenible* (Sustainable Development Goals) concerning business strategies, by the *Fundación Unión Europea-América Latina y el Caribe – EU-LAC* (European Union – Latin American and the Caribbean Foundation).

In December, we introduced the first *Cuenta Verde* (Green Account) of the Ecuadorian banking system. This entails an account to capture resources destined exclusively to credits of the *Líneas Verdes* (Green Lines) program geared toward financing projects related to renewable energy and energy efficiency. With this new product, we complemented our portfolio of green products by offering an account that captures sustainable resources that support the productive sector in order to implement projects and initiatives that help to mitigate the risks of climate change.

We form part of the *Pacto Global* (UN Global Compact) and *CERES* strategic alliances, which allow us to expand our network of sustainable contacts, to maintain ourselves abreast of the best sustainability practices, and to develop joint projects.

## Financial Education

We successfully fulfilled the goal set forth for 2018 concerning our *Programa de Educación Financiera Aprende* (Learn – Financial Education Program), thanks to which it was possible to train 6,053 people among children, youths, adults, and seniors in urban and rural settings of Ecuador through various activities that included face-to-face workshops, virtual simulators, and e-learning tools. Of our three companies, a total of 2,546 employees were also trained within this program.

## Transparency and Communication

During 2018, we published the 11th Corporate Social Responsibility Report thus creating the transition toward the *Estándares* (Standards) version of the *Global Reporting Initiative – GRI*. Through this report, we communicated to our constituency and to our community at large, the outcome of our 2017 administrative year in the social, economic, and environmental spheres. In addition, we obtained the *Materiality Disclosures* certification of the GRI, which legitimizes the correct disposition in the report, of all relevant aspects of the organization.

Within this context, we drafted the *Estudio de Materialidad* (Materiality Study) with the external consultancy of *Mónica Torresano*, Professor at the *IDE Business School* and expert in topics of sustainability, which allowed us to identify material or relevant aspects related to our stakeholders.

## Ethics – Internal Fraud Rated Risk

During the year, we witnessed 12 non-compliance events made around the *Code of Ethics and Behavior* of which 6 corresponded to *Produbanco* personnel and 6 to *Servipagos* personnel. Following analysis and investigation, these persons were dismissed from the Organization and the corresponding actions were taken.

## Ethics Line

Starting on May 18, *Produbanco*, *Exsersa*, and *Trámites Profesionales S.A. Protrámites*, launched the *Línea Ética* (Ethics Line) via email and an anonymous site on the Internet, so that anyone could report any unusual situation, cases of mistreatment, harassment, irregularities, fraud, discrimination, etc., with a guarantee of total confidentiality of the information, anonymity, and a quick and appropriate solution in benefit of the employee and the Institution. Nonetheless, through the *Política de Puertas Abiertas* (Open Door Policy), employees have continuously expressed their concerns and/or complaints. As of December 2018, 45 cases were investigated, of which 95.56% of them were resolved within five days with the participation of the *Ethics Line Commission* and the Vice President in charge of the case. This entire process has been reinforced with an employee-focused communications campaign.



Diego Mosquera Pesantes  
President Committee on Ethics and  
Corporate Social Responsibility



## Report of the Remunerations Committee

In the city of Quito, on Tuesday, march 6, 2018, the *Remunerations Committee* meeting was held in which the following relevant topics were analyzed:

### 1. Application of Salary Increases for 2018

The Committee is in charge of safeguarding the annual review of salary increases and insuring coherence with the situation of the country along with the main related indicators (inflation, minimal vital salary, sectoral issues, *D&T* and *PwC*). Likewise, it is responsible for the maintenance of a competitive remuneration policy that guarantees equality in the Organization.

In order to comply with this mission, we took into account the governmental guidelines concerning minimum and sectoral wages, *Resolution No. 438-2018-F*, which regulates the salary levels of the financial system, the methodology of compliance increases, and in addition, it employed tools such as *Nine Box* and the *Proceso de Calibración del Desempeño* (Performance Calibration Process).

### 2. Variable Remuneration Model

With the end of aligning and providing greater objectivity to the compensation systems for strategic positions, we presented the new proposal of variable remuneration for grades A and B of our organizational structure.



Jaime Dávalos Fernández-Salvador  
President Remunerations Committee

This process included the most important variables concerning the contribution of the position and of the employee within institutional results.

### 3. Simplification of the Structure

The simplification scheme of the organizational structure included the reduction of hierarchical levels, type of position, as well as the implementation of a new nomenclature of positions geared to providing greater closeness to the customer during interaction with employees.

Through these actions, we optimized 27% of the positions; we went from 540 to 390 position types with which we achieved speed and greater closeness to internal and external clients.

## Subsidiaries

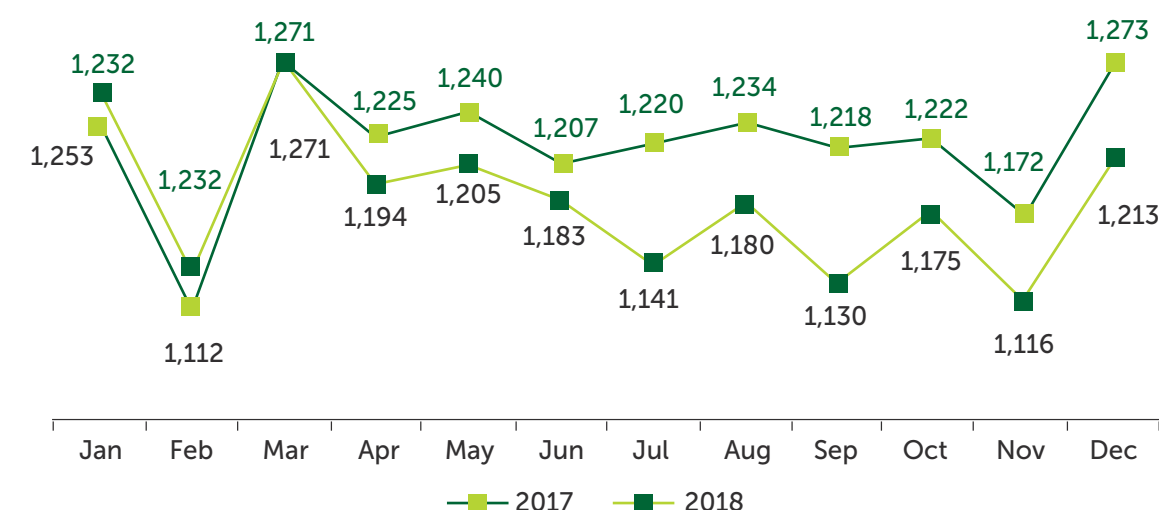


### Externalización de Servicios S.A.

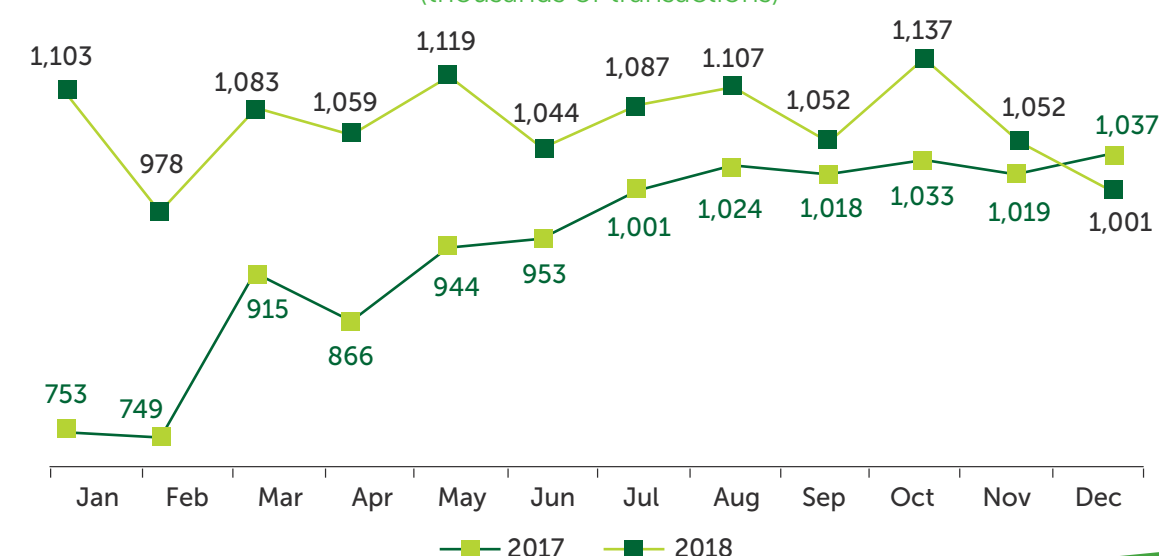
Throughout the year, the *Externalización de Servicios S.A. subsidiary* continued with its growth objectives through the implementation of the transactional switch, which enabled the creation and strengthening of strategic alliances with corporate and business clients since the companies can offer *Servipagos* products directly to their clients. Thanks to this innovation, *Pagoágil* expanded its network of assistance points going from 1,944 points in 2017, to 3,953 points in 2018, a growth of 103.34%.

In reference to the *Servipagos* offices, we opened three new points of service: *Centrum El Bosque* in Quito, *Akí San Eduardo* in Guayaquil, and *Centro* in Portoviejo. Finally, we continued consolidating the operation of automatic teller machines with the *Servipagos* brand (connected to *Banred*), a service channel that decongested customer lines.

Monthly evolution of transactions at *Servipagos* offices  
(thousands of transactions)



Monthly evolution of transactions at *Pagoágil*  
(thousands of transactions)



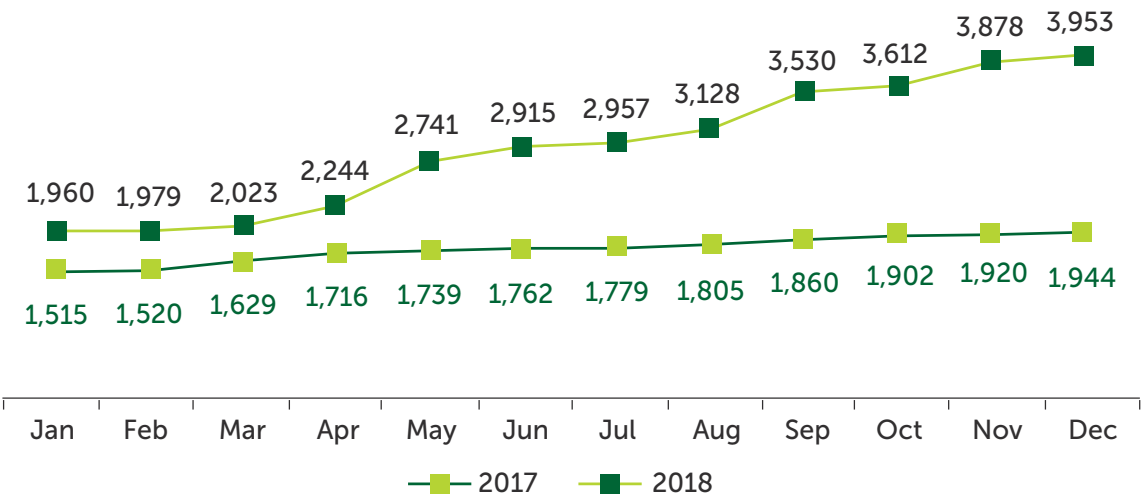


The subsidiary also directed its focus to the strategy of revenue generation in other channels to decrease dependency by those originated in their offices. Toward the end of the year, revenues rose to USD 18.53 million, an increase of 8.05% in comparison to 2017 that amounted to USD 17.15 million. *Externalización de Servicios S.A.* generated profits of USD 1.26 million in 2018.

