



2019 Annual Report



Grupo Promerica: Ecuador | Costa Rica | El Salvador | Guatemala
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Message from the Chairman of the Board

Grupo Promerica

After more than a quarter of a century promoting the progress of communities and contributing to the success of individuals and businesses considering their capacities and possibilities, we are pleased to share that we have two million four hundred thousand customers and over 13 thousand employees in the nine countries where we operate.

Throughout the year 2019, the consolidation at the internal level of *Grupo Promerica* continued through two important events. The first was to

renew our Vision, Mission and Values, aware that a great brand is built from within, just as how values in a family are transmitted. Employees were the first to ascertain our brand manifesto by means of a series of activities related to the new strategy, which motivates us to continue improving our lives and to become promoters of progress, both inside and outside the organization.

The second event was the institutionalization of the *International Volunteer Day* at

Promerica, in which the nine banks that make up the Group simultaneously carried out various activities with social and environmental ends. In Ecuador, employees carried out reforestation efforts at the *Yanacocha Reserve* located about an hour and a half from Quito; in *Ayampe - Puerto López* from the cities of Manta and Guayaquil, as well as in Cuenca at the *Yunguilla Reserve*. In Guatemala, a reforestation day in *San Cristóbal El Alto* (Sacatepéquez) was conducted. In El Salvador, a biogas generation

system was installed in a school for students in order to learn to recycle and cultivate a school garden. In Honduras, food and clothing were collected that were delivered to retirement homes managed by the *San Felipe Hospital* (Tegucigalpa) and in *San Vicente de Paúl* (San Pedro Sula), and a day of entertainment was held for them. In Nicaragua, support was provided to children and adolescents with special needs of the *Hogar Pajarito Azul*. In Costa Rica, we conducted a solidarity drive at the *Hogar Siembra*, an organization

attached to the *Patronato Nacional de la Infancia* (National Children's Trust—PANI), which is dedicated to the rescue of young women and girls under social risk. In Grand Cayman, we carried out a cleanup at the *Siete Millas* public beach. In light of breast cancer awareness month, the Dominican Republic gave talks on the importance of preventing disease through self-examination, and in addition, we carried out reforestation efforts at *Arenoso* and *Villa Altagracia*, as did employees in Panama, at the *Metropolitan Park* of the Republic of Panama.

Reiterating our commitment to sustainable development, we conducted two significant activities: the launch, in alliance with the FMO—Development Bank of The Netherlands—, of the Spanish version of the book *Banca Para un Mundo Mejor* (Banking for a Better World), which was presented in Ecuador and Costa Rica, countries that consolidated strong leadership in strengthening the policies of Sustainable Banking. This book invites us to be agents of change.

The second important activity was the signing by *Banco Pichincha* Ecuador, *Banpro* Nicaragua, and *Banco Promerica* Costa Rica, of the financial initiative *Principios de Banca Responsable* (Principles of Responsible Banking) promoted by the *UN Environment Programme* and the global financial sector. This

proposal establishes a road map to integrate sustainability into all areas of business, and defines the role and responsibility of the Banking Sector in the achievement of the *Sustainable Development Goals* of the United Nations and of the 2015 *Paris Accord on Climate Change*. We reaffirm our commitment with the goals of Sustainable Development to leave a better world for future generations.

We continue working ties with the institutions of the international financial community that have provided access to lines of credit in various countries. In Ecuador, we received support from various agencies such as: IFC—International Finance Corporation—, *responsAbility*, *DW Markets*, *Actiam Financial Inclusion Fund*, FMO and OeEB—*Development Bank of Austria*—, entities that have granted long-term funds for Small and Medium-sized Enterprises (SMEs), Sustainable Finance, and Gender Equality; as well as the CAF—*Corporación Andina de Fomento*, IDB Invest, *Bladex—Foreign Trade Bank of Latin America*, *Bicsa* and *Banco Aliado*, which have given short-term resources for foreign trade. In Guatemala, we signed an agreement with the DEG—*German Development Corporation*, and *Proparco—French Development Bank*, which provides funds for the financing of SMEs and in this way contribute to the development of new businesses thus strengthening the economy of that country. In El

Salvador, *Symbiotics* has allowed us to contribute toward development and competitiveness through a facility granted by the *Bond Investment Fund for Micro, Small and Medium-sized Enterprises*; Norfund—*Corporation for the Development of Norway*— gave us subordinated debt to leverage plans and growth opportunities in SMEs; *Proparco* also provided us with resources for the SME portfolio; IDB Invest and CABEL—*Central American Bank for Economic Integration*, increased their support for destinations geared to international trade, green lines, and gender equality. In Nicaragua, in order to support the various economic sectors of the country, and especially the agro-export sector, we signed a financing program with *Credit Suisse*, which also involved institutions such as IDB Invest, the *China Co-financing Fund for Latin America and the Caribbean*, *responsAbility*, among others, and in addition, obtained a significant increase in the global line of credit signed with the CABEL—*Central American Bank for Economic Integration*. In the Dominican Republic, we held our first bond issue for subordinated debt, which will allow us to strengthen the growth strategy in that country; on its part, *Bladex* awarded funds for the development of foreign trade. Costa Rica received financing from IDB Invest, *SDR, Finance in Motion*, *responsAbility*, *Symbiotics*, *Blue Orchard*, and CABEL to strengthen the family of sustainable

products: SMEs, Green Credits and Agribusiness. Norfund invested in subordinated bonds and in addition implemented technical assistance on behalf of IDB Invest, *Proparco*, and FMO to measure impact, carry out a communications campaign, strengthen SME strategies, and raise the standards of the *Management Program for Environmental and Social Risk* (SARAS). In Panama, we received significant support from IDB Invest for the financing of SMEs, and *Bladex* granted resources for foreign trade and working capital; we renewed the credit line with CABEL slated to support SMEs, productive sectors, and working capital; similarly, we received technical assistance from IDB Invest for the development of the *Policy for Sustainability and Green Products*.

We will continue to strengthen and expand our institutions, building up, even more, our banking relationships with individuals and companies so they may all be able to take advantage of the opportunities for growth and advancement presented to them in order to reach their goals.

I would like to conclude by thanking our customers, shareholders, and partners, who make it possible for us to transmit to them our goals and values thus supporting the growth of our organization; thanks to them, we provide well-being and a means for progress to the communities we serve.



Ramiro Ortiz Mayorga
Chairman of the Board
Promerica Financial Corporation



Strategic Guidelines

Grupo Promerica

Vision

At Grupo Promerica, we believe that all persons and companies in our communities should overcome their limits in order to achieve the success they deserve.

Mission

To promote a banking relationship that develops relationships and offers products and services to our communities helping them to overcome their limits, whether cultural, economic, personal, or geographic.

Values

- Ongoing Empathy
- Natural Entrepreneurs
- Shared Trust
- Common Culture



Message from the Chief Executive Officer

Produbanco

I have the pleasure to present to you the financial statements of Produbanco and its subsidiaries corresponding to the 2019 fiscal year.

We are committed to each day accompanying persons and enterprises to overcome their limits, share best experiences, and strengthen long-term relationships through a proactive management style that will lead us to *be the best of the best* in order to transcend the lives of people.

Our strategic vision toward 2023 is geared, mainly, around one of our pillars: *cultural transformation that ensures success of digital transformation*.

We have built a solid technological infrastructure aligned with our institutional values that have been internalized by our

employees. The digital transformation strategy we are intent on is directed toward digital leadership in order to provide added value to our customers.

This is how through the Center for Innovation, and by virtue of being focused on our customers, day in and day out we drive the development of new ideas through agile methodologies and multidisciplinary teams in order to offer financial solutions adapted to the needs of the various business segments.

In addition, the orientation toward sustainability forms an integral part of our strategic plan by being a pillar that goes beyond a simple statement, since we seek to incorporate it seamlessly in the management of all areas as a part of our business model by using a crosscutting strategy in any of the actions we execute.

In Ecuador, we are members of the *Global Pact* and we foster the *Sustainable Finance Protocol* in conjunction with *Asobanca*— Association of Banks of Ecuador— and other banks in the country. In September, *Produbanco*, *Banco Promerica* Costa Rica, and *Banpro* Nicaragua, representatives of *Grupo Promerica*, joined as *founding signatories of the Principles of Responsible Banking of the United Nations*. The challenge is, from our role as a bank, to involve the community and everyone in this path of sustainability. By virtue of being leaders in sustainable finance, we encourage all of our stakeholders to also become agents of change through sustainable practices.

Based on the trust that customers, shareholders and associates place on us, we reiterate our commitment to contribute to the advancement of society.

Much of what we have accomplished during this year we owe it to the conviction and support of those who believe in our work, as they have been our motivation to continue in the quest for opportunities and paths in efficiency within an environment of constant challenges.

Sincerely,

Ricardo Cuesta Delgado
Chief Executive Officer
Produbanco - 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 overcome their limits, share best experiences, and strengthen long-term relationships.

Strategic Pillars

- Cultural transformation that ensures success of digital transformation
- Data-driven organization.
- Strategic segmentation-based customer behavior to offer memorable experiences.
- Decentralized growth in all segments and geographies.
- Responsible management of assets and risks.
- Commitment to sustainability and corporate social responsibility.

Corporate Values

- Our essence is the customer
- We make the difference
- Our ideas build
- We are a single team
- We comply with our commitment

Board of Directors

Produbanco



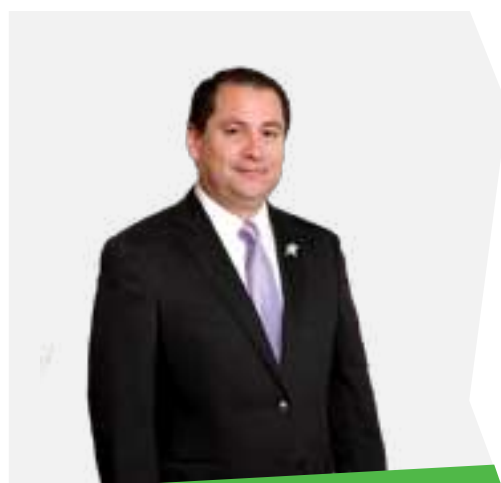
Francisco Martínez Henares
Chairman



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



Mauricio Argüello Godoy
Deputy Director



Jaime Dávalos Fernández-Salvador
Deputy Director



Francisco Rodríguez Vásconez
Deputy Director



Diego Mosquera Pesantes
Deputy Director

Senior Executives

Produbanco



Ricardo Cuesta Delgado
Chief Executive Officer



Juan Manuel Borrero Viver
Executive Vice President
Management Oversight



Martha Cecilia Paredes Díaz
Executive Vice President
Management Support



Rubén Eguiguren Arias
Vice President
Corporate Banking



José Ricaurte Vela
Vice President
Retail Banking

Senior Executives

Produbanco



Sebastián Quevedo Holguín
Vice President
Payment Channels



José Antonio Costa Viver
Vice President
Guayaquil Branch



Carolina Andrade Gallegos
Vice President
Institutional Segment



María Isabel Román Albornoz
Vice President
Highlands Distribution

Senior Executives

Produbanco



Jorge Alvarado Carrera
Vice President
Legal Affairs



Fabián Garzón Abad
Vice President
Planning and Development



Fredy Sandoval Cerda
Internal Auditor



Gustavo Orbe Montenegro
Vice President
Risk Management



Aníbal Salazar Buenaño
Alternate Compliance Officer

Senior Executives

Produbanco



Esteban Vásconez Riofrío
Vice President
Financial Oversight



Rafael Roca Moreno
Vice President
Operational Services



Eduardo Lafebre Quirola
Vice President
People and Culture



Javier Hidalgo Estévez
Vice President
Technological Services



Report of the Board of Directors

Dear Shareholders:

Through this report, we present the main actions carried out by the Bank during the 2019 fiscal year and the various achievements attained for the benefit of our stakeholders.

In this regard, we have the firm conviction that communication and transparency are the essential foundation of good Corporate Governance, therefore, throughout 2019 we conducted quarterly *Shareholder Breakfasts*, which comprised events to share first-hand the most relevant aspects of our administration within a space of proximity with all our Shareholders.

The Board of Directors, through its active participation and involvement in the various Regulatory Committees,

supports the Administration in the development of the *Strategic and Tactical Plan*, as well as in the attainment of its goals and objectives in order to reach the institutional strategic vision towards 2023. *Produbanco will consolidate its growth and diversification through cultural transformation, which will allow it to become the digital leader in offering memorable experiences to its Clients under the framework of comprehensive risk management and commitment with sustainability and social responsibility.*

As a result of five years of execution of a clear growth strategy and improvement of market participation during which the financial indicators have been maintained and strengthened, the PCR—*Pacific Credit Rating* risk agency increased

Produbanco's score to AAA with a stable perspective, and *BankWatch Ratings* and *Fitch Ratings* (at an international scale) ratified their AAA- and B- ratings, respectively, who confirm the solidity, profitability, reputation, and access to institutional financing sources.

The excellent figures and results were recognized for the tenth time by the magazine *The Banker*, which recognized Produbanco as Bank of the Year - 2019 for Ecuador. Furthermore, the Bank was the recipient of other important distinctions by specialized publications that recognize categories such as Quality and Customer Satisfaction, Innovation and Digital Transformation, Corporate Governance and other, which are specified in our Annual Report and are available for your perusal.

We will constantly transform in order to offer to our more than one million customers the best digital experience with easily accessible and usable products and services, in any device, with ease and speed. We incorporated new functionalities in the *Mobile App* among which we can highlight: quick access with face recognition and digital fingerprint, push alerts, and QR Code payments.

We continue to increase our national coverage in order to be closer to our Clients and to provide them with specialized financial advice, as well as transactional services through face-to-face channels, through a network of 117 branches and bank agencies, 379 ATMs, 66 *Servipagos* agencies, and 7,238 *Pagoágil* points nationwide, from our subsidiary *Externalización de Servicios S.A.—Exsersa*.

We opened two flagship agencies in the cities of Milagro (Guayas) and Portoviejo (Manabí), besides modern bank branches in Pasaje, Tulcán, and Cayambe. We participated in the Shopping Portal project in Quito with a Produbanco agency, one digital and another Servipagos.

With the commitment of providing memorable experiences, leveraging businesses and generating relations, during the last quarter we crystallized two disruptive initiatives in the Ecuadorian market: we opened the doors to the first *Produbanco Business Center* in Quito, a collaborative space dedicated to *co-working* combined with great coffee, and we implemented the first *Mobile Office* which will travel to various points, mainly to the city of Guayaquil, in order to bring our services and advice to companies, fairs, public events, educational institutions, among others.

We advanced in the process of transformation and opening of new *Digital Agencies* located at the Supermaxi / Megamaxi supermarket chain, by installing in them state-of-the-art technology for self-service by our Clients, and complementing them with personalized financial advice.

In the economic section of our Annual Report, we provide the main figures by sector, as well as the events that influenced the economic performance of Ecuador during 2019; nonetheless, in order to adequately frame this, it is necessary to highlight that the lesser rhythm of economic activity, coupled with the contraction of internal demand, present final figures that show a decrease in Gross Domestic Product (GDP) in a range of -0.1% and -0.5%, further accompanied by a price stagnation with a negative annual

inflation of -0.07%.

With the goal of resolving fiscal and structural problems in Ecuador, during the month of March, the Government signed an agreement with the International Monetary Fund (IMF), which gave it the possibility of receiving a facility greater than ten billion US dollars during three years, disbursed by the IMF and other multilateral credit agencies. The *Extended Financing Facility* program established the country's commitment to spearheading reforms in the labor arena with a view to an increase in competitiveness and employment creation, implementing changes in fiscal regulations in order to strengthen fiscal sustainability while improving the level of reserves, thus insuring independence by the Central Bank of Ecuador, and approving reforms to the *Monetary and Financial Organic Code*.

Executive Order No. 883 was published on October 2, 2019, which sought to eliminate fuel subsidies and liberate its prices. This created popular outcry causing a convulsion that paralyzed the country for eleven days with riots that forced the Government to recant and return to subsidized fuel prices for *Extra* and *Ecopaís* gasoline and diesel.

The public state of affairs influenced the response capacity brandished by the Administration of President Moreno by motivating the National Assembly to repeal the Law Project for Economic Growth (*Proyecto de Ley de Crecimiento Económico*) promoted by the Executive Branch with an urgent economic standing.

In the wake of the political upheaval and with time pressing upon it, the Moreno Administration fine-tuned

its economic outlook by focusing on the fiscal issue, and by December signed the Organic Law on Fiscal Simplification and Progressiveness (*Ley Orgánica de Simplificación y Progresividad Tributaria*), which with a view on tax collections, established among others, the following reforms:

Elimination of mandatory advances on Income Tax.

Elimination of payment exemptions on Income Tax regarding distribution of dividends to foreign corporations.

Payment of a single and temporary contribution for FYs 2020, 2021, and 2022 on behalf of corporations performing economic activities that have generated taxable revenues equal to or greater than one million US dollars during FY 2018.

Digital services will now be subject to VAT.

Given the difficulties experienced by the Executive Branch in approving the reforms committed to and that are necessary for the country, the IMF directors showed flexibility in their technical appraisals and approved disbursements totaling USD 903 million in 2019.

In another sphere, labor market numbers published by the INEC showed the deterioration at the level of this activity, with a fully-employed rate nationwide of barely 38.85%, i.e. 1.79 percentage points less than the previous year.

With regard to Ecuadorian oil, this was sold at a yearly average of USD 55.5 per barrel, which comprised a price of USD 5.45 higher than that established in the National Budget

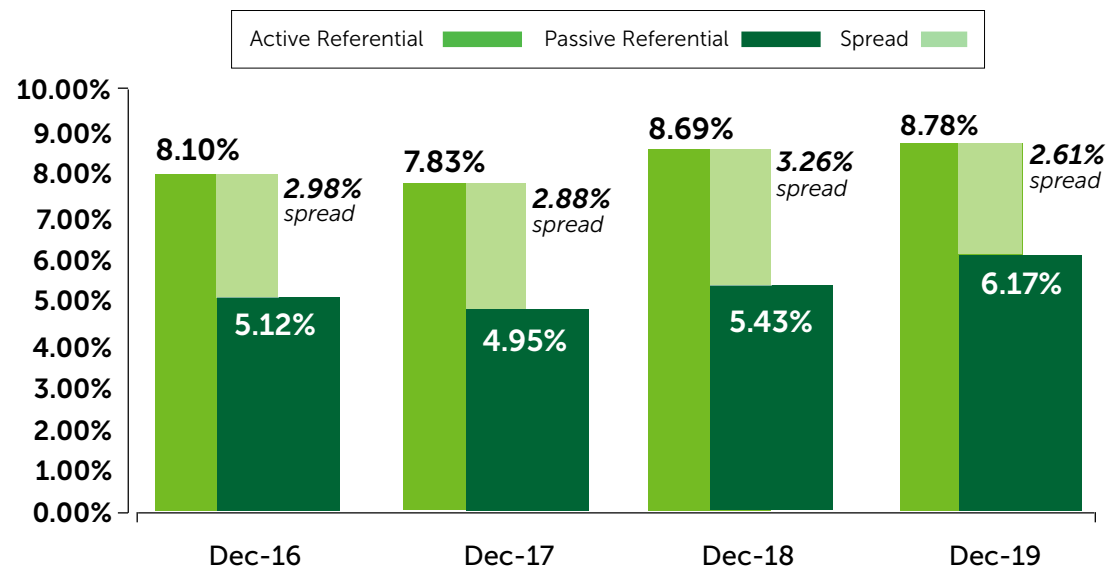
of the State, and average production was fixed at 543 thousand barrels per day. Ecuador announced that starting January 1, 2020, it would abandon the *Organization of Oil Exporting Countries* (OPEC) with the purpose of increasing its production capacity.