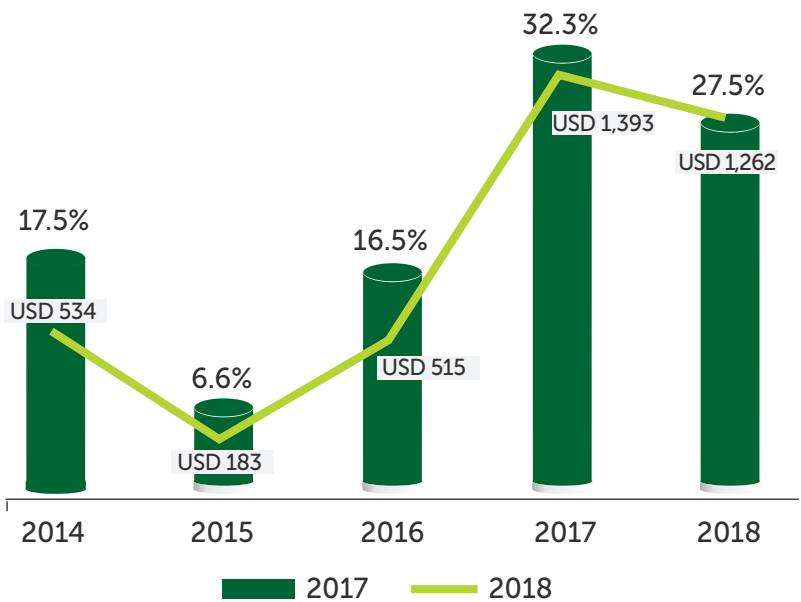
In conclusion, *Exsersa* continues on a profitable revenue growth trend evidenced in the increase of its points of assistance and in the high percentage of returns to its shareholders.

Evolution of the various channels in revenue participation		
Channel	% Participation revenues 2017	% Participation revenues 2018
Offices	46%	42%
Pagoágil	29%	32%
Transfer and payment system	23%	20%
Others	2%	6%
Total revenues	100%	100%

Monthly evolution Pagoágil points 2017-2018



Profitability evolution on equity Externalización de Servicios S.A.



## Trámites Profesionales S.A. Protrámites

Pursuant to the expectations of the Bank, the main objectives of the subsidiary for 2018, were the improvement in the index of the non-performing portfolio and the recovery of the written-off portfolio.

The strategy of the *Unidad de Mora Temprana* (Early Arrears Unit) was the exploitation of benefits of the functionality of *automatic dialing* (implemented during the last quarter of 2017), which allowed for the progressive increase in call volumes, mastering the process, and efficiency of the work team. The Unit's positive attitude regarding the cultural change brought forth by its focus on motivation, integration, and recreation pauses in order to attenuate demands, were essential in obtaining encouraging results.

On its side, the *Unidad de Mora Media* (Medium Arrears Unit) concentrated its efforts in incorporating, within the management model, focalized field visits and control of payments in the refinanced portfolio. These activities, conflated with the versatility of the technological platform enabling schedule variation to intensify collection management, were determining factors in obtaining an important containment of legal claims and lawsuits without the need of employing additional resources.

The performance of the *Unidad de Mora Avanzada* (Advanced Arrears Unit) contributed to the 2018 results achieved by the Bank, with USD 12 million stemming from the recovery of written-off portfolio, and with USD 652,865 corresponding to the collection of our own portfolio purchased from Produbanco (compliance of 115%).

This is how 2018 ended with a significant improvement of the arrears index of the Bank, which at year-end was placed at 1.74%, versus the 1.80% of 2017.

Another important advance worthy of highlighting is the progress made in the verification of loans under legal claims placed at 60%. The control performed directly, impacted in the speediness of the judicial claims processing. Similarly, the specialization of the human team contributed both in customer care (*front*

*office*), and in operational activities (*back office*).

Services provided by the *Trámites Legales* (Legal Processing) line began to be offered to the *Persons* and *SME Segments* of Guayaquil during the second semester of 2018, thanks to which revenue grew by 158% from USD 195,000 in 2017 to USD 309,000 in 2018.

*Trámites Profesionales S.A. Protrámites* registered USD 518,000 in profits, an amount surpassing expected forecasts representing a compliance index of 264%.



# Management of the Business Units

## Commercial Banking

### Corporate Segment

As a result of the favorable response to the decentralization strategy and of the notable contribution of clients of the coastal region, the loan portfolio grew to USD 1,252 million, 17.44% higher than in 2017. Equally, the contingency line experienced a very solid growth of 35.71% based on the important network of *Produbanco* correspondents resulting in significant increases in revenue.

Deposits grew by 13.06% with which we surpassed the USD 702 million mark resulting in a performance level achieved mainly thanks to clients of the petroleum and commercial sectors.

The joint effort in the areas of Cash Management, Credit Cards, Foreign Exchange, and the active management of business officers, who performed close to 1,500 visits to clients and who organized various events where we shared joint interests and value propositions, allowed bolstering corporate relations.

### Commercial Segment

The distribution of executives in the cities of Cuenca and Manta implemented throughout the year, added to the presence the team already maintained in Quito, Guayaquil, and Ambato thus allowing increased coverage of the segment nationwide. Similarly, the expansion of the annual sales amount required for the target market within a range of USD 5 million and USD 25 million, made it possible to service a greater number of companies.

At closing of 2018, the segment was managing a portfolio of USD 281 million, 19.43% more than the preceding year. Contributing to this result was the incorporation of the two new cities mentioned above and the outstanding performance achieved in Guayaquil, both in keeping with the strategy set forth. The amount reached in placements represented

9.09% with respect to the total volume of the Bank's portfolio.

It is noteworthy to highlight that we registered an increase of close to USD 20 million in *Líneas Verdes* (Green Line) loans, which contributed to the compliance of the institutional commitment of supporting sustainability and responsible social and environmental management.

In reference to bank funds capture, this reached a total of USD 200 million, which entails 5.45% of total obligations with the public of *Produbanco*.

Professionals of the *Business Sector* continued working during 2018 in the creation of trust relationships and in the development of personalized solutions for their clients; with this vision, we organized various forums addressing current topics and the management of value chains with vendors, employees, and shareholders, events whose contents greatly benefited attendees.

### Segmento Institucional

This segment accounts for over 295 customers nationwide, among whom we can find banks, Segment-1 cooperatives, public sector entities, stock exchanges, trust managers, and funds and trusts, NGOs, and faith-based organizations.

With an innovative offering of products and solutions, the strategic needs of customers are satisfied, which has allowed the creation of solid and long-lasting bonds.

Given the nature of the business of customers in the *Institutional Relations Segment* and given the size of their position in the Bank, the professional groups in charge must maintain constant communication with each one of them in order to adequately monitor deposit cycles, rate levels, opportunities, and the participation of *Produbanco* in comparison with all other financial institutions.

Based on the important relations with

correspondents of various world-class entities, during 2018, we closed transactions in order to support the development of clients who implement friendly solutions for the environment as well as those who promote small and medium-sized companies of various sectors, for a total of USD 160 million. Specifically, *Produbanco* obtained USD 80 million from the *International Finance Corporation* from the *World Bank*, USD 30 million from *IDB Invest* in association with the *China Co-Financing Fund for Latin America and the Caribbean*, USD 40 million from *Proparco* and *DEG*, entities related to the French and German governments, respectively, and USD 10 million from *Blue Orchard*.

In addition, *Produbanco* structured subordinated financing transactions to support the growth of its balances for a total of USD 89 million in structured transactions by *FMO* from the Netherlands, *IDB Invest*, *Proparco/DEG*, and *Blue Orchard*.

The strength of the foreign markets business at *Produbanco* allowed obtaining resources that were channeled to various clients based on the management of *IDB Invest*, which spearheaded a syndicated structure in which global and regional commercial banks participated in operations totaling USD 59 million. In addition, *Produbanco* recruited the support of the *Banco de Desarrollo de América Latina – CAF* (Andean Development Corporation) and of other regional entities for an amount that reached USD 56 million.

These transactions provided valuable resources to sustain the growth of the credit offering to customers of *Produbanco*, to maintain a robust and healthy balance structure, to incorporate best practices in processes and policies, and, in numerous cases, to accompany clients with consultancies inherent to sustainability.

### Equity Segment

The service focus for this segment is the design of solutions for equity management in keeping with customer profiles: their goals, financial needs, and investment horizon.

The work team in charge is comprised by experts who provide personalized financial advice through a tailor-made

product and services portfolio under the highest standards of confidentiality. With this premium service, we have built lasting business relations recruiting the trust of the customer along the way.

In parallel, as an additional tool for decision-making, professionals from the *Equity Segment* developed relevant and updated information delivered to their clients concerning local and international financial markets.

During 2018, the *Equity Segment* serviced 1,783 clients in Quito, Guayaquil, Cuenca, and Ambato.

## Retail Banking

*Retail Banking* significantly contributed to *Produbanco's* results. Deposits in savings accounts increased by 4.52%, in contrast to those of the financial system, which decreased by 0.23%. On its side, term deposits increased by 8.49% while the market only reached 7.77%.

### Persons Segment

The *Persons Segment* of the Bank experienced an annual growth of 30.12%; within this scenario, credit cards grew by 56.05% and the remaining products by close to 17.00%.

The year 2018 represented an important year for credit cards, which established a sales record reaching USD 440.23 million thanks to the commercial strategy of continuous approval of client and non-client databases with *differentiated* offers and the most efficient use of CRM (Customer Relationship Management), which allows for a deeper knowledge and more effective communication with clients.

On another sphere, the Bank began its *Plan de Transformación de Oficinas* (Office Transformation Plan), with the opening of three digital offices located in the cities of Quito and Ambato. This new concept in offices has a model that is different to that of a traditional agency, since its service offering is given through advanced technology equipment: automatic multi-function teller machines and kiosks that make it possible to access the Bank's webpage and furthermore to have videoconference contact with a call center representative



in order to request product information, perform various enquiries, requests or complaints, and to obtain personalized advice from a commercial executive. This innovative proposal allows accompanying clients in their banking experience with state-of-the-art channels.



In line with the digital transformation process, and in compliance with the institutional goal of being a more agile and omni-channel bank, during 2018, we continued structuring virtual channels for pre-approved products. In this manner, since November, clients can request the issuance of a pre-approved credit card at [produbanco.com](http://produbanco.com), which improves the customer experience with the Bank and further facilitates contact with clients.

As part of the competitiveness strategy of products and services in reference to the market, we expanded the financing term of the *Crédito para Empleados* (Employee Loans). This benefited over 148,000 clients who receive payroll deposits into their accounts through the Cash Management service. Employee Loans reached a balance of USD 182 million with a 39.43% growth.

Throughout the year, with the end of increasing market share, we designed campaigns to incentivize fulfillment of savings goals for customers at various branches.

In addition, we put into practice initiatives oriented to increasing customer satisfaction through greater efficiency in processes related to product and services

procurement, such as: delivery of debit cards to the client at the moment of opening their account, paperless deposits, withdrawals without savings books, and management of a support teller for fast transactions.

## Cuenta Verde

During December, the Bank launched the *Cuenta Verde* (Green Account), the first one of its type in the financial system. The funds received will support care for the environment through the generation of *green credits* for business sectors certified with an environmental and social sustainability model or for sectors that contain projects oriented to improving their value chain to make their processes more environmentally sustainable. The account has been in operation since the *App Móvil* (Mobile App) and does not offer a physical savings book with a view to reducing paper consumption



A product whose performance deserves to be highlighted is "*be de Produbanco*" (*be* from *Produbanco*), which has been key in increasing the number of customers. By year's end, we registered 85,000 digital clients nationwide who opened their accounts through the *App be de Produbanco*, performed approximately 561,000 monthly transactions, and made online purchases representing 61.54% of the transactions performed with a debit card. The use of various functionalities of the *App be de Produbanco* had a notable growth during 2018; this is how during the year, over 100,000 mobile phone recharges, over 62,000 transfers via a mobile phone,

and 20,000 card-less withdrawals, were performed.