In this panorama of economic downturn, the foreign financing achieved with the help of the IMF comprised the key factor in insuring the level of liquidity for the Ecuadorian economy. Private Banks, in association with public financial institutions and the popular and solidarity-focused economy, also played an essential role in the invigoration and bolstering of internal demand through the placement of productive, real estate, commercial, and retail loans. The loan portfolio of the Private Banking System reached USD 30.033 billion, i.e. an increase higher than USD 2.7 billion, equivalent to the annual 9.90%.

A sluggish economy compels consumers to analyze and delay their purchasing or investment decisions and fosters the preference by depositors for fixed-term CDs, which have become the highest growth product in the past few years. Term deposits reached USD 14.06 billion, with an annual variation rate of 17.61% that contrasts with the 7.75% growth rate of total public deposits.

In this environment, the natural consequence is strong pressure in the intermediation margins of financial institutions due to the increase in passive rates and the lack of flexibility in the increase of active rates, due in turn to a reduction in credit demand, and to the regulatory framework of fixed rates in force since 2007. The previous graph shows the evolution of referential rates of the BCE—Central

Evolution of Referential Rates



Bank of Ecuador (Banco Central del Ecuador) during the past four years.

The trust expressed by international lending agencies concerning the quality and solvency of the main banking institutions of the country, further supported by the signing of the agreement between the Government and the IMF, allowed for financial obligations and the subordinated debt as a whole, would increase to USD 642 million until reaching a total balance of USD 3.279 billion toward the end of 2019. The Financial System was also favored by an international scenario of low interest rates due to the reduction of the reference rate of the US Federal Reserve.

Profits in the Banking System grew by 11.19% for a net total of USD 616 million after the corresponding reserves to pay legal obligations in Income Tax and employee profit sharing.

On its side, Produbanco's balance grew in 2019 with USD 5.172 billion in managed assets, a growth of 8.46% allowing us to maintain the 11.6% participation attained the previous year. Public deposits increased by USD 335 million until reaching USD 4.023 billion, 11.94% of Banking System deposits, and USD 3.42 billion of gross portfolio loans (before discounting provisions), which represented 11.38% of market share. We continue to harvest the results of the strategy and the work developed in the credit card business, which registered a 34% growth along with a portfolio balance of USD 605 million at year's end. Our 188 thousand active cardholders invoiced USD 1.24 billion during 2019 with revolving or deferred finance options and facilities. Thanks to the incorporation of the contactless technology (contactless payments) for all credit and debit cards, Customers can now perform transactions quickly and securely by just nearing them to the POS without the need of inserting

them into the reader or of swiping the magnetic strip.

Produbanco pledged to the *Principles of Responsible Banking* fostered by the *Financial Initiative of United Nations Program for the Environment*, which are both based on the *Sustainable Development Goals (SDGs)* and on the *Paris Accord on Climate Change*. In addition, the Bank signed the *Protocol of Sustainable Finance* of ASOBANCA.

Produbanco maintained its support to the international financial community with close to fifteen diverse lenders, among which are multilateral agencies, banks and other important financial entities, which made it possible to close 2019 with a balance of USD 372 million in direct loans and USD 119 million in subordinated debt.

Our main focus was on obtaining long-term funds that were channeled through products technically designed so that our Clients would attain diverse objectives. An example of this are the Green Lines (*Líneas Verdes*), which seek to impact the efficient use of technology in the production chain or in loans slated for SMEs and Women's SMEs.

Our fifth Strategic Pillar is the *Responsible Administration of Assets and Risks*, hence our administration is geared toward maintaining the best and most profitable balance structure through a quality loan portfolio reflected in the 156% coverage of provisions and in the 2.31% arrears index, a result of the excellent work in collections technically and efficiently performed by our *Protrámites Trámites Profesionales S.A.* subsidiary.

We maintain our excellent liquidity indicators and we strengthen the growth capacity with an equity

solvency index equal to 13.56% and a total accounting equity of USD 462 million.

We invest in technology in a responsible manner thus sustaining digital transformation, taking care of efficiency indicators of operational expenses, as well as in regard to productive assets over total assets.

With regard to the Bank's financial results, the financial intermediation margin increased by USD 33 million mainly due to sustained growth in productive loans and to a greater participation of consumer products. This allowed sustaining long-term deposits and foreign financial obligations, which represented the main source of balance funding during 2019.

Sixty-six million US dollars were incorporated as expenses for risk asset provisions based on specialized models of portfolio scoring, and on compliance with regulations in force.

During 2019, we registered USD 10,893,903.94 in the non-deductible expense account, corresponding to payments to the Internal Revenue Service (*Servicio de Rentas Internas—SRI*) through the determination of differences in the filing and payment of Taxes on Foreign-held Assets (IAE) during FY 2013. The Constitutional Court of Ecuador repealed the extraordinary protective action presented by Produbanco in case No. 2808-18-EP within the litigation and appeal process of the fiscal levy concerning the IAE declaration of FY 2013, despite the Bank having a favorable court decision in the judicial case corresponding to the determination of this same tax, with an objective and subjective identity, for FY 2014.

The aforementioned explains the important variation of USD 22 million in operational costs, notwithstanding which the efficiency index, which measures total operational expenses in regard to the average asset, was placed at 4.57%, a number below the 5.25% of the Banking System's average.

Operational revenues were increased by USD 12 million in light of the increase in the number of clients who generated a greater use of financial services, especially those linked to payment means such as credit and debit cards and digital transactional channels.

The recovery of assets written off complied with the goals proposed with annual revenues of USD 11 million, which is a reflection of the important administration performed by Protrámites Trámites Profesionales S.A.

Period results were based on the gross financial margin reaching USD 251 million (USD 26 million more than the previous year), a result of increased revenues achieved due to the significant expansion of credit and to controls set on funding costs based on a policy of competitive passive rates in keeping with the size and quality of the balance.

With net profits of USD 61.1 million, profitability indicators measured over equity (ROE) and over assets (ROA) were placed at 15.26% and 1.18%, respectively, pursuant to the bulletin published by the Superintendency of Banks.

At closing of 2019, the consolidated assets managed by Grupo Promerica, rose to over USD 15 billion, of which Produbanco represented 35%. The Group has a presence in nine countries

between Central America and Ecuador, plus in the United States through Terrabank.

In 2019, PFC—Promerica Financial Corporation acquired an additional 5.28% of the stock package of *Banco de la Producción S.A.*, with which its stock participation rose to 62.21% of Produbanco's total capital.

Separate and consolidated financial statements, along with the opinion of the External Auditing firm *KPMG del Ecuador*, are available for viewing by the Shareholders and form an integral part of our 2019 Annual Report.

In this sense, the Board of Directors integrally acknowledged and approved the opinions and reports issued both by the Internal Auditor, as well as by the External Auditing firm *KPMG del Ecuador* in reference to the financial statements as of December 31, 2019, which accompany this Report. The external audit was drafted pursuant to the *International Auditing Norms* (IANs) and to current regulatory norms. 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 accounting norms and practices established by the Superintendency of Banks of Ecuador, the Financial and Monetary Regulation and Policy Board (*Junta de Política y Regulación Monetaria y Financiera*), and the policies and procedures approved by the Board of Directors.

The Internal Auditor informs that Produbanco complies with the regulations established; that it 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 adequately authorized and registered. The Auditing Committee has continuously followed up the reports and observations of the Internal and External Auditors and of the Superintendency of Banks, as well as the action plans established by Senior Management. After analyzing the environment of internal control, the Board of Directors acknowledged, approved, and is in accord with the following opinion by the Auditing Committee for their corresponding presentation to the Board of Shareholders:

«The Auditing Committee, based on the reports presented and on the various aspects analyzed in meetings held during 2019, as well as in the annual evaluation report regarding the internal control system issued by Internal Auditing corresponding to the above year, informs that the structure of risk management is adequate to the size and complexity of the Bank's operations, and has an appropriate internal control structure; there is no evidence of circumstances that could comprise important weaknesses in the Bank's internal control system. Furthermore, in keeping with the requirements of banking resolutions, the Committee hereby affirms that it has followed up on the observations and reports of the Internal and External Auditors and of the Superintendency of Banks, and also indicates that there is neither evidence nor knowledge of suspicious and irregular behaviors, or of conflicts of interest in the terms of the above norm».

Produbanco and its Subsidiaries comply with current legislation including regulations on intellectual property and the guidelines foreseen

by Control Agencies. Likewise, they maintain the necessary controls to prevent laundering of assets and financing of crimes as based on best international practices and the stipulations of the Superintendency of Banks and the Economic and Financial Analysis Unit (*Unidad de Análisis Financiero Económico—UAFE*). In this sense, the Board of Directors approved the annual work plan for 2020 of the Compliance Unit (*Unidad de Cumplimiento*) concerning asset laundering, along with the report of this Unit corresponding to FY 2019, which is put at the behest of the General Board of Shareholders.

Based on the above reports, the Board of Directors is pronouncing itself favorably under its responsibility, concerning the soundness of the financial statements of Banco de la Producción S.A. Produbanco and of its Subsidiaries, and concerning the sufficiency of internal control systems to prevent illegal activities including asset laundering and the funding of crimes such as terrorism.

The Board also met and approved the Annual Report of the Committee on Comprehensive Risk Management (*Comité de Administración Integral de Riesgos—CAIR*), which details the exposure and risk indicators for credit, market, liquidity, and operations incurred by the Bank within the scope of an Comprehensive Risk management, as well as the limits and control actions recommended for each position, together with the array of institutional risk, which forms part of this report.

In 2019, we concluded the development of the reputational risk management framework wherein we generated risk matrices and interest counterparts, communication

protocols, and actions in diverse event scenarios.

We must also highlight that the Superintendency of Banks of Ecuador issued its technical criterion favorable to the updating of the origination and follow-up models of the non-commercial portfolio.

During the year, several tests were carried out to guarantee the comprehensive and successful activation of the *alternate data center*, which supports critical processes and guarantees an adequate contingency scheme.

The Remuneration Committee, made up of delegates from the General Shareholders Board and other members, reports that the remuneration policy approved for all employees, senior executives, and members of the Board of Directors satisfactorily complies with current regulations, with no exceptions to report.

The Board of Directors acknowledged the report of the Financial User Service Unit (*Unidad de Servicio de*

Atención al Usuario Financiero) in which, in addition to the various quality programs, compliance is reported concerning time standards, swift attention to, and solution of, requirements, service claims, and others generated by Clients from all business units nationwide from our specialized area.

Likewise, the Board of Directors approved the Financial Education Program (*Programa de Educación Financiera*), as part of the Institutional Strategic Plan.

We published our twelfth *Corporate Social Responsibility Report* under the guidelines of the *Standards* version of the *Global Reporting Initiative—GRI*.

The Bank maintains the best Corporate Governance practices aimed at strengthening the organization, control, efficiency, independence, and transparency of its administrative structure and the operation of the Board and of the various Bank committees. The Governing Body acknowledged and approved the Report on Accountability and Compliance with Good Corporate

Governance Practices and the Code of Ethics, which forms an integral part of our Annual Report.

Finally, this Board of Directors acknowledged Official Letter SB-DS-2020-0034-O dated January 23, 2020, through which the Superintendent of Banks authorized Banco de la Producción S.A. Produbanco to distribute up to 30% of the profits corresponding to FY 2019, for which it must first observe the provisions of articles 168 and 405 of the Organic Monetary and Financial Code (*Código Orgánico Monetario y Financiero*), and further provides that with the difference, it shall establish a special reserve for future capitalizations.

By virtue of this, the Board of Directors recommends to the General Shareholders Board that, out of the net profits for fiscal year 2019 (i.e. USD 61,144,014.68), 10% of the legal reserve be constituted in the amount of USD 6,114,401.47; that of the balance of USD 55,029,613.21 available to the Shareholders, 30% of the cash dividend equivalent to USD 16,508,883.96 be distributed,

and the difference be recorded in reserves for future capitalizations, in accordance with the provision of the Superintendency of Banks.

It further recommends that of the reserves for future capitalizations, USD 38,650,000.00 (USD 38,520,729.25 of this year and the difference from previous years) be allocated to capital increases, with which the capital subscribed and paid by Banco de la Producción S.A. Produbanco would reach USD 380,120,000.00.

In the Annual Report, which is available to Shareholders, Clients and the general public, the aspects mentioned in this report are expanded in detail.

Once again, we express our gratitude to the Shareholders, the members of the Board of Directors, the Administration and all Employees for their support, commitment, and contribution to the quality of these results.



Francisco Martínez Henares
Chairman of the Board



Ricardo Cuesta Delgado
Chief Executive Officer



Balance of the Economy - 2019

Real Sector

In 2019, Ecuador began an economic reform plan with the help of multilateral organizations. In particular, the Ecuadorian Government decided to adjust the pace and quality of public spending, which had implications in the dynamism of the country's aggregate demand. The Internal Demand of the economy (household charges, government, and investment) slowed down during the year, going from growing at an inter-annual rate of 0.68% in the first quarter, to a decrease of 1.08% in the third quarter of the year. For its part, the country's total investment (public and private) did not manage to change

its decreasing trend observed since 2018, and in 2019 it was already at negative rates. These factors had an impact on the growth forecasts for 2019. During the first quarter of the year, the Central Bank of Ecuador (BCE) forecast a growth in Gross Domestic Product (GDP) equal to 1.43% in inter-annual terms. After evaluating the damages and losses derived from the riots in October, the BCE recently revised its growth forecast to -0.08%. For its part, the IMF has ratified its estimate of -0.50% advertised in March 2019.

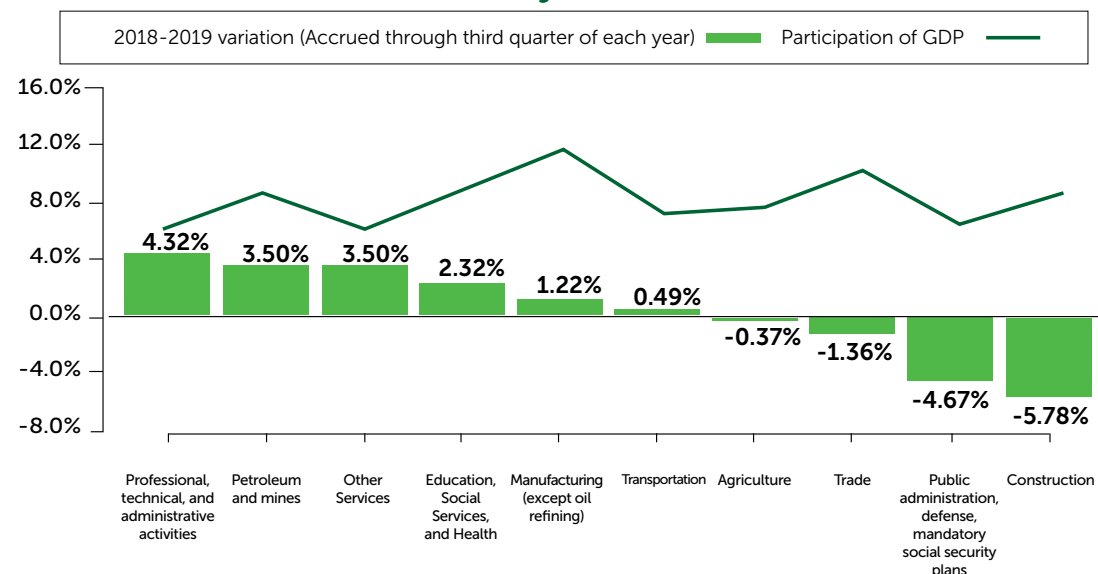
Although from the aggregate demand side, a slowdown in the growth of the economy was observed, from

the supply side some representative industries showed more dynamism than others. However, the upheaval in October had a negative effect on the level of sales of companies. When comparing the accumulated production figures up to the third quarter of 2019¹ with those corresponding to the same period of 2018, the economic activities that showed the best results were: *Professional, Technical and Administrative Activities, Petroleum and Mines, Education and Social Services, Health, Manufacturing, and Transportation*. In contrast to this reality, *Construction, Public Administration, Commerce, and Agriculture*, slowed down during 2019,

mainly due to a lower participation of the public sector in infrastructure projects. Until the third quarter of 2019, these industries registered negative growth rates. The 12 days of the national strike last October led to a monthly drop of -2.43% in sales² for companies nationwide. In the same month of 2017 and 2018, sales grew by 3.73% and 4.69%, respectively. The most representative example was Petroleum, an industry that registered a contraction in production of around 11.71% during that month. The BCE, working jointly with the World Bank (WB), have calculated the impact of the strike at around USD 822 million, which is explained by USD 120 million in vandalism damage and USD 702 million in economic losses.

1. Latest bulletin available from National Accounts.
2. 0% and 12% rate according to the Internal Revenue Service (SRI).

Annual Growth by Economic Activities³



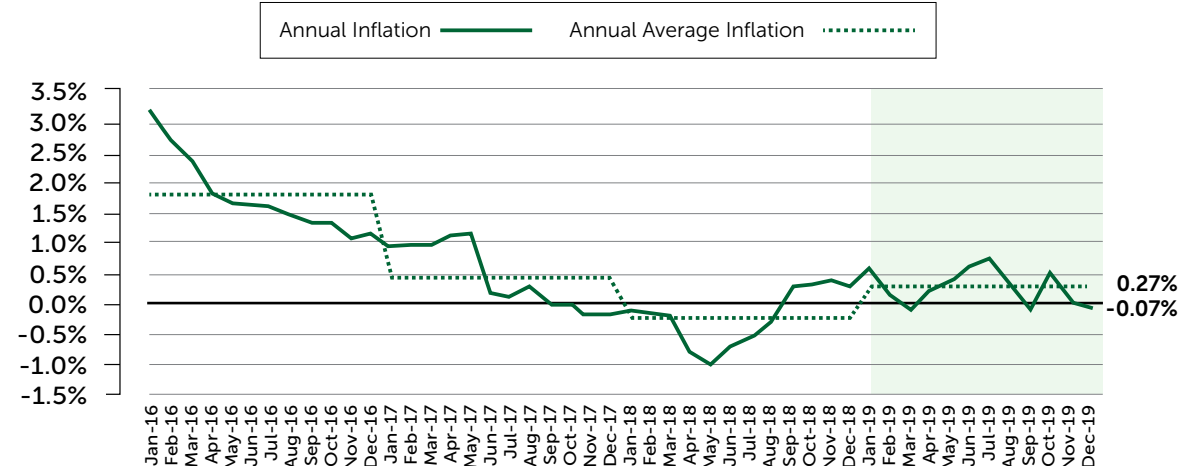
Otros Servicios: Real Estate Activities and Entertainment, Recreation, and Other Service Activities
Source: BCE

In 2019, the economy registered stagnation in prices. Low and even negative inflation during certain months of the year was associated with a slower pace of economic activity. Although the annual inflation for December was slightly negative (-0.07%), the *average annual* inflation was 0.27%. This result was higher than that observed in 2018 (-0.22%). The most dynamic consumer divisions during 2019 (on average) were: *Education* (2.56%), *Transportation* (2.27%), *Alcoholic Beverages* (1.53%), and *Health* (1.47%). Among the most relevant of the year, the highest monthly inflation (0.52%) was recorded in October, as a result of the temporary increase in the price of fuel and of protests against the elimination of subsidies for extra and eco-país gasoline and diesel that derived from this measure, and which caused a scenario of speculation and product shortages. As a result of the described behavior, the basic family staple basket remained constant when compared

to its cost of December 2018, and reached USD 715 per month.