In addition, we implemented the offering of a pre-approved credit card through *be de Produbanco*. Other services that were offered to the client were the *photographed check deposit* and access to monthly purchases so that customers could manage their income and expenses more efficiently.

### Segmento Virtual

At the *Virtual Segment*, which already totals 370,816 clients, we continued the strategy of telephone service applied by a work team comprised of 19 executives charged with capturing new business through digital channels. In parallel, during 2018, we fully implemented the use of the *herramienta CRM* (CRM tool) for this segment, which allowed managing campaigns and allowed increasing their average effectiveness at 17.30%, which represents 3.87% more than in 2017.

One of the Retail Banking priorities has been orienting its work team toward achieving objectives. With this end, we applied a *Modelo de Gestión de Desempeño* (Performance Management Model) to motivate and train the sales force with programs such as the *Escuela de Inducción* (Induction School), *Escuela de Anfitriones* (Host School), and *Escuela Comercial* (Commercial School). Likewise, by making use of the benefit of belonging to an international group, we put into motion an incentive plan for commercial executives in which winners have the opportunity to visit offices of the Group in the region.

### SME Segment

The *SME Segment* has a presence in 14 cities nationwide. The mission of its work team centers on diversification of the active and passive portfolio of the Bank, and to quickly and with excellence, serve businesspersons – whether individuals or corporations – whose business generates sales of up to USD 5 million per year.

As of December, this segment managed obligations with a constituency of 27,063 active clients for an amount totaling USD 438.85 million, 3.96% more than at closing of 2017. This growth had as its pillar an increase of 10.23 million in demand and term deposits stemming from cities other

than Quito and Guayaquil, thus creating a geographic de-concentration structure along the way.

With respect to the portfolio managed by the *SME Segment*, at closing of 2018, this amounted to USD 399.73 million and reached a participation of 12.90% in the Bank's total portfolio. It is noteworthy to highlight that 82.62% of operations originated in the year, represented credits amounting to, or lesser than, USD 100,000, which is consistent with the action line of this segment focused on growing the volume of its portfolio without large concentrations. Similarly, placements outside of Quito and Guayaquil increased to USD 8.52 million, which comprises 6.92% more than in 2017.

Since 2016, *Produbanco* has provided impulse to business financing whose processes generate efficiencies in the use of energy and natural resources whether sustainable and that have a responsible social and environmental management criterion. As of closing of 2018, the portfolio of the *Líneas Verdes* (Green Lines) products reached USD 50.60 million in all of its business segments, which implies that 1.62% of the total portfolio of the Bank falls within this category. Of this amount, 40.10% is placed in businesses that promote sustainable agriculture and floriculture.

Management efforts conducted in this field has placed *Produbanco* as a leader in this type of financing at the national level. With the support of the *Centro Ecuatoriano de Eficiencia de Recursos – CEER* (Ecuadorian Center for Resource Efficiency), we trained the entire business executive team concerning norms, policies, and management of social and environmental risks. This authorizes work teams at *Produbanco* to better advise our clients.

The tarjeta de crédito *VISA Pyme* (VISA SME credit card), a personalized transactional solution for small and medium-sized companies, closed this year with 2,354 cards issued and a balance used totaling USD 11.34 million.

We cannot leave aside recognizing the preparation and commitment of the human talent comprising the work team in this segment who maintain a focus on the creation of long-term trust relationships with our clients.



## Payment Methods

### Credit Cards

During 2018 we placed 48,222 new credit cards, an increase of 75.07% versus the 27,550 credit cards issued in 2017. During this year, we continued with a focus on the medium and high-value segments.

Evolution of the number of credit cards per type

Card Type	2017	% Part	2018	% Part	Growth
Gold & Platinum	17,492	63%	29,271	61%	67.34%
Black, Signature & Infinite	5,100	19%	9,991	21%	95.92%
Classic	4,127	15%	7,861	16%	90.47%
Corporate	831	3%	1,098	2%	32.22%
Total	27,550	100%	48,222	100%	75.03%

*Produbanco* closed 2018 with 174,370 credit cards issued (96,958 MasterCard and 77,412 VISA), 24.19% more than in 2017. Of the total, 83.45% maintained balances for their purchases.

Evolution of the credit card portfolio by segment

Card Type	2017	% Part	2018	% Part	Growth
Gold & Platinum	70,997	51%	96,955	56%	36.6%
Black, Signature & Infinite	43,522	31%	40,330	23%	-7.3%
Classic	22,773	16%	33,151	19%	45.6%
Corporate	3,115	2%	3,934	2%	26.3%
Total	140,407	100%	174,370	100%	24.2%



Surprise yourself every week  
Thursday - just the way you like it  
Up to 35% discount

Actions taken with credit cards this year were oriented to providing memorable experiences to cardholders. Through personalized campaigns and events, in keeping with their needs and aspirations, we fostered trust and loyalty of use for *Produbanco* credit cards. We held close to 90 events nationwide through which clients received multiple benefits such as: 25% off on selected restaurants, 10% off on the *Medicity* pharmacies chain, 25% off on participating fashion stores, a trip for two to the *Latin Grammy Awards* in Los Angeles, a Christmas dinner show at the *Sonesta Hotel*, a *Carlos Vives* music concert with dinner included, and an invitation to the play *La Flauta Mágica* (The Magic Flute) held at the *Teatro Sucre* (Sucre Theater), among many others.

All of the initiatives put into practice contributed to the attainment of the extraordinary billing result of USD 300 million in addition to the USD 677 million from 2017 and a portfolio balance of USD 451.57 million, which is equivalent to an increase of 56.58% with respect to the previous year.

Evolution of portfolio balance by type of card

Card Type	2017	% Part	2018	% Part	Growth
Gold & Platinum	131,732,221	46%	206,399,977	46%	56.7%
Black, Signature & Infinite	38,765,607	13%	40,875,245	9%	5.4%
Classic	104,231,084	36%	185,232,833	41%	77.7%
Corporate	13,676,658	5%	19,066,155	4%	39.4%
Total	288,405,570	100%	451,574,211	100%	56.6%

### Debit Cards

*Produbanco* registered 631,000 debit cards during this year, 29.22% more than in 2017.



Clients of the *Produbanco Visa Débito* (*Produbanco Debit Visa*) performed purchases for a total of USD 327.72 million, an increase of 28.23% in purchases in comparison with the amount reached during the previous year.

It is noteworthy of highlighting that of the total volume processed with debit cards, 19% corresponds to purchases made at stores, which comprises a percentage higher than that of the industry average.

### Cash Management

Ninety percent of clients migrated to the new version of the Cash Management (Cash 2.0) platform, which amounted to 3,873 clients (7.30% more than in 2017). The service generated USD 8.7 million in revenue, an increase of 11.79% when compared to the previous year.

Lastly, taking into account the needs of users, at the various channels of the Bank, we implemented new online collection of the EPMAPS (Water & Sanitation Board) and of the IESS (Ecuadorian Social Security

Number of Cash Management clients 2017-2018

Clients	Number
December 2017	3,611
December 2018	3,873
% Growth	7.26%

Evolution of Revenues Cash Management 2017-2018

Accrued Revenue	USD
December 2017	USD 7,823,598
December 2018	USD 8,746,376
% Growth	11.79%







Administration) transactions that allow users to pay for their current or overdue water bills and employee benefits without the need for these to be processed through Banred.

Cash  
Management 2.0

## Technological Channels

The transactional channels of the Bank grew by 25.1% in number of transactions in relation to those registered in 2017. Maintenance and improvements of the channels insured the quality of the customer care provided.

### Evolution of Produbanco online channels

 <p>produbanco.com</p> <table> <tr> <th colspan="2">Transactions</th> </tr> <tr> <th>2017</th> <th>2018</th> </tr> <tr> <td>126,179,436</td> <td>158,053,088</td> </tr> <tr> <td>Participation 78.8%</td> <td>Participation 78.9%</td> </tr> </table> <p>Variation 25.26%</p>	Transactions		2017	2018	126,179,436	158,053,088	Participation 78.8%	Participation 78.9%	 <p>Mobile App</p> <table> <tr> <th colspan="2">Transactions</th> </tr> <tr> <th>2017</th> <th>2018</th> </tr> <tr> <td>13,710,602</td> <td>23,266,601</td> </tr> <tr> <td>Participation 8.6%</td> <td>Participation 11.6%</td> </tr> </table> <p>Variation 69.70%</p>	Transactions		2017	2018	13,710,602	23,266,601	Participation 8.6%	Participation 11.6%
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 <p>Self-query service</p> <table> <tr> <th colspan="2">Transactions</th> </tr> <tr> <th>2017</th> <th>2018</th> </tr> <tr> <td>917,637</td> <td>896,282</td> </tr> <tr> <td>Participation 0.6%</td> <td>Participation 0.4%</td> </tr> </table> <p>Variation -2.33%</p>	Transactions		2017	2018	917,637	896,282	Participation 0.6%	Participation 0.4%	 <p>Total Produbanco online Channels</p> <table> <tr> <th colspan="2">Transactions</th> </tr> <tr> <th>2017</th> <th>2018</th> </tr> <tr> <td>160,158,216</td> <td>200,385,358</td> </tr> <tr> <td>Participation 100.0%</td> <td>Participation 100.0%</td> </tr> </table> <p>Variation 25.12%</p>	Transactions		2017	2018	160,158,216	200,385,358	Participation 100.0%	Participation 100.0%
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## Recognitions



### Best Bank of Ecuador 2018

The British magazine *Global Finance* selected *Produbanco* as the *Best Bank of Ecuador* for financial soundness, human talent, on-going technological innovation, and commitment to service excellence. In addition, it bestowed upon it the awards *Best Foreign Exchange Provider 2018* and *Best Digital Bank 2018 – 2017*.



### Best Bank in Innovation in Retail Banking 2018

The *International Banker* magazine, a financial publication of the London editorial group *Finance Publishing*, designated *Produbanco* as the *Mejor Banco en Innovación de Banca Minorista 2018* (Best Bank in Innovation in Retail Banking 2018).



### Best Bank of the Year 2018

*The European*, a business media published by *Chase Publishing* in London, conferred to *Produbanco* the distinction of *Banco del Año de Ecuador 2018* (2018 Ecuadorian Bank of the Year).



### Banking CEO of the Year and Bank with the Best Corporate Governance 2018

*The European* awarded Ricardo Cuesta Delgado, CEO of *Produbanco*, the recognition as *CEO Bancario del Año de Ecuador* (2018 Banking CEO of the Year), and to *Produbanco* the recognition as the *Banco con el Mejor Gobierno Corporativo* (2018 Bank with the Best Corporate Governance).

Ricardo Cuesta Delgado, Produbanco  
Banking CEO of the Year  
Ecuador



Produbanco  
Best Corporate Governance  
Ecuador





## Best Bank in Ecuador in Corporate Governance – 2018

*Capital Finance International* (cfi.co), a print and digital media based in London, expert in global trend analysis impacting the economy, bestowed upon *Produbanco* the recognition as the *Mejor Banco del Ecuador en Gobierno Corporativo* (Best bank of Ecuador in Corporate Governance).



## First Place in the category Most Respected Financial Institution in Ecuador

*Produbanco* was awarded *First Place in the Categoría Institución Financiera más Respetada del Ecuador* (Category for Most Respected Financial Institution in Ecuador), by the *Price Waterhouse Coopers – PwC* and *Ecuavisa* in the category of most respected companies of Ecuador for 2018.



## Ekos Golden Award – 2018

*Produbanco* obtained first place in quality of service for *Best Banks*, in the category *Large Banks*, in the *Ekos Customer Satisfaction Index*.



## Latin Finance

The *Latin Finance* magazine awarded *Produbanco* the distinction of *Banco del Año* (Bank of the Year) for 2017. The Bank had already been recognized with this distinction in 2003.