The consolidation of adequate employment is the pending task for 2020. The adequate employment rate, i.e. the number of people formally employed as a proportion of the total number of economically active people, registered a drop of 1.79 percentage points when comparing the quarterly result of December of 2019 (38.85%) with that of 2018 (40.64%). In addition, unemployment closed at 3.84% in December 2019, a rate 0.15 point higher than that of December 2018 (approximately 15,036 additional people). The Government postponed sending a labor reform bill to the National Assembly for 2020, in which new contracting modalities would be evaluated. The productive sector is awaiting this reform, which, although it is not a goal that conditions the agreement with the IMF, both the productive sector and the workers have the expectation of reaching consensus

Evolution of Annual Inflation in Ecuador



Source: INEC

that prioritizes a balance between the non-precariousness of working conditions and the improvement of the country's productivity and competitiveness.

Fiscal Sector

Public finances were determined by the arrival of external financing from multilateral organizations. In March, the *International Monetary Fund* (IMF), the *World Bank* (WB), the *Development Bank of Latin America* (CAF), the *Inter-American Development Bank* (IDB), the *European Investment Bank* (EIB), the *Latin American Reserve Fund* (FLAR), and the *French Development Agency* (AFD) decided to support the so-called *Prosperity Plan of the Ecuadorian Government* (*Plan de Prosperidad del Gobierno Ecuatoriano*). Thanks to the IMF's technical support in the agreement, the country became part of an Extended Fund Facility (*Facilidad Extendida de Financiamiento*) program.

In this context, Ecuador would have assured disbursements of around USD 10,279 million until 2021, from which USD 4,209 million come from the IMF (subject to meeting quarterly targets) and USD 6,070 million from the other multilaterals (some of them tied to projects and social spending).

Debt management freed resources by 2020; this was possible through the replacement of amortizations with short-term maturities for longer-term issues. In June 2019, the Government carried out a *liability management* operation through which it issued sovereign bonds in the amount of USD 1,125 million, maturing in 2029. With this issue, the country paid in advance about 78.00% of the capital of the sovereign bonds that matured in 2020. In addition, at the beginning of December, the Government issued USD 1,936 million of internal debt, which was used to carry out a *roll-over* operation of the debt that matured in 2020 with the Bank of the Ecuadorian

3. Only those industries with a share greater than 6% of GDP are included; in total, the 10 industries considered represent 80% of GDP.

Social Security Institute (*Banco del Instituto Ecuatoriano de Seguridad Social—BIESS*), for around USD 1,400 million. The rest of the amount issued was used to strengthen Ecuador's investment plan.

Although the Government's objective is to reduce public debt in the medium term, in September 2019, the country issued bonds in international markets for USD 2 billion⁴. On September 24, a new international bond issue was made by taking advantage of a favorable country risk rating (around 663 points), debt placement that occurred before the decision to eliminate subsidies for extra, eco-país gasoline, and diesel.

The government's effort to reduce the fiscal deficit focused on decreasing capital spending and wages. In annual terms, public spending in 2019 increased by 2.34%. Although non-permanent expenses and the Annual Investment Plan (taken together) decreased by 18.33% in annual terms, current spending increased by 9.01%⁵. The main reasons why current spending increased were: a) the Government's decision to pay (albeit partially) the subsidy to the pension fund of the Ecuadorian Social Security Institute (IESS); b) the increased spending on health, education, and security that by law the Government must execute year-by-year, and c) the payment of interest for external and internal debt (annual increase of approximately 10.36%). In terms of wages and salaries, this item decreased by 1.62% in inter-annual terms⁶. Among other additional measures that the country has adopted to alleviate the

fiscal deficit, the approval of the Tax Simplification and Progressivity Law (*Ley de Simplificación y Progresividad Tributaria*) was highlighted last December, which is expected to deliver an additional collection of around USD 600 million in 2020 and 2021.

During the year, the country was evaluated for its economic performance and its ability to carry out the reforms proposed in the Letter of Intent under the IMF financing program. In a divergent social environment, the country was unable to reach political consensus to carry out structural reforms in economic matters. For this reason, the IMF decided to review the fulfillment of the program's goals for the end of 2019, 2020, and 2021 and thus support the process carried out by the Government in a complex political and social environment.

Country Risk

One of the variables of greatest monitoring and importance for the Ecuadorian economy in 2019 was the country risk - EMBI (Emerging Market Bond Index). In annual terms, this variable closed at 824 points, just two points less than the value observed a year ago. At the beginning of the year, when Ecuador signed the Letter of Intent with the IMF and the financing agreement with multilateral organizations, the international community perceived this decision as a positive message (reduction of 45 points in country risk, from 598 to 553, just two months after signing). The main reason for this result was that in addition

Evolution of Country Risk in Ecuador - 2019



Source: Bloomberg

to confirming a change of course, the agreement with the IMF implies the consolidation of structural reforms that Ecuador must achieve in the economic and institutional sphere.

Despite the government's attempts to carry out each and every one of the adjustment plans to which it was committed, and to which future disbursements are subject, the political cost and social resistance prevented the crystallization of fundamental changes such as the elimination of fuel subsidies. The international community reacted negatively to the government's announcement to repeal Decree 883, which provided for the elimination of subsidies for extra and eco-país gasoline, and diesel. Faced with the 12-day-long social upheaval, on October 18, the Government sent the so-called Economic Reactivation Law (*Ley de Reactivación Económica*) to the National Assembly, a project that proposed reforms to various regulatory bodies. On November 17, after a month of debate, it

was shelved, which is why on November 21 the country risk rose considerably to 1,418 points. Finally, the Government decided to send a new reform with an emphasis on tax collection. Since its approval last December, the country risk showed a downward trend and closed the year at 824 points.

Monetary and Financial Sector

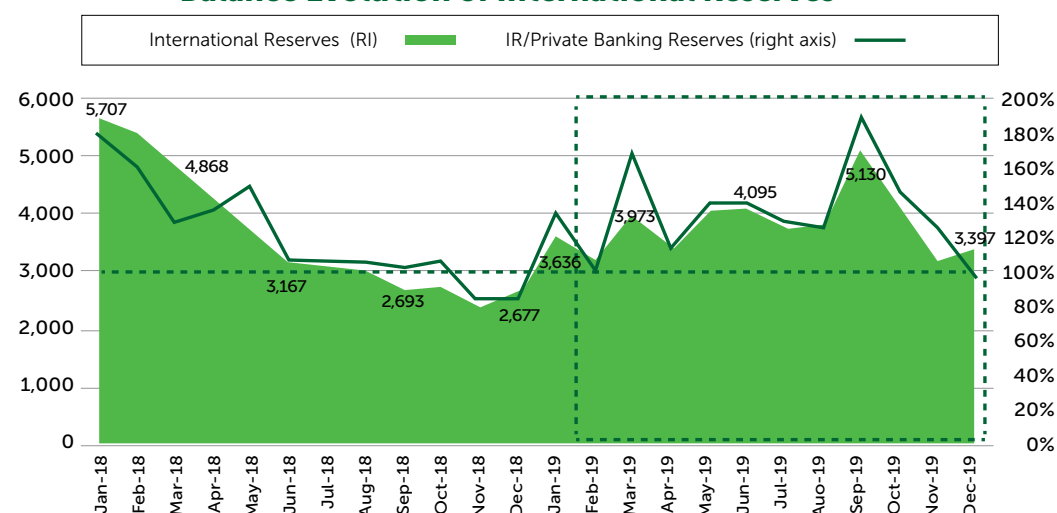
The amount of International Reserves (IR) remained at sustainable levels in 2019. The balance of international reserves closed at USD 3,397 million, an amount higher by USD 721 million than that observed on December 31, 2018 (USD 2,677 million). This increase was largely supported by the issuance of government bonds in international markets, by the disbursement of funds from the financing agreement with multilaterals, and by the external debt acquired by the Ecuadorian

4. Ten-year term for USD 1,400 at 9.50% and a five-year term for USD 600 at 7.88%.

5. Corresponds to accrued figures for 2018 and 2019 from the Ministry of Economy and Finance.

6. Expenditure on wages and salaries accrued - group 51, eSigef.

Balance Evolution of International Reserves



Source: BCE

private sector. For this reason, when comparing the balance of reserves with that of deposits of the Private Banking Sector at the Central Bank, these were covered on average by 131.62%.

In 2019, greater dynamism was evident in the placement of credit and in the capture of deposits in the banking sector. Financial indicators demonstrate the soundness of the System. The balance of the gross loan portfolio of the country's private banks grew 9.90% inter-annually. Similarly, the deposits of the Banking System closed the year with a growth of 7.75%. The behavior of fixed-term deposits stood out, the balance of which registered an inter-annual increase of 19.12%. In terms of performance, profits amounted to USD 616 million for the total of the 24 private banking institutions; In addition, the ROE was 13.90%, the ROA 1.38% (both indices higher than a year ago, when they were at 13.65% and 1.35%, respectively). In terms of risk management, bank solvency reached 13.47%, an indicator that was

4.47 percentage points above the regulatory requirement of 9.00%. In addition, this percentage was slightly higher than 13.40% in December 2018. In this sense, the technical assets of private banks in Ecuador totaled USD 5,009 million, an amount 12.52% higher than the value of 2018. On the other hand, defaults closed at 2.73% (slightly higher than 2.62% in 2018). In terms of coverage, the provisions of the Banking System represented 2.26 times the non-performing portfolio of the System. Lastly, it should be noted that the banking sector made significant efforts to diversify its funding, which is why the entities obtained resources abroad for around USD 732 million⁷, which were used to place credit in the country.

External Sector

In 2019, the trade balance was in surplus. Despite facing a scenario of lower demand from trading partners, appreciation of the real exchange rate, lower income from oil exports (to some

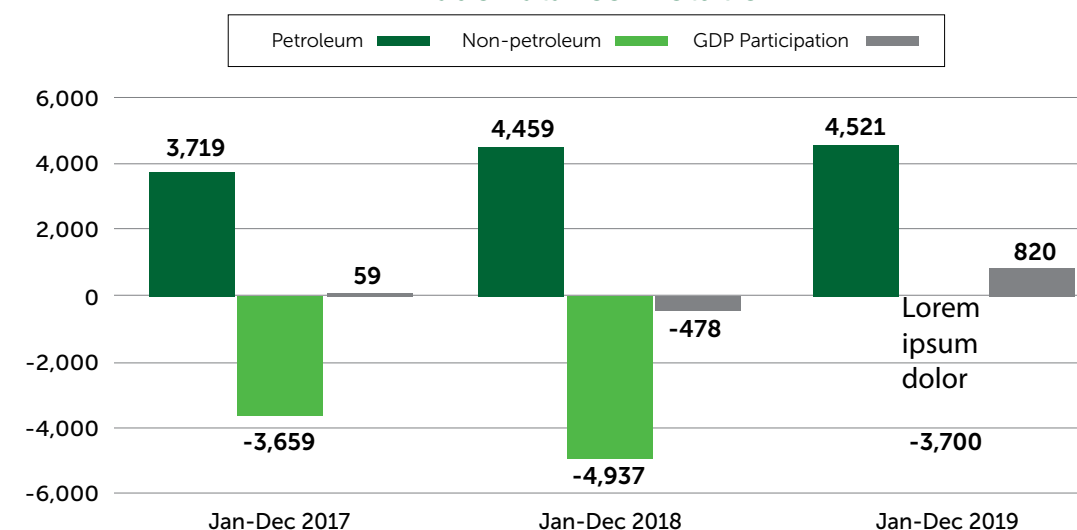
degree affected by the stoppages that the country experienced in October 2019 because of the social unrest in an attempt to lift subsidies for extra and eco-país gasoline and diesel), the Ecuadorian economy was able to accumulate USD 820 million as a surplus in its trade balance. One of the factors that also influenced this result was the slowdown in household charges and its consequent lower demand for imported products. When comparing the accumulated figures of 2018 with those of 2019, imports decreased by 2.70%, while the tax collection of VAT and ICE for imports also decreased in annual terms by 7.54% and 4.34%, respectively, according to figures from the Internal Revenue Service (SRI) for 2018 and 2019.

In terms of exports, the behavior of shrimp stood out, the same that gained participation in the exportable supply of

the country. In 2019, Ecuador exported a total of USD 22,329 million, an amount 3.24% higher than that registered a year ago. Of this total, crude oil represented 34.62%, shrimp 17.42%, and bananas 14.76%.

The inter-annual growth rates of these three products for the period under analysis were -1.56%, 21.97%, and 2.46%, respectively. The growth rate of shrimp exports allowed it to remain as the second most exported product in Ecuador, a position it already reached in 2018, while bananas were relegated to third place in the ranking. In addition, Ecuador exported gold concentrate for the first time in its history, with which mining began its consolidation as a new extractive activity of economic relevance thus generating foreign exchange for the country.

Trade Balance Evolution



Source: BCE

7. Includes financial obligations abroad plus long-term subordinated debt (accounts: 2603 + 2605 + 2607 + 2803.)



Report on Corporate Governance

The Corporate Governance Report was presented to the Shareholders Board of Banco de la Producción S.A. Produbanco, in accordance with the guidelines established in banking regulations, for which the respective Annex is attached, with all the required information, including those related to the reports of the Remuneration and Ethics and Corporate Social Responsibility Committees, together with the results of the Financial Education Program and the Financial User Service Unit, which are included in an expanded version in the respective Annual Report.

The Bank has a Corporate Governance system based on standards and principles that guide the structure and operation of corporate and

administrative bodies with its various stakeholders, with the creation of long-term value and the strengthening of institutionality through effective governance, transparency, and information management. In this sense, the quarterly breakfasts held with our Shareholders has been successfully consolidated as an additional mechanism for accountability and timely follow-up, a forum in which the presentation and analysis of quarterly results, financial information, and other relevant aspects, are carried out.

The Board of Directors, based on the approved methodology to measure and analyze its management, satisfactorily evaluated the observance of its responsibilities, functions and the

development of its sessions and those of the attached committees, as well as the follow-up to the Strategic Plan and the non-inclusion in supervening facts or that cause conflicts of interest with their role as directors. Likewise, the Board positively and effectively rated the management of the Executive President and the fulfillment of its objectives.

Along these lines, through the General Secretariat, the performance of the Board of Directors and the suitability of its members have been validated in terms of experience, reputation, conflict of interest, and independent criteria, dedication of time, and preparation. Finally, the reforms approved by the Governing Body to its operating regulations regarding

gender equality, will come into force starting this year.

The internal control self-assessment tool implemented by the Bank in the area of Corporate Governance, Planning, Policies and Procedures, Personnel Administration, Control Systems, and Management Information Systems, has been developing normally and with important results.

One of the pillars of Produbanco's Strategic Plan is its commitment to sustainability and corporate social responsibility, which is cross-cutting in everything the Bank does, to generate value for each of its stakeholders such as Employees, Clients, Shareholders, Suppliers, and

Community along with being a true agent of change. Thus, a series of activities and projects related to a sustainable culture and customers, green products, social management, volunteer activities, development with the community, and care for nature and the Planet, are carried out; the latter, through the emblematic project for the conservation of water sources: "The Moorlands of Ecuador" (*Los Páramos del Ecuador*), in alliance with *Conservation International*.

In addition to the Organization's open door policy, the whistleblowing channel "Ethics Line", which is fully consolidated, efficiently handled 90 cases during the year. Additionally, the Ethics and Corporate Social Responsibility Committee, during the year learned about the generic reports of this Ethics Line channel as well as 12 cases of non-compliance

with the Code of Ethics of Produbanco and Subsidiaries, and that after the respective analysis, corresponding actions were taken.

The Remuneration Committee submitted to the Shareholders Board for its consideration, the alignment of the Bank's general salary administration policy, with current regulations on the matter, and the application of the variable remuneration model for the entire strategic population of the Bank and salary increases for 2019 in keeping with the situation of the country and the industry.

Regarding the results of the Bank's Financial Education Program, it is mentioned that it is part of the Bank's Strategic Plan and that last year, 7,300 people were trained through various tools.

The administration of claims handling is carried out through the Financial User Service Unit, which addresses customer claims in an agile and efficient manner; it implements control and follow-up of the same, which allow it to comply with the established standards of care as well as generate statistics to identify problems in a timely manner. The report contains the statistics of claims and consultations and management indicators, with the respective detail of resolutions adopted, value affected, and recommendations. For this purpose, there are clearly established policies for handling complaints and self-evaluation mechanisms, always based on the quality of service, as well as a Committee that looks at Requirements and Customer Experience. Likewise, the Produbanco Customer Ombudsman has been carrying out his duties normally and independently.

By virtue of the foregoing, the presentation of this report is authorized, together with the attached information and indicators, related to the set of relationships, mechanisms, and activities that are part of the good corporate governance system carried out by the Organization in compliance of its institutional objectives.

Quito, DM, March 17, 2020



Dr. Jorge Iván Alvarado Carrera
Secretary General - Legal Procurator



Report of the Integral Risk Management Committee (CAIR)

Introduction

One of Produbanco's strategic pillars is the responsible management of assets and their risks. The Bank has a robust corporate governance model, a strong risk management culture, clearly identified lines of defense, responsibilities defined and assigned to risk managers, a risk appetite and tolerance supported by limits and consolidated quantitative methodologies, a mature internal control system, mitigation strategies, and an advance view of the various conjunctural scenarios. All this has been translated into solid indicators of capital adequacy, liquidity, arrearage, and profitability that Produbanco has maintained over time.

During 2019, the Risk Management

Unit focused on updating its traditional financial risk assessment methodologies by taking as a reference the best international practices applicable to the local environment. The management reporting scheme for liquidity risks was strengthened, as well as the market risk contingency plans, proposing new strategies for managing balance sheet positions.

We support the development of new non-commercial portfolio origination models, incorporating in the analysis behavioral parameters of our clients and socioeconomic variables, which had the respective validation of the regulatory body. With this, Produbanco has managed to be at the forefront of healthy portfolio generation along with balanced

growth in the consumer portfolio.