## Ecuadorian Bank of Year for 2017

During 2017, *Produbanco* was recognized as *Banco del Año del Ecuador* (Ecuadorian Bank of the Year). This distinction granted by the specialized banking and finance magazine *Banker*, was conferred to it for the tenth time. The Bank also received this recognition in 2002, 2007, and from 2009 through 2015.



## Best Commercial Bank for 2017

The international magazine *Banker*, selected *Produbanco* as the *Mejor Banco Comercial del año 2017* (Best Commercial Bank for 2017) based on its brand strength and results.

AAA-

## AAA- Risk Rating

During 2018, *Produbanco* maintained the AAA- rating granted by the *BankWatch Ratings* and *PCR Pacific Credit Rating* agencies.

AAA- is one of the highest risk ratings within the national financial system and few are the entities that can achieve it



## CSR Report Materiality Disclosures Certification

During 2018, *Produbanco* published its 11th edition of its Corporate Social Responsibility Report developed based on the Exhaustive option of the version *Estándares de la Guía para la Elaboración de Memorias de Sostenibilidad* (Guidelines for the Preparation of Sustainability Reports) of the Global Reporting Initiative (GRI). The report contained the Materiality Disclosures certification that verifies that the material aspects are clearly identified.



2018

# Financial Statements

***Produbanco***   
*Grupo Promerica*

## General Consolidated Balance Banco de la Producción S.A. and Subsidiaries

Thousands of USD

	2017	2018	% Growth
<b>Assets</b>			
Available funds and investments	1,495,007	1,497,131	0.14%
Loan portfolio	2,514,110	2,992,169	19.02%
Debtors by acceptances	601	0	-100.00%
Accounts receivable	27,322	36,488	33.55%
Realizable assets, foreclosed in lieu of payment	6,547	11,699	78.70%
Property and equipment	59,819	59,116	-1.17%
Other assets	166,946	172,466	3.31%
<b>Total Assets</b>	<b>4,270,352</b>	<b>4,769,070</b>	<b>11.68%</b>
<b>Liabilities</b>			
Obligations with the public	3,492,985	3,686,123	5.53%
Inter-bank Operations	0	0	
Commercial paper	36,001	49,377	37.15%
Outstanding acceptances	601	0	-100.00%
Accounts payable	107,897	149,303	38.38%
Financial liabilities	218,226	335,345	53.67%
Subordinated debt	25,000	114,000	356.00%
Other liabilities	16,461	14,899	-9.49%
<b>Total Liabilities</b>	<b>3,897,172</b>	<b>4,349,048</b>	<b>11.59%</b>
<b>Total Equity</b>	<b>373,179</b>	<b>420,022</b>	<b>12.55%</b>
<b>Total Liabilities and Equity</b>	<b>4,270,352</b>	<b>4,769,070</b>	<b>11.68%</b>
<b>Contingencies</b>	<b>840,698</b>	<b>1,109,928</b>	<b>32.02%</b>

## Profit and Loss Statement Banco de la Producción S.A. and Subsidiaries

Thousands of USD

	2017	2018	% Growth
<b>Income</b>			
Earned interest and discounts	245,677	294,103	19.71%
Commissions earned	15,192	20,594	35.56%
Financial profits	9,191	13,032	41.80%
Other operational income	69,255	80,757	16.61%
Other income	8,907	7,082	-20.49%
Total Income	16,505	28,520	72.80%
<b>Total Ingresos</b>	<b>364,726</b>	<b>444,089</b>	<b>21.76%</b>
<b>Expenses</b>			
Interest caused	72,979	84,452	15.72%
Commissions caused	1,833	2,501	36.50%
Financial losses	1,592	2,779	74.58%
Provisions	42,711	43,112	0.94%
Operational expenses	180,032	208,575	15.85%
Other operational losses	572	2,190	282.68%
Total Expenses	468	290	-37.94%
<b>Total Egresos</b>	<b>300,185</b>	<b>343,899</b>	<b>14.56%</b>
Profit before provision for employee profit sharing and income tax	64,541	100,189	55.23%
Provision for employee profit sharing	9,930	15,167	52.75%
Profit before provision for income tax	54,611	85,022	55.68%
Provision of Income Tax	14,616	25,241	72.69%
<b>Net Profit</b>	<b>39,995</b>	<b>59,781</b>	<b>49.47%</b>

## Taxes, Outlays and Contributions Paid Banco de la Producción S.A. and Subsidiaries

Thousands of USD

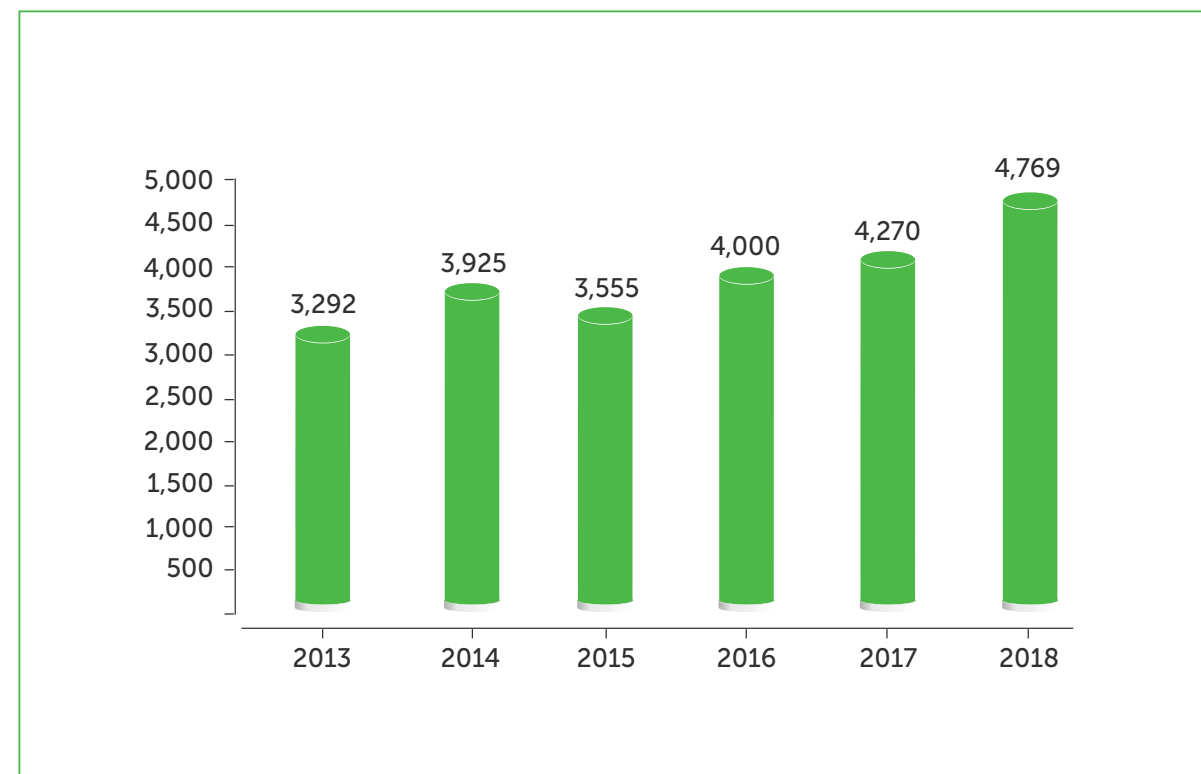
	Dec 2017	Dec 2018	Variation
Income tax	14,616	25,241	10,625
Contributions – COSEDE	20,307	21,527	1,220
Contributions – Ecuadorian Banking Board	4,752	5,085	333
Municipal taxes	1,304	2,021	717
Other taxes and contributions	2,403	2,641	238
Procurement VAT	9,843	11,685	1,842
Taxes earthquake solidarity contribution on profits	0	0	0
<b>Total Direct Taxes</b>	<b>53,227</b>	<b>68,200</b>	<b>14,973</b>
Income tax payment employees	1,377	1,950	573
Payment IESS contribution employees	7,567	8,320	753
<b>Total Indirect Taxes and Contributions</b>	<b>8,944</b>	<b>10,269</b>	<b>1,325</b>
Direct tax burden / group profit	133.08%	114.08%	-19.00*
Direct tax burden, indirect and contributions / group profit	155.45%	131.26%	-24.18*
<b>Net Profit</b>	<b>39,995</b>	<b>59,781</b>	<b>19,786</b>

(\*) The increase or decrease is expressed in percentage points.

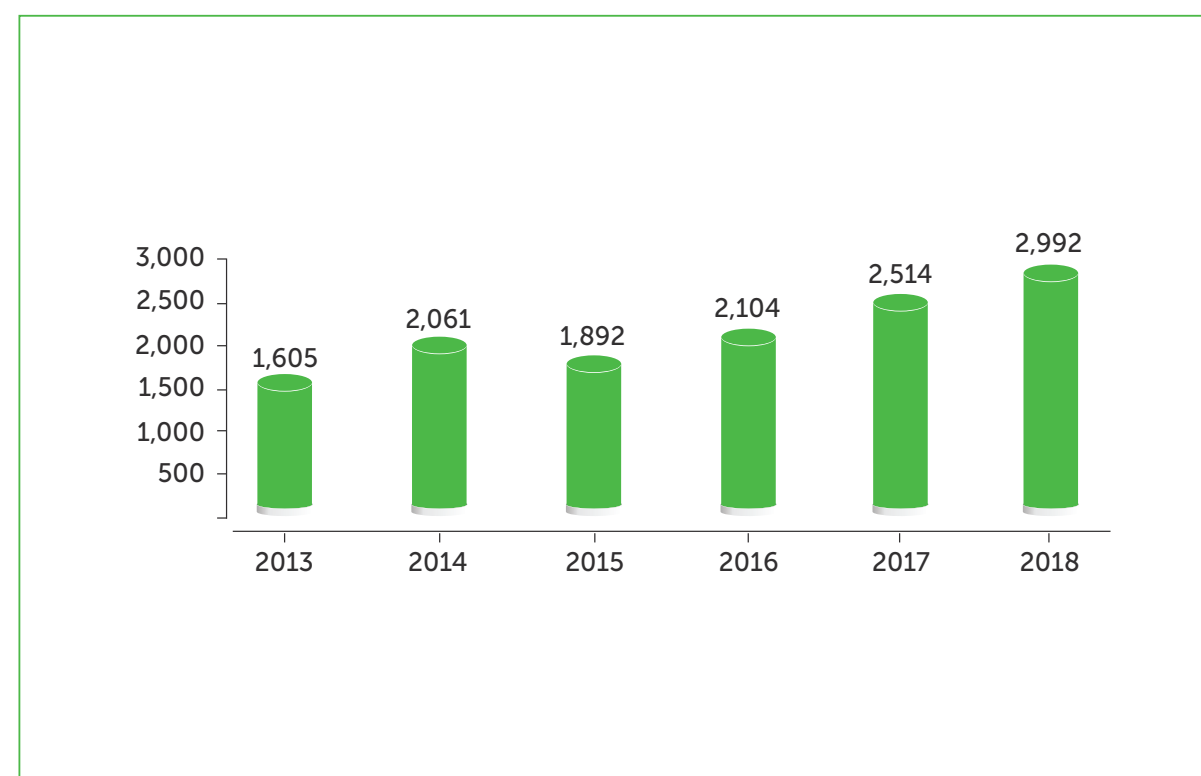
## Total Assets and Net Loan Portfolio Banco de la Producción S.A. and Subsidiaries