In addition, work was conducted on a new methodology for measuring operational risk based on statistical models applied to the Bank's event database to then generate new internal limits. The non-critical process risk survey continued with the support of our co-managers and the owners of each process. The schedules for technological tests, operational contingency, and business continuity were complied with, the results of which were evidenced in the uninterrupted operation of our services at the level of Produbanco and our subsidiaries Externalización de Servicios S.A. Exsersa and Protrámites Trámites Profesionales S.A., including during periods of social unrest such as the one that occurred as a result of the

riots that the country experienced in October.

At the end of the year, we completed the design of the reputational risk management framework. Risk matrices and stakeholder counterparts were constructed as well as communication and action protocols against various risk scenarios. In 2019, the scheme for monitoring comments on social networks was consolidated, which is managed by prioritizing each identified case for timely attention.

The continuous improvement of our follow-up and monitoring scheme, through the use of automated processes, allowed an adequate control of the internal policies and regulatory limits, as well as those of Promerica Financial Corporation.

In the following lines, you will find an overview of the actions taken to face each type of risk and their results.

Liquidity and Market Risk

Liquidity and market risk management is carried out based on the risk profile defined by the Bank's Board of Directors, the Comprehensive Risk Management Committee and the established business model. Financial sustainability is guaranteed in the long term through the application of prudent measures based on qualitative and quantitative analyses, which optimize the combination of liquidity, soundness, and profitability, to mitigate the risk inherent in banking activities.

The treatment of this class of risks is supported by: information systems and automated methods, which give the possibility of complying with the process of identification,

measurement, control and mitigation, monitoring and communication of exposure levels, as well as in mitigation mechanisms of the positions assumed by the Bank, and in the observance of policies, procedures, limits, and levels of authorization provided.

During the year 2019, there was a higher level of dynamism in the granting of credit operations directed to the various sectors of the economy, mainly thanks to the growth in deposits registered throughout the Financial System and, in addition, to the increase in sources of external financing.

Regarding market interest rates, the benchmark lending rate increased slightly—from 8.69% in December 2018 to 8.78% in December 2019—while the benchmark liability rate went from 5.43% in December 2018 to 6.17% in December 2019; this growth was mainly due to a change in customer preferences, which favored term deposits instead of demand deposits.

Within this context, Produbanco maintained its prudent liquidity position as one of its greatest strengths in relation to the Private Bank System. The Bank's liquidity ratio (Available Funds / Short-Term Deposits) amounted to 30.64%, a result that exceeded the indicator of 25.98% of the System, according to the figures published by the regulatory body at the end of December 2019.

Regarding the liquidity management of the investment portfolio, the investment strategy of the resources managed by the Treasury, was to carry out operations on high-quality assets with a short-term periodic maturity scheme. Produbanco can quickly make effective its assets to face any liquidity requirement from its clients. At the end of the year, 84.75% of the assets managed by the Treasury were convertible to liquid assets in less than 30 days.

In its constant practice of complying with all regulatory requirements, Produbanco updated the assumptions used in the reports established by the regulatory body, thereby adjusting the modeling procedures for measuring liquidity gaps. In this manner, by consolidating international regulations and best practices, the liquidity control and monitoring system was strengthened.

Concerning regulatory, internal, and Promerica Financial Corporation requirements, Produbanco presented a wide coverage with respect to predetermined limits along with an adequate liquidity position.

The Market Risk Contingency Plan was prepared as part of the consolidation of the administration concerning this type of risk. This document establishes the

Indicators of Liquidity risk

Regulatory

Indicator	Compliance regarding limits
Minimum Liquidity Reserves	✓
Coefficient of Domestic Liquidity	✓
First Line Structural Liquidity	✓
Second Line Structural Liquidity	✓
Minimum Liquidity Indicator	✓

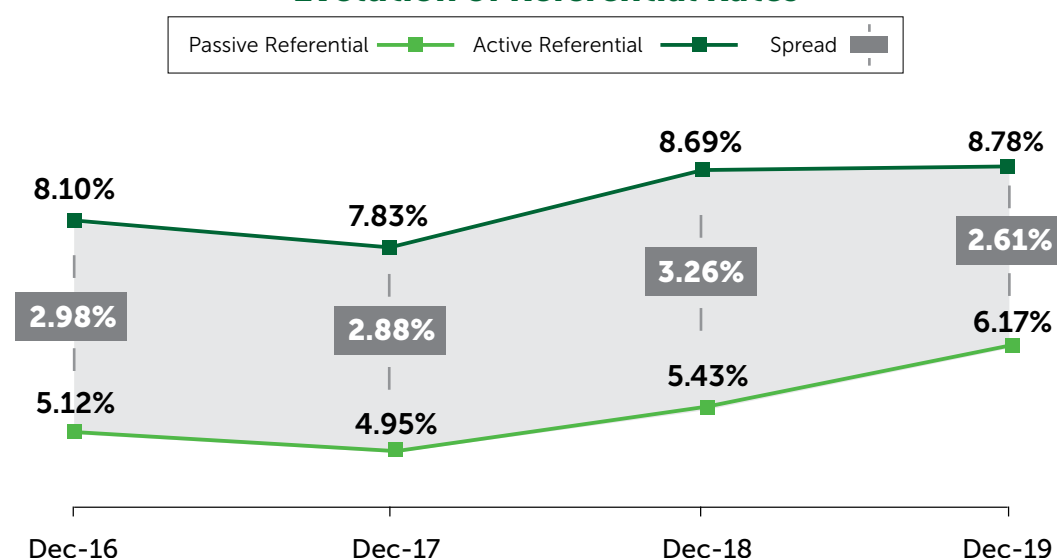
Group

Indicator	Compliance with limits
PFC days Coverage	✓

participants, policies, indicators, alert levels, action plan, and communication plan to be deployed in order to cope with any eventual contingency against adverse market changes that may arise as a consequence of instabilities in the national or international context. Said plan was built with a solid quantitative base of financial indicators of institutional and environmental behavior, which make preventive monitoring and control possible in the event of the materialization of market risk.

On the other hand, within the management of this type of risk, stress analysis and *backtesting* of the exposure of the financial margin and the equity value, were carried out in the event of possible variations in interest rates. The results showed that the indicators remained within the limits determined by the Bank's Board

Evolution of Referential Rates



of Directors. Produbanco's balance sheet structure maintained the same conservative trend in terms of asset and liability duration, and allowed potential interest rate fluctuations to have a reduced impact on financial margin and equity value; the sensitivity to a variation of 100 basis points in interest rates was 0.92% with respect to technical equity, which is well below the established internal limits.

Indicators of Market risk

Regulatory

Indicator	Compliance with limits
Sensitivity to Equity	✓
Sensitivity to Financial Margins	✓

Group

Indicator	Compliance with limits
Interest rate risk in the investment portfolio	✓
Risk rate interest in bank ledger	✓

Internal

Indicator	Compliance with limits
Exposure by counterpart of the investment portfolio	✓
Exposure by type of instrument	✓

Credit Risk

In the first months of 2019, the Superintendency of Banks of Ecuador issued its technical criterion favorable to updating the origination and monitoring models of the non-commercial portfolio. Three types of models were created seeking to better understand possible customer behavior based on socio-demographic and technical information.

Responsible promotion of products such as credit cards to meet customer needs is an effective mechanism for financial inclusion. Along these lines, a new institutional milestone was achieved in 2019 by reaching a USD 590 million People Segment credit card portfolio, which was characterized by being sound and well diversified. The result obtained is aligned with the institutional strategy of responsibly managing assets and risks.

For its part, technological innovation continued to be an important aspect for financial inclusion. The project for point approval for both credit cards and other products that make up the People Segment portfolio was reinforced.

This year marked the beginning of the project to update the specialized tool in the collection process of the People Segment portfolio, which uses state-of-the-art technology and applies the best practices in the industry with actions aimed at the client. The purpose of this initiative is to comprehensively automate the collection process at all stages: *preventive arrears*, *early arrears*, *medium arrears*, and *advanced arrears*. Another objective is to achieve greater efficiency in the management of the default team by integrating the automatic dialer and online monitoring of counsel approach during the judicial process.

On the other hand, from the Business Credit Department, credit methodologies from various industries were developed that, combined with the understanding of their respective dynamics, made it possible to meet the credit requirements of customers from the various productive sectors and thus become an active participant for its financing as well as to contribute sustainably in its growth. Regarding credit for the SME Segment, the challenge of making it more inclusive continued, with greater geographic and sector diversification with conditions tailored to the needs of clients and aimed at the development of their businesses.

Finally, as part of our commitment to sustainability, environmental and social risk analysis was integrated into credit decisions. In 2019, our entire commercial credit portfolio was analyzed with the Environmental and Social Risk Analysis System (*Sistema de Análisis de Riesgos Ambientales y Sociales—SARAS*), without there being any relevant social and environmental impacts to report. In this way, not only was the credit quality of our commercial portfolio guaranteed, but also its alignment with the commitment of Promerica Financial

Corporation to respect and support the best environmental and social practices.