Millions of USD

### Total Assets



### Net Loan Portfolio

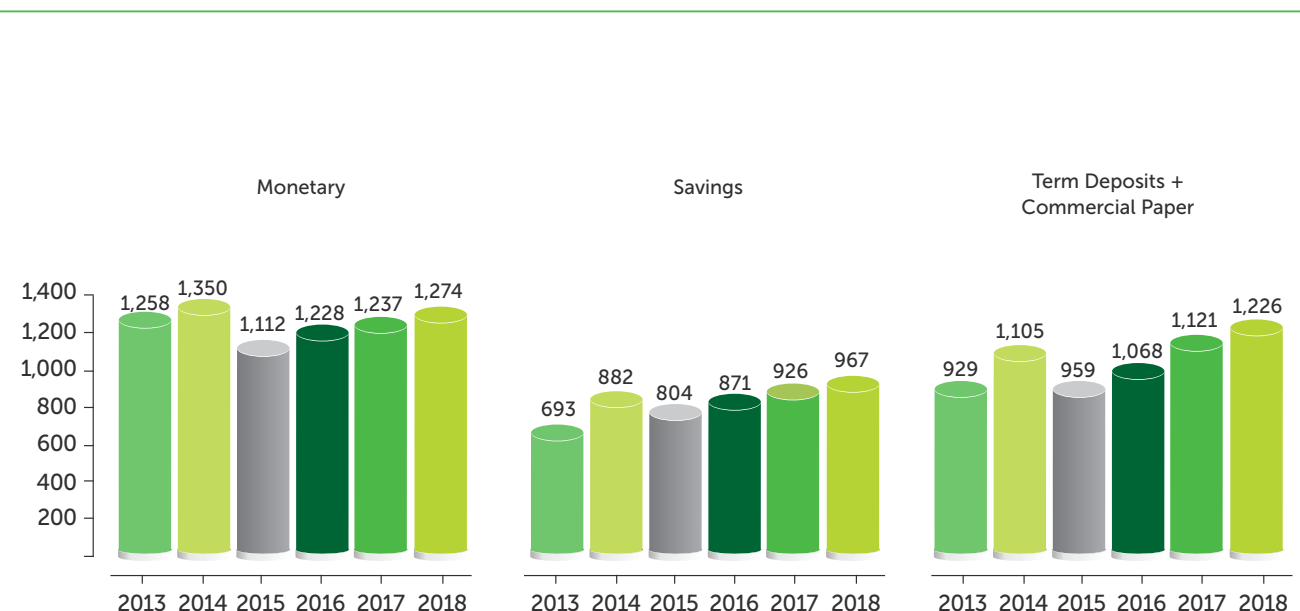




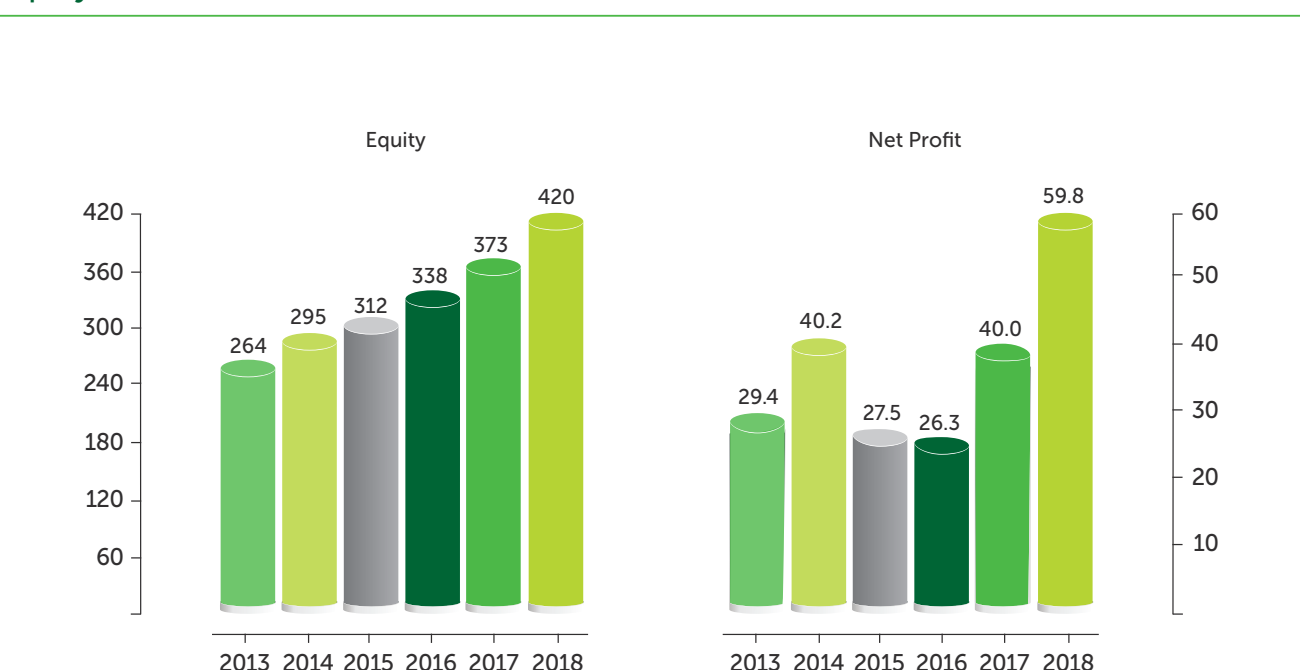
## Liabilities with the Public and Commercial Paper, Equity and Net Profit Banco de la Producción S.A. and Subsidiaries

Millions of USD

### Obligations with the Public and Commercial Paper



### Equity and Net Profit



## Main Financial Accounts and Indicators Banco de la Producción S.A. and Subsidiaries

Thousands of USD

	2017	2018	% Growth
<b>Accounts</b>			
Total assets	4,270,352	4,769,070	11.68%
Available funds and investments	1,495,007	1,497,131	0.14%
Loan portfolio	2,514,110	2,992,169	19.02%
Liabilities with the public	3,492,985	3,686,123	5.53%
Equity	373,179	420,022	12.55%
Net profit	39,995	59,781	49.47%
Contingencies	840,698	1,109,928	32.02%
Assets + contingencies	5,111,050	5,878,998	15.03%
<b>Indicators</b>			
<b>Solvency</b>			
Technical incorporated equity / risk-weighted assets and contingencies	11.27%	13.59%	2.32*
<b>Asset Quality</b>			
Total gross arrears	1.80%	1.74%	-0.06*
<b>Administrative Management</b>			
Productive assets / liabilities with cost	146.64%	150.58%	3.93*
<b>Profitability</b>			
Yield / equity – ROE	12.00%	16.59%	4.59*
<b>Liquidity</b>			
Available funds / total short-term deposits	27.39%	31.08%	3.69*

(\*) The increase or decrease is expressed in percentage points.

## General Balance Banco de la Producción S.A.

Thousands of USD

	2017	2018	% Growth
<b>Assets</b>			
Available funds and investments	1,495,005	1,494,777	-0.02%
Loan portfolio	2,514,110	2,992,169	19.02%
Debtors by acceptances	601		-100.00%
Accounts receivable	26,835	35,901	33.78%
Realizable assets, in lieu of payment	6,547	11,699	78.70%
Property and equipment	58,711	57,881	-1.41%
Other assets	169,975	175,843	3.45%
<b>Total Assets</b>	<b>4,271,783</b>	<b>4,768,270</b>	<b>11.62%</b>
<b>Liabilities</b>			
Liabilities with the public	3,496,670	3,688,404	5.48%
Inter-bank Operations			
Commercial paper	36,001	49,377	37.15%
Acceptances outstanding	601		-100.00%
Accounts payable	105,388	146,328	38.85%
Financial liabilities	218,226	335,345	53.67%
Subordinated debt	25,000	114,000	356.00%
Other liabilities	16,424	14,894	-9.31%
<b>Total Liabilities</b>	<b>3,898,310</b>	<b>4,348,348</b>	<b>11.54%</b>
<b>Equity</b>			
Capital paid	278,450	303,850	9.12%
Premium in share placement	1,105	1,105	0.00%
Legal reserve	40,009	44,020	10.02%
Surplus due to valuations	13,671	11,299	-17.35%
Accrued profit	135	131	-3.09%
Profit at end of year	40,104	59,517	48.41%
<b>Total Equity</b>	<b>373,474</b>	<b>419,921</b>	<b>12.44%</b>
<b>Total Liabilities and Equity</b>	<b>4,271,783</b>	<b>4,768,270</b>	<b>11.62%</b>
<b>Contingencies</b>	<b>840,698</b>	<b>1,109,928</b>	<b>32.02%</b>

## Profit and Loss Statement Banco de la Producción S.A.

Thousands of USD

	2017	2018	% Growth
<b>Income</b>			
Interest and discounts earned	245,592	293,946	19.69%
Commissions earned	15,192	20,594	35.56%
Financial profit	9,191	13,032	41.80%
Services income	57,038	67,612	18.54%
Other operational income	10,170	8,598	-15.46%
Other income	16,541	28,021	69.40%
<b>Total Income</b>	<b>353,723</b>	<b>431,803</b>	<b>22.07%</b>
<b>Expenses</b>			
Interest caused	72,980	84,455	15.72%
Commissions caused	1,833	2,501	36.50%
Financial losses	1,592	2,779	74.58%
Provisions	42,711	43,112	0.94%
Operational expenses	169,791	197,654	16.41%
Other operational losses	572	2,190	282.68%
Other expenses and losses	465	290	-37.63%
<b>Total Expenses</b>	<b>289,943</b>	<b>332,981</b>	<b>14.84%</b>
Profit before provision for employee profit sharing and income tax	63,780	98,822	54.94%
Provision for employee profit sharing	9,567	14,749	54.16%
Profit before provision for income tax	54,213	84,073	55.08%
Provision for income tax	14,109	24,556	74.05%
<b>Net Profit</b>	<b>40,104</b>	<b>59,517</b>	<b>48.41%</b>

## Equity Statement Banco de la Producción S.A. January through December 2018

Units in USD

	Capital	Legal reserves	Special reserve	Premium or discount in share placement	Surplus due to valuation	Accrued profit	Profit for the year	Total
<b>Balance as of Dec 31, 2017</b>	278,450,000	40,009,081		1,104,774	13,670,698	134,851	40,104,353	373,473,757
Valuation shares and participations					-38,030			-38,030
Valuation of investments in financial instruments					-2,203,291			-2,203,291
Capital, legal reserve, reserve for equity revaluation								0
Contributions for future capitalizations			25,400,000			-25,400,000		0
Payment of dividends						-10,828,175		-10,828,175
Transfer to accrued profits						40,104,353	-40,104,353	0
Appropriation legal reserve		4,010,435				-4,010,435		0
Depreciation year 2018 asset valued portion					-130,100	130,100		0
Asset valuation								0
Capital increase	25,400,000		-25,400,000					0
Profit for the year							59,517,011	59,517,011
<b>Balances as of Dec 31, 2018</b>	303,850,000	44,019,516	0	1,104,774	11,299,277	130,693	59,517,011	419,921,271

## Ratio between Total Technical Equity and Risk-Weighed Assets and Contingencies Banco de la Producción S.A. December 2017 – 2018

Units in USD

	Dec 2017	Dec 2018
Total primary technical equity	307,910,153	339,041,585
Total secondary technical equity	83,700,287	192,701,566
<b>Total Technical Equity</b>	<b>391,610,441</b>	<b>531,743,150</b>
Deductions to total technical equity	5,376,231	6,281,269
<b>Total Technical Equity</b>	<b>386,234,209</b>	<b>525,461,881</b>
Total risk-weighted assets and contingencies	3,450,743,768	3,890,730,332
<b>Required Technical Equity (9%)</b>	<b>310,566,939</b>	<b>350,165,730</b>
Surplus or deficit of required technical equity	75,667,270	175,296,151
Total assets and contingencies x 4%	204,499,266	235,127,916
<b>Solvency Index</b> (Technical equity / assets and risk-weighted contingencies)	<b>11.19%</b>	<b>13.51%</b>



## Summary of the Rating for the Loan and Contingencies Portfolio and Establishment of Provisions

### Banco de la Producción S.A. as of December 31, 2018

Units in USD

#### 231 A.1 Priority Commercial Credit

		Loans covered with self-liquidating guarantees	Balance subject to rating	% Participation	% Provision	Provisions required	Provisions established	Difference between required and established	Provisions mitigated by mortgage guarantees	Provisions surplus or deficit	
Total											
A1	Normal risk	233,524,565	65,869,571	167,654,994	11.97%	0.58%	2,335,246	1,344,919	990,327	990,327	0
A2		328,367,279	5,115,050	323,252,229	16.83%	1.46%	6,580,304	4,804,314	1,775,990	1,775,990	0
A3		1,107,969,814	30,121,689	1,077,848,125	56.77%	2.62%	46,067,609	28,993,880	17,073,729	17,073,729	0
B1	Potential risk	70,489,207	1,053,204	69,436,003	3.61%	4.07%	4,839,175	2,866,603	1,972,572	1,972,572	0
B2		6,764,983	0	6,764,983	0.35%	6.77%	820,989	458,151	362,839	362,839	0
C1	Deficient	4,923,536	0	4,923,536	0.25%	14.99%	1,347,990	738,164	609,826	609,826	0
C2		1,797,279	0	1,797,279	0.09%	47.58%	855,111	855,111	0	0	0
D	Doubtful collection	4,456,206	0	4,456,206	0.23%	73.90%	3,293,342	3,293,342	0	0	0
E	Loss	5,135,571	0	5,135,571	0.26%	100.00%	5,135,571	5,135,571	0	0	0
AL	100% self-liquidating guarantees	188,156,552	188,156,552	0	9.64%	0.00%	0	0	0	0	0
Total		1,951,584,993	290,316,066	1,661,268,926	100.00%	2.48%	71,275,336	48,490,052	22,785,283	22,785,283	0

#### 231 A.1 Common Commercial Credit

		Loans covered with self-liquidating guarantees	Balance subject to rating	% Participation	% Provision	Provisions required	Provisions established	Difference between required and established	Provisions mitigated by mortgage guarantees	Provisions surplus or deficit	
	Total										
A1		3,981,554	6,000	3,975,554	3.02%	0.97%	39,816	38,432	1,383	1,383	0
A2	Normal risk	4,093,434	0	4,093,434	3.11%	1.52%	81,869	62,050	19,819	19,819	0
A3		123,499,450	1,104,580	122,394,870	93.79%	2.80%	4,808,588	3,456,073	1,352,515	1,352,515	0
B1		73,870	0	73,870	0.06%	3.75%	4,432	2,773	1,659	1,659	0
B2	Potential risk	0	0	0	0.00%	0.00%	0	0	0	0	0
C1		15,374	0	15,374	0.01%	20.00%	3,075	3,075	0	0	0
C2	Deficient	0	0	0	0.00%	0.00%	0	0	0	0	0
			0								
D	Doubtful collection	11,962	0	11,962	0.01%	60.00%	7,177	7,177	0	0	0
E	Loss	0	0	0	0.00%	0.00%	0	0	0	0	0
AL	100% self-liquidating guarantees	0	0	0	0.00%	0.00%	0	0	0	0	0
Total		131,675,643	1,110,580	130,565,064	100.00%	2.71%	4,944,956	3,569,580	1,375,377	1,375,377	0

#### 231 A.5 Productive Credit

		Loans covered with self-liquidating guarantees	Balance subject to rating	% Participation	% Provision	Provisions required	Provisions established	Difference between required and established	Provisions mitigated by mortgage guarantees	Provisions surplus or deficit	
		Total									
A1		31,873,557	0	31,873,557	11.66%	0.63%	318,736	202,043	116,693	116,693	0
A2	Normal risk	43,349,283	73,603	43,275,680	15.86%	1.11%	866,986	482,008	384,978	384,978	0
A3		192,336,194	535,611	191,800,583	70.39%	2.24%	7,873,720	4,312,145	3,561,576	3,561,576	0
B1	Potential risk	3,409,886	0	3,409,886	1.25%	3.02%	204,593	102,999	101,594	101,594	0
B2		5,079	0	5,079	0.00%	10.00%	508	508	0	0	0
C1	Deficient	0	0	0	0.00%	0.00%	0	0	0	0	0
C2		0	0	0	0.00%	0.00%	0	0	0	0	0
D	Doubtful collection	137,491	0	137,491	0.05%	70.28%	96,629	96,629	0	0	0
E	Loss	23	0	23	0.00%	100.00%	23	23	0	0	0
AL	100% self-liquidating guarantees	2,132,518	2,132,518	0	0.78%	0.00%	0	0	0	0	0
	Total	273,244,032	2,741,732	270,502,300	100.00%	1.90%	9,361,195	5,196,354	4,164,840	4,164,840	0

#### 231 A.2 Common Consumer Credit

		Loans covered by self-liquidating guarantees	Balance subject to rating	% Participation	% Provision	Provisions required	Provisions established	Provisions surplus or deficit
	Total							
A1		0	94,409,551	87.48%	1.00%	944,096	944,096	0
A2	Normal risk	0	1,628,497	1.51%	2.00%	32,570	32,570	0
A3		0	6,879,953	6.37%	3.05%	209,806	209,806	0
B1	Potential risk	0	2,256,615	2.09%	6.08%	137,223	137,223	0
B2		0	901,469	0.84%	10.38%	93,530	93,530	0
C1	Deficient	0	766,841	0.71%	20.46%	156,883	156,883	0
C2		0	521,933	0.48%	41.61%	217,158	217,158	0
D	Doubtful collection	0	335,651	0.31%	62.01%	208,131	208,131	0
E	Loss	0	213,367	0.20%	100.00%	213,367	213,367	0
AL	100% self-liquidating guarantees	9,448	0	0.01%	0.00%	0	0	0
Total		9,448	107,913,877	100.00%	2.05%	2,212,763	2,212,763	0

Summary of the Rating for the Loan and Contingencies Portfolio  
and Establishment of Provisions  
Banco de la Producción S.A. as of December 31, 2018 (continued)

Units in USD

231 A.2 Priority Consumer Credit

	Total	Loans covered by self-liquidating guarantees	Balance subject to rating	% Participation	% Provision	Provisions required	Provisions established	Provisions surplus or deficit
A1	648,550,806	1,398,020	647,152,786	88.92%	1.00%	6,485,519	6,471,539	-13,980
A2 Normal risk	4,827,476	1,199	4,826,277	0.66%	2.00%	96,550	96,526	-24
A3	23,109,115	111,071	22,998,044	3.17%	4.17%	968,413	964,765	-3,648
B1 Potential risk	7,333,378	3,289	7,330,089	1.01%	7.19%	527,674	527,411	-263
B2	4,925,103	3,125	4,921,978	0.68%	13.85%	682,518	682,049	-469
C1	5,298,097	1,263	5,296,834	0.73%	25.98%	1,376,875	1,376,622	-253
C2 Deficient	6,182,261	0	6,182,261	0.85%	47.70%	2,948,807	2,948,807	0
D Doubtful collection	5,469,528	0	5,469,528	0.75%	75.05%	4,105,109	4,105,109	0
E Loss	5,047,911	0	5,047,911	0.69%	100.00%	5,047,911	5,047,911	0
AL 100% self-liquidating guarantees	18,621,397	18,621,397	0	2.55%	0.00%	0	0	0
<b>Total</b>	<b>729,365,071</b>	<b>20,139,365</b>	<b>709,225,706</b>	<b>100.00%</b>	<b>3.05%</b>	<b>22,239,376</b>	<b>22,220,739</b>	<b>-18,637</b>

231 A.3 Mortgage Loans

	Total	Loans covered by self-liquidating guarantees	Balance subject to rating	% Participation	% Provision	Provisions required	Provisions established	Provisions surplus or deficit
A1	206,356,948	48,476	206,308,473	80.87%	1.00%	2,063,570	2,063,085	-485
A2 Normal risk	19,027,330	34,776	18,992,554	7.46%	2.00%	380,547	379,851	-696
A3	17,094,902	0	17,094,902	6.70%	3.06%	523,041	523,041	0
B1 Potential risk	3,760,348	0	3,760,348	1.47%	6.85%	257,447	257,447	0
B2	1,426,071	0	1,426,071	0.56%	13.02%	185,679	185,679	0
C1	1,470,384	0	1,470,384	0.58%	25.72%	378,135	378,135	0
C2 Deficient	626,091	0	626,091	0.25%	46.17%	289,037	289,037	0
D Doubtful collection	1,784,764	0	1,784,764	0.70%	76.59%	1,366,900	1,366,900	0
E Loss	3,594,550	0	3,594,550	1.41%	100.00%	3,594,550	3,594,550	0
AL 100% self-liquidating guarantees	17,185	17,185	0	0.01%	0.00%	0	0	0
<b>Total</b>	<b>255,158,573</b>	<b>100,436</b>	<b>255,058,137</b>	<b>100.00%</b>	<b>3.54%</b>	<b>9,038,905</b>	<b>9,037,725</b>	<b>-1,180</b>

231 A.4 Microcredit

	Total	Loans covered by self-liquidating guarantees	Balance subject to rating	% Participation	% Provision	Provisions required	Provisions established	Provisions surplus or deficit
A1	9,467,066	0	9,467,066	87.99%	1.00%	94,671	94,671	0
A2 Normal risk	223,901	0	223,901	2.08%	2.00%	4,478	4,478	0
A3	192,161	0	192,161	1.79%	4.50%	8,647	8,647	0
B1 Potential risk	227,363	0	227,363	2.11%	8.00%	18,189	18,189	0
B2	117,239	0	117,239	1.09%	15.00%	17,586	17,586	0
C1	166,045	0	166,045	1.54%	30.00%	49,814	49,814	0
C2 Deficient	103,612	0	103,612	0.96%	50.00%	51,806	51,806	0
D Doubtful collection	126,675	0	126,675	1.18%	80.00%	101,340	101,340	0
E Loss	134,843	0	134,843	1.25%	100.00%	134,843	134,843	0
AL 100% self-liquidating guarantees	0	0	0	0.00%	0.00%	0	0	0
<b>Total</b>	<b>10,758,904</b>	<b>0</b>	<b>10,758,904</b>	<b>100.00%</b>	<b>4.47%</b>	<b>481,373</b>	<b>481,373</b>	<b>0</b>

Grand Total

	Total	Loans covered by self-liquidating guarantees	Balance subject to rating	% Participation	% Provision	Provisions required	Provisions established	Provisions surplus or deficit
Grand Total	3,459,710,541	314,417,627	3,145,292,914	100.00%	2.64%	119,553,904	91,208,587	-19,817

Summary of Rating of Investments and Other Assets and  
Establishment of Provisions  
Banco de la Producción S.A. as of December 31, 2018

Units in USD

231 B.1

Code	Investments	Nominal value	Market value	Specific provisions	General provisions for investments
1301	At reasonable value with changes in the P&L statement for private sector entities	0.00	0.00	0.00	0.00
1302	At reasonable value with changes in the P&L statement for public sector entities	0.00	0.00	0.00	0.00
1303	Available for sale by private sector entities	189,314,112.66	189,069,392.95	0.00	0.00
1304	Available for sale by the State or by public sector entities	140,567,733.35	139,939,809.04	0.00	0.00
	<b>Total</b>	<b>329,881,846.01</b>	<b>329,009,202.00</b>	<b>0.00</b>	<b>0.00</b>

Code	Investments	Value in books	Market value	Specific provisions	General provisions for investments
1202	Reporting operations with financial institutions	0.00	0.00	0.00	0.00
1305	Maintained at maturity private sector	3,457,757.20	3,457,757.20	75,306.80	0.00
1306	Maintained at maturity State or public sector entities	230,162,086.13	230,162,086.13	221,663.37	0.00
1307	Of restricted availability	14,098,266.00	14,098,266.00	0.00	0.00
190205	Fiduciary rights – investments	0.00	0.00	0.00	0.00
	<b>Total</b>	<b>247,718,109.32</b>	<b>247,718,109.32</b>	<b>296,970.16</b>	<b>0.00</b>

231 B.2

Other assets	Total	% Risk	Provisions required	Provisions established	Provisions surplus or deficit
A1	22,234,941.07	71.64%	174,716.49	195,494.40	20,777.91
A2 Normal risk	1,164,769.09	3.75%	23,295.38	23,295.38	0.00
A3	518,933.97	1.67%	20,757.36	20,757.36	0.00
B1 Potential risk	174,740.80	0.56%	13,105.59	13,105.59	0.00
B2	198,932.43	0.64%	28,845.23	28,845.23	0.00
C1 Deficient	188,364.56	0.61%	55,567.57	55,567.57	0.00
C2	139,065.01	0.45%	68,837.20	68,837.20	0.00
D Doubtful collection	771,800.08	2.49%	613,581.09	613,581.09	0.00
E Loss	5,645,866.17	18.19%	5,645,866.17	5,645,866.17	0.00
Evaluated	31,037,413.18	100.00%	0.00	0.00	0.00
Not evaluated	0.00	0.00%	0.00	0.00	0.00
<b>Total</b>	<b>31,037,413.18</b>	<b>100.00%</b>	<b>6,644,572.08</b>	<b>6,665,349.99</b>	<b>20,777.91</b>

% of other assets evaluated [(evaluated / total) 100] = 100.00%

% of risk other assets evaluated [(prov. required / evaluated) 100] = 21.41%

231 B.3

Assets in lieu of payment	Total	Provisions required (a)	Provisions required by valuation (b)	Total provisions required	Provisions established	Provisions surplus or deficit
Risks	8,945,882.87	4,545,697.23	111,795.54	4,657,492.77	4,659,837.93	2,345.16
<b>Total</b>	<b>8,945,882.87</b>	<b>4,545,697.23</b>	<b>111,795.54</b>	<b>4,657,492.77</b>	<b>4,659,837.93</b>	<b>2,345.16</b>

(a) Provisions Required: Art. 195 of the *Organic Monetary and Financial Code*.

(b) Provisions Required by Valuation: Second paragraph, numeral 3, article 5, section II, chapter II, title IX, book 1 of the Coding of the *Superintendencia de Bancos y Seguros* (Office of the Banking and Insurance Superintendent) of the *Junta Bancaria* (Banking Board).



## General Balance Externalización de Servicios S.A.

Thousands of USD

	2017	2018	% Growth
<b>Assets</b>			
Available funds	3,282	3,273	-0.27%
Inter-bank operations and investments			
Loan portfolio			
Debtors by acceptances			
Accounts receivable	1,202	1,436	19.48%
Realizable assets, adjudicated in lieu of payment			
Property and equipment	917	1,043	13.68%
Other assets	1,055	1,258	19.20%
<b>Total Assets</b>	<b>6,456</b>	<b>7,009</b>	<b>8.57%</b>
<b>Liabilities</b>			
Liabilities with the public			
Inter-bank operations			
Commercial paper			
Acceptances outstanding			
Accounts payable	2,137	2,415	13.02%
Financial liabilities			
Securities outstanding			
Contributions for future capitalizations			
Other liabilities			
<b>Total Liabilities</b>	<b>2,137</b>	<b>2,415</b>	<b>13.02%</b>
<b>Total Equity</b>	<b>4,319</b>	<b>4,594</b>	<b>6.36%</b>
<b>Total Liabilities and Equity</b>	<b>6,456</b>	<b>7,009</b>	<b>8.57%</b>

## Profit and Loss Statement Externalización de Servicios S.A.

Thousands of USD

	2017	2018	% Growth
<b>Income</b>			
Interest earned and discounts	11	15	34.25%
Commissions earned			
Financial profit			
Service income	16,705	18,200	8.95%
Other operational income			
Other income	437	318	-27.29%
<b>Total Income</b>	<b>17,153</b>	<b>18,533</b>	<b>8.05%</b>
<b>Expenses</b>			
Interest caused			
Commissions caused			
Financial losses			
Provisions			
Operational expenses	14,991	16,519	10.19%
Other operational losses			
Other expenses and losses			
Employee taxes and profit sharing			
<b>Total Expenses</b>	<b>14,991</b>	<b>16,519</b>	<b>10.19%</b>
Profit before provision for personnel participation and income tax	2,162	2,014	-6.82%
Provision for employee profit sharing	323	291	-9.75%
Profit before provision for income tax	1,839	1,723	-6.30%
Provision for income tax	446	461	3.40%
<b>Net Profit</b>	<b>1,393</b>	<b>1,262</b>	<b>-9.41%</b>

## General Balance Trámites Profesionales S.A. Protrámites

Thousands of USD

	2017	2018	% Growth
<b>Assets</b>			
Available funds	367	1,379	275.75%
Inter-bank operations and investments			
Assets available for sale – purchased portfolio	778	518	-33.42%
Debtors by acceptances			
Accounts payable	10	2	-80.00%
Realizable assets, adjudicated in lieu of payment			
Property and equipment	190	192	1.05%
Other assets	132	111	-15.91%
<b>Total Assets</b>	<b>1,477</b>	<b>2,202</b>	<b>49.09%</b>
<b>Liabilities</b>			
Obligations with the public			
Inter-bank operations			
Commercial paper			
Acceptances outstanding			
Accounts payable	812	1,125	38.55%
Financial liabilities			
Contributions for future capitalizations	285	285	
Other assets		5	
<b>Total Liabilities</b>	<b>1,097</b>	<b>1,415</b>	<b>28.99%</b>
<b>Total Equity</b>	<b>380</b>	<b>787</b>	<b>107.11%</b>
<b>Total Liabilities and Equity</b>	<b>1,477</b>	<b>2,202</b>	<b>49.09%</b>

## Profit and Loss Statement Trámites Profesionales S.A. Protrámites

Thousands of USD

	2017	2018	% Growth
<b>Income</b>			
Interest earned and discounts	76	145	90.79%
Commissions earned			
Financial profit			
Service income	2,081	2,241	7.69%
Other operational income	244	510	109.02%
Other income	3	26	766.67%
<b>Total Income</b>	<b>2,404</b>	<b>2,922</b>	<b>21.55%</b>
<b>Expenses</b>			
Interest caused			
Commissions caused			
Financial losses			
Provisions			
Operational expenses	2,133	2,049	-3.94%
Other operational losses			
Other expenses and losses	3	4	33.33%
Employee taxes and profit sharing			
<b>Total Expenses</b>	<b>2,136</b>	<b>2,053</b>	<b>-3.89%</b>
Profit before provision for personnel participation and income tax	268	869	224.25%
Provision for employee profit sharing	40	127	217.50%
Profit before provision for income tax	228	742	225.44%
Provision for income tax	62	224	261.29%
<b>Net Profit</b>	<b>166</b>	<b>518</b>	<b>212.05%</b>



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FREE ENGLISH-LANGUAGE TRANSLATION OF SPANISH-LANGUAGE ORIGINAL AUDITORS' REPORT

Independent Auditors' Report

To the Board of Stockholders and Board of Directors of  
Banco de la Producción S. A. Produbanco:

Opinion

We have audited the accompanying consolidated financial statements of Banco de la Producción S. A. Produbanco and Subsidiaries ("the Group"), which comprise the consolidated balance sheet at December 31, 2018, and the consolidated statements of income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information. The consolidated financial statements have been prepared by Management based on accounting norms and practices established by the Superintendency of Banks of Ecuador and the Monetary and Financial Policy and Regulation Board.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Banco de la Producción S. A. Produbanco at December 31, 2018, and its consolidated financial performance and its cash flows for the year then ended in accordance with accounting norms and practices established by the Superintendency of Banks of Ecuador and the Monetary and Financial Policy and Regulation Board.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the "Auditors' Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with the Ethic Code for Accountant professionals of the International Ethics Standards Board for Accountants (IESBA Ethic Code) together with independence requirements of the Superintendency of Banks of Ecuador, and we have fulfilled our other ethical responsibilities in accordance with said Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

(Continued)

Emphasis of Matter

Accounting Basis

We report that as mentioned in Note 2, the consolidated financial statements referred to in the first paragraph have been prepared in accordance with accounting norms and practices established by the Superintendency of Banks of Ecuador and the Monetary and Financial Policy and Regulation Board, which differ from International Financial Reporting Standards – IFRS. These preparation bases were adopted to comply with provisions issued by Superintendency of Banks of Ecuador and the Monetary and Financial Policy and Regulation Board; consequently, these consolidated financial statements may not be suitable for any other purpose.

Other Matter

We report that the Bank's consolidated financial statements for the year ended on December 31, 2017 were audited by another auditors, who expressed an unqualified opinion on February 26, 2018.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of Commercial Loan Portfolio and Contingencies and Establishment of Provisions	How the key matter was addressed in the audit
The Bank quarterly performs the valuation of commercial and productive loan portfolio over US\$40 thousand and contingencies through the application of an internal model approved by the Superintendency of Banks of Ecuador, in order to determine the provision levels to be accounted for. This is a systematized model and uses certain statistic parameters to assess payment capacity, and includes a credit analysis and sector risk per each client. In addition, the valuation and final provision, are subject to adjustments as a result of a personalized analysis. Due to the complexity of the estimation and the importance of the balances subject to provision we believe the valuation of commercial loan portfolio and contingencies as a key audit matter.	Our audit procedures mainly included: testing the design, and implementation and operating effectiveness of the relevant manual and automatic controls related to the valuation of commercial, productive loan portfolio and contingencies.  For a sample of commercial and productive loans with specific provisions, as well as clients that presented modifications on risk rating compared to the previous period, reviewing their credit files and the re-process of qualification allocated by the application of parameters established in the Banks' internal model.  No material differences were identified as a result of the procedures performed.

(Continued)



<b>Operations of Technology Systems and Controls</b>	<b>How the key matter was addressed in the audit</b>
<p>The Bank mostly depends on computer systems to process and record its operations. The Bank's technology environment has several applications, databases and operating systems that have been implemented for the different business processes, thus increasing the technological complexity.</p> <p>The preparation of the financial statements depends on effectiveness of the internal technology control; therefore, we believe the assessment of system operations and technology controls as a key audit matter.</p>	<p>Our audit procedures mainly included: assessing general controls of data processing environment and key controls of critical applications related to collocations, deposits and financial information, we were assisted by our information technology specialists who, within the scope, examined the control environment, change management, control and operation security. In addition, for the applications and databases with direct impact on our tests, performing procedures to verify if the information reflected in the financial reports is appropriate.</p> <p>No material differences were identified as a result of the procedures performed.</p>
<b>Income Recognition</b>	<b>How the key matter was addressed in the audit</b>
<p>The recognition of interest earned related to the loan portfolio represents the most significant item in the Bank's consolidated statement of income.</p> <p>Interest is calculated according to the rates established by the Monetary and Financial Policy and Regulation Board, which depends on variables according to the type of the credit operation granted under several modalities, their default, existence of readjustments or payments, among others, which impacts on the complexity of the recognition process.</p>	<p>Our audit procedures mainly included: assessing and validating general technology controls and the design and operating effectiveness of the systems and controls relevant for income recognition per interest of loan portfolio, such as: classification of loan portfolio, parameterization of interest rates, and parameterization of the calculation of interest receivable or earned. In addition, performing a global calculation of interest earned monthly through the use of an average rate.</p> <p>No material differences were identified as a result of the procedures performed.</p>

#### **Other Information**

Management is responsible for preparing the other information presented together with the consolidated financial statements, which comprises the "Board's Report" and the "Annual Report", and does not include the consolidated financial statements and our auditors' report thereon. We expect this information to be made available after the date of this report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent between this information and the separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

(Continued)

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If, after reading the "Board's Report" and the "Annual Report", we conclude that there is a material misstatement of this other information, we are required to report that fact to the Board and the Bank's Management.

#### **Responsibilities of Management and Board of Directors for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the accounting norms and policies established by the Superintendency of Banks of Ecuador and the Monetary and Financial Policy and Regulation Board and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, Management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Management is responsible for overseeing the Group's financial reporting process.

#### **Auditors' Responsibilities for the Audit of the Consolidated Financial Statements**

Our objective is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISAs) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

As part of our audit in accordance with International Standards on Auditing (ISAs), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

(Continued)

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- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Bank's Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provided to the Group's Management a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the Group's Management, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The financial statements and auditor's report have been translated from those issued in Ecuador from the Spanish language original and the information reported is consistent with the audited financial statements from which it is derived. Therefore, the accompanying financial statements are not intended to present the financial position, financial performance or cash flows in accordance with the accounting principles and practices generally accepted in countries and jurisdictions other than the Republic of Ecuador.

KPMG del Ecuador

February 8, 2019

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## Report by the Independent Auditors Banco de la Producción S.A.



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### FREE ENGLISH-LANGUAGE TRANSLATION OF SPANISH-LANGUAGE ORIGINAL AUDITORS' REPORT

#### Independent Auditors' Report

To the Board of Stockholders and Board of Directors of  
Banco de la Producción S. A. Produbanco:

#### **Opinion**

We have audited the accompanying separate financial statements of Banco de la Producción S. A. Produbanco ("the Bank"), which comprise the balance sheet at December 31, 2018, and the statements of income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information. The separate financial statements have been prepared by Management based on accounting norms and practices established by the Superintendency of Banks of Ecuador and the Monetary and Financial Policy and Regulation Board.

In our opinion, the separate financial statements present fairly, in all material respects, the separate financial position of Banco de la Producción S. A. Produbanco at December 31, 2018, and its separate financial performance and its cash flows for the year then ended in accordance with accounting norms and practices established by the Superintendency of Banks of Ecuador and the Monetary and Financial Policy and Regulation Board.

#### **Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the "Auditors' Responsibilities for the Audit of the Financial Statements" section of our report. We are independent of the Bank in accordance with the Ethic Code for Accountant professionals of the International Ethics Standards Board for Accountants (IESBA Ethic Code) together with independence requirements of the Superintendency of Banks of Ecuador, and we have fulfilled our other ethical responsibilities in accordance with said Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

(Continued)

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#### Emphasis of Matter

##### Accounting Basis

We report that as mentioned in Note 2, the separate financial statements referred to in the first paragraph have been prepared in accordance with accounting norms and practices established by the Superintendency of Banks of Ecuador and the Monetary and Financial Policy and Regulation Board, which differ from International Financial Reporting Standards – IFRS. These preparation bases were adopted to comply with provisions issued by Superintendency of Banks of Ecuador and the Monetary and Financial Policy and Regulation Board; consequently, these financial statements may not be suitable for any other purpose.

##### Consolidated Financial Statements

As mentioned in Note 1, the Bank's financial statements have to be filed separate and consolidated with its subsidiaries; therefore, the consolidated financial statements are presented separately. The accompanying separate financial statements are to be read together with the consolidated financial statements.

##### Other Matter

We report that the Bank's financial statements for the year ended on December 31, 2017 were audited by another auditors, who expressed an unqualified opinion on February 26, 2018.

##### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<b>Valuation of Commercial Loan Portfolio and Contingencies and Establishment of Provisions</b>	<b>How the key matter was addressed in the audit</b>
The Bank quarterly performs the valuation of commercial loan portfolio over US\$40 thousand and contingencies through the application of an internal model approved by the Superintendency of Banks of Ecuador, in order to determine the provision levels to be accounted for. This is a systematized model and uses certain statistic parameters to assess payment capacity, and includes a credit analysis and sector risk per each client. In addition, the valuation and final provision, are subject to adjustments as a result of a personalized analysis. Due to the complexity of the estimation and the importance of the balances subject to provision we believe the valuation of commercial loan portfolio and contingencies as a key audit matter.	<p>Our audit procedures mainly included: testing the design, and implementation and operating effectiveness of the relevant manual and automatic controls related to the valuation of commercial loan portfolio and contingencies. For a sample of commercial loans with specific provisions, as well as clients that presented modifications on risk rating compared to the previous period, reviewing their credit files and the re-process of qualification allocated by the application of parameters established in the Banks' internal model.</p> <p>No material differences were identified as a result of the procedures performed.</p>

(Continued)

<b>Operations of Technology Systems and Controls</b>	<b>How the key matter was addressed in the audit</b>
The Bank mostly depends on computer systems to process and record its operations. The Bank's technology environment has several applications, databases and operating systems that have been implemented for the different business processes, thus increasing the technological complexity. The preparation of the financial statements depends on effectiveness of the internal technology control; therefore, we believe the assessment of system operations and technology controls as a key audit matter.	<p>Our audit procedures mainly included: assessing general controls of data processing environment and key controls of critical applications related to collocations, deposits and financial information, we were assisted by our information technology specialists who, within the scope, examined the control environment, change management, control and operation security. In addition, for the applications and databases with direct impact on our tests, performing procedures to verify if the information reflected in the financial reports is appropriate.</p> <p>No material differences were identified as a result of the procedures performed.</p>
<b>Income Recognition</b>	<b>How the key matter was addressed in the audit</b>
The recognition of interest earned related to the loan portfolio represents the most significant item in the Bank's separate statement of income. Interest is calculated according to the rates established by the Monetary and Financial Policy and Regulation Board, which depends on variables according to the type of the credit operation granted under several modalities, their default, existence of readjustments or payments, among others, which impacts on the complexity of the recognition process.	<p>Our audit procedures mainly included: assessing and validating general technology controls and the design and operating effectiveness of the systems and controls relevant for income recognition per interest of loan portfolio, such as: classification of loan portfolio, parameterization of interest rates, and parameterization of the calculation of interest receivable or earned. In addition, performing a global calculation of interest earned monthly through the use of an average rate.</p> <p>No material differences were identified as a result of the procedures performed.</p>

##### Other Information

Management is responsible for preparing the other information presented together with the separate financial statements, which comprises the "Board's Report" and the "Annual Report", and does not include the separate financial statements and our auditors' report thereon. We expect this information to be made available after the date of this report.

Our opinion on the separate financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent between this information and the separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

(Continued)



If, after reading the "Board's Report" and the "Annual Report", we conclude that there is a material misstatement of this other information, we are required to report that fact to the Board and the Bank's Management.

**Responsibilities of Management and Board of Directors for the Separate Financial Statements**

Management is responsible for the preparation and fair presentation of these separate financial statements in accordance with the accounting norms and policies established by the Superintendency of Banks of Ecuador and the Monetary and Financial Policy and Regulation Board and for such internal control as management determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate financial statements, Management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Management is responsible for overseeing the Bank's financial reporting process.

**Auditors' Responsibilities for the Audit of the Separate Financial Statements**

Our objective is to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISAs) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

As part of our audit in accordance with International Standards on Auditing (ISAs), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

(Continued)

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- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Bank's Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provided to the Bank's Management a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the Bank's Management, we determine those matters that were of most significance in the audit of the separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The financial statements and auditor's report have been translated from those issued in Ecuador from the Spanish language original and the information reported is consistent with the audited financial statements from which it is derived. Therefore, the accompanying financial statements are not intended to present the financial position, financial performance or cash flows in accordance with the accounting principles and practices generally accepted in countries and jurisdictions other than the Republic of Ecuador.

KPMG del Ecuador

February 8, 2019

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## INTERNAL AUDITING REPORT

Quito, February 26, 2019

Messieurs

**SHAREHOLDERS**

**BANCO DE LA PRODUCCIÓN S.A. PRODUBANCO**

Quito, Ecuador

Messrs. Shareholders,

In my standing as Internal Auditor, appointed by the General Board of Shareholders of the Bank, and in compliance of stipulations in force, I hereby issue the following report:

The report herein contains the opinion regarding: the financial reports as of December 31, 2018, the degree of compliance of legal and statutory stipulations, internal regulations, and of the regulations instructed by the Control Entities, as well as the quality of the internal control system.

My opinion is based on the control review, tests, and evaluations performed during the year 2018; the review was performed in keeping with auditing norms, which demand that they be complied with pertinent ethical requirements, that we plan and conduct an audit to obtain reasonable certainty about whether the financial statements contain significant errors. An audit also includes, based on tests, the examination of evidence that supports the amounts contained in the financial statements, along with the evaluation of the internal control system, the evaluation of financial practices applied, the principles used, and the significant calculations performed by the Administration. I consider that the tests performed, which were executed pursuant to the annual work plan approved by the Comité de Auditoría y Directorio del Banco (Auditing Committee and Bank Board) and communicated to the *Superintendencia de Bancos del Ecuador* (Banking Board of Ecuador), provide a reasonable basis to express an opinion.

1. Concerning the financial statements::

- a. In reference to the portfolio, I verified that the credit operations have been indeed granted in compliance with legal stipulations and standards in force, and by applying the policies approved by the Board.

The established provisions satisfy the requirements established by the norms stipulated by the Banking Board of Ecuador.

During this period, no operations have been identified that were granted to persons linked to the Bank.

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- b. Investments in securities have been performed based on quotas and limits approved by the Board.

- c. Both in active and passive operations, the Bank has been compliant with the norm of transparency of information.

2. The *front line liquidity index* of Produbanco had an annual average level of 32.45%, every month surpassing the minimum established by the Banking Board of Ecuador.

3. The ratio *Technical Equity to risk-weighted assets* of the Bank presents a surplus position of USD 175.29 million, which is equivalent to a solvency indicator of 13.51%, higher than the required 9%.

4. Tax and labor liabilities are being fulfilled adequately.

5. The Bank and its Subsidiaries maintain a reasonable internal control system for their transactions and processes, which imbues its operations with an adequate degree of security.

6. In reference to the control system for the prevention of asset laundering stemming from illegal activities at the Bank and its Subsidiaries, I can conclude that this item generally observes the requirements established by current legal stipulations and the norms established by both the Banking Board of Ecuador as well as by the *Unidad de Análisis Financiero y Económico* – UAFE (Financial and Economic Analysis Unit), covers the entity's operations, is applied at all offices, and is socialized to all personnel through the means available to the Bank.

7. Regarding the norms for integral risk management, in general, the Bank has complied with the terms and deadlines established by the Banking Board of Ecuador. The administration of the Bank issued the policies and procedures necessary for the implementation of a comprehensive risk management. There is an adequate evaluation of the exposure to various types of risks, and the Board is informed with the periodicity established by the Board concerning its administration.

### OPINION

The financial statements are the responsibility of the Bank's Administration. My responsibility as Internal Auditor is to express an opinion on the reasonability of said financial statements based on practiced auditing tests.

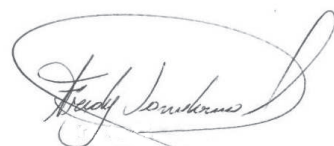
In my opinion, the general balance, as well as the profit and loss statement as of December 31, 2018 of Produbanco and of its Subsidiaries, are reasonably presented, pursuant to generally accepted

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accounting standards and practices established by the Banking Board of Ecuador and further regulatory and control agencies.

Furthermore, I can report that Produbanco and its Subsidiaries have an adequate level of internal control, comply with legal stipulations in force, their transactions respond to the banking technique and adjusts itself to the policies and procedures approved by the Board, as well as by current legal norms.



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**INTERNAL AUDITOR**

## Credits

### Coordination

Planning and Development

### Graphic Line

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