Indicators of Credit risk

Regulatory

Indicator	Compliance with limits
Regulatory Credit Limits	✓

Group

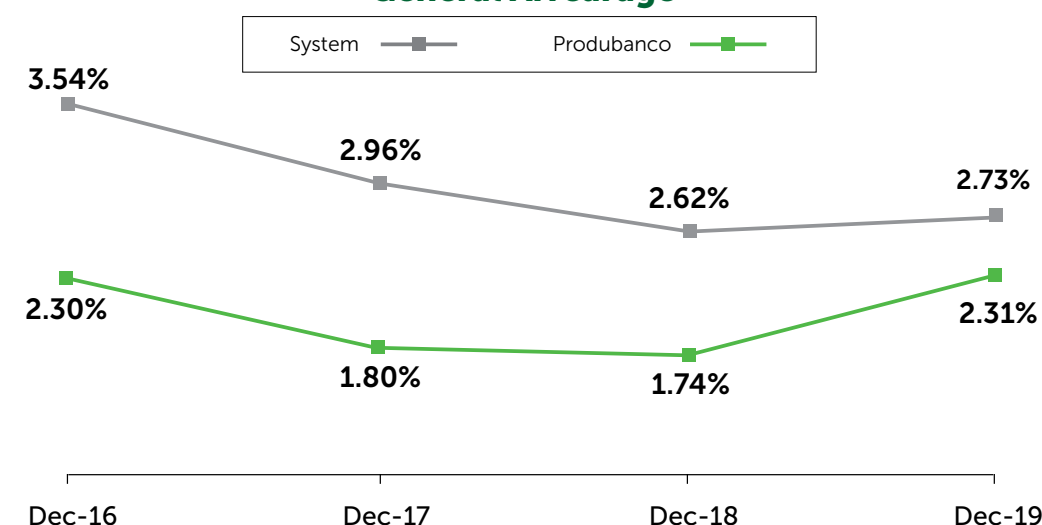
Indicator	Compliance with limits
Index of Concentration of 25 top debtors	✓

Internal

Indicator	Compliance with limits
Internal Concentration Limits	✓

Toward the end of the year, Produbanco maintained its general arrearage rate below the average of the System's aggregate indicator.

General Arrearage



Operational Risk

Based on the current legal regulations and with the support of the Administration, Produbanco maintains a model of operational risk management duly disseminated and documented in all interested areas. This is applied following the *Deming Circle* in order to ensure continuous improvement that leverages the achievement of the Bank's strategic objectives.

This year we expanded the scope of managing this type of risk to processes that are not necessarily critical but are required for the normal operation of the Bank. An operational risk identification schedule was defined and complied with based on internally defined prioritization. The analysis of the processes was complemented with the assessment of their risk level and the definition of mitigation measures for those processes with medium and high risk levels. The proposed mitigants are closely monitored until they are fulfilled, thus ensuring that the identified risk is properly managed.

The Bank has historical information on operational risk since 2004, making it possible to implement an internal model to update the criteria for the level of probability and impact; this has allowed us to be much more effective and objective when measuring the level of risk in internal processes.

One part of the efforts by management is to control that the level of materialized risks does not exceed the limit established by the Value at Risk methodology—VaR—(99%) for operational risk, which ensures that the impact ranges do not exceed established tolerance. The effective loss did not exceed the limit established in any month of 2019.

The Comprehensive Risk department kept constant monitoring of the evolution of the levels of operational risk in key processes; for this, it relied on a series of early warning indicators KRI—*Key Risk Indicators*—set by the operational risk managers in each process. In addition, there are indicators that show the evolution of the losses database and others that warn about the level of risk in the analyzed processes. The indicators are regularly reported to the Business Continuity Committee, the Comprehensive Risk Management Committee, and the Bank's Board of Directors, which facilitate the timely detection and correction of deviations in controls to minimize possible impacts.

Understanding that, in order to achieve efficient and committed operational risk management, a key element is internal culture, the co-managers of the various processes are constantly trained, reinforcing their assimilation with the circulation of brief informative reports on issues of operational risk and business continuity, which is spread through the institutional channel, called On Track (*Al Día*). The personnel who join the Bank have to pass a compulsory *e-learning* course on operational risk management and business continuity.

Indicators of Operational risk

Indicator	Compliance regarding limits
Value at Risk VaR (99%) for Operational Risk	✓

Business Continuity

Produbanco's business continuity management system includes the

best international practices in this area, especially those of ISO 22301, in addition to what is stipulated in Ecuadorian legislation. Its foundations have been incorporated into all related methodologies, policies, and procedures.

As technology is the basis of all the Bank's operations, it becomes a tool that has special attention within the administration of business continuity. The technological systems that support critical processes have contingency and / or continuity schemes that are regularly tested to ensure that they are ready and operational should their activation be necessary. During 2019, tests were scheduled and executed that culminated in the comprehensive and successful activation of the alternate data center in December.

The recovery of critical processes is guaranteed by means of contingency plans designed to give continuity to events that expose them to possible stoppage. A part of the recovery strategy is tested from the operational contingency center, which is always kept in optimal conditions to respond to a scenario of denial of access to the normal operations site.

The events resulting from the national strike that took place in the month of October 2019, were efficiently managed, a situation in which the correct functioning of the Crisis Committee and the plans that it activated could be verified. The main asset protected in these circumstances was human resources; the Business Continuity Committee issued clear guidelines to guarantee their safety during the transfer to the work sites and back to their homes. All actions were handled with a highly organized communication system, thanks to which the instructions reached the

executors in a clear and timely manner.

Security of Information

The most relevant milestone of the year in this area was the start of the project to update the Information Security Management System (*Sistema de Gestión de Seguridad de la Información—SGSI*). This project will allow Produbanco to advance with the continuous strengthening of methodologies and policies for mitigating technological risks.

This update will complement, from the security governance standpoint, the controls of the ten security domains defined by Promerica Financial Corporation: human resources, domain configuration, Internet browsing, email, physical access to devices, hardware and software inventory, updates, logs, network, and databases. In 2019, work continued on planning its implementation.

In parallel, the Information Security team led additional assurance or monitoring projects such as the periodic *Ethical Hacking* process, the design of the implementation scheme of a Security Operations Center (SOC), and reinforcing current monitoring through the implementation of a vulnerability scanning tool that will contribute to the generation of proactive responses before they become incidents.

Likewise, *Ethical Hacking* was carried out on the critical infrastructure that the Bank has. This process was carried out with the accompaniment of a strategic partner, with a scope of *black and gray boxes* (corresponding to total access restrictions and partial access restrictions, respectively),

through adequate coordination with the Technological Services Unit. The results of the review resulted in an action plan with the aim of continuing to apply best practices in our processes and controls.

The Cybersecurity sub-department deepened the vulnerability analysis of Produbanco and its Subsidiaries. Detailed analyzes were carried out on the application of security policies in agencies, security feedback, and permanent scans of weaknesses in Bank services.

Likewise, one of the main focuses of the Cybersecurity team was monitoring varying security incidents worldwide in order to execute proactive processes in our infrastructure to avoid the Bank's exposure to these risks.

The Information Security department continued to promote the construction of a solid security culture within the institution and among the various interest groups. Various internal and external campaigns were carried out sharing tips and best practices so that our officials and clients could better protect their sensitive information.

Along this line, keynote talks were also held by strategic partners to strengthen security awareness at all levels. New forms of communication were used in coordination with the Planning and Development Unit such as trivia to encourage the participation and culturalization of internal clients along with videos of the application of security policies.

Finally, as part of the new philosophy of Information Security, the implementation of an Identity and Access Management (IAM) solution began to manage more efficiently

the life cycle of an employee from his/her entry into the Bank, until his/her definitive separation. In addition, the implementation of a process that allows monitoring the activities of infrastructure or service administrators started in real time (privileged identities).

The Information Security Committee held its periodic meetings throughout the year. Through these, the Bank ratified the priority that the administration has defined for the protection of its information assets and that of its clients.

Reputational Risk

Produbanco has included the formal treatment of Reputational Risk as an important priority in Comprehensive Risk Management under the precept that corporate reputation is the most precious asset of a financial institution. Based on this, in 2019, with the support of a leading consultancy in this field, the policies and procedures for managing this risk class were improved, along with the methodology and mapping of risk matrices and interest groups along with reputational risk maps. In this work, the Bank's current exposure was determined and the alert and communication mechanisms were officially defined, as well as the guidelines to face a possible reputational crisis.

Finally, we worked on updating the communication protocols for possible reputational risk events, in force since 2018.

Institutional Risk Matrix

Type of Risk	Residual Risk Score	Trend
Liquidity	Low risk	Stable →
Market	Low risk	Stable →
Credit	Low risk	Rise ↑
Operational, Business Continuity and Information Security	Low risk	Stable →
Business	Low risk	N/A
Reputational	Low risk	N/A
Residual Risk Profile	Low risk	Rise ↑



Oscar Soto Brenes
Chairman of the Integral Risk
Management Committee



Report on Activities on the Prevention of Asset Laundering and the Financing of Crimes such as Terrorism, as of December 31, 2019

In compliance with the provisions of literal e of article 42, Section VII, Chapter III, Title X of Book I of the Codification of the Standards of the Superintendency of Banks (*Codificación de las Normas de la Superintendencia de Bancos*), this report discloses the main actions that were carried out throughout 2019 so that Banco de la Producción S.A. Produbanco is not used as a means for money laundering and financing of crimes such as terrorism.

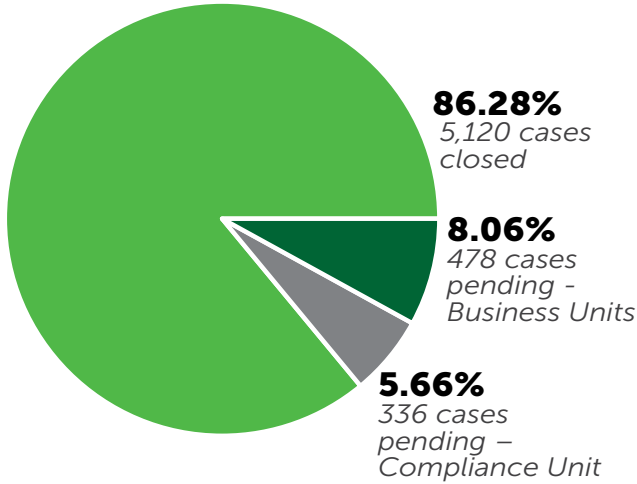
Know Your Client and Market Policy - Monitoring

During 2019, customer monitoring processes were carried out through the specialized technological tool (*Monitor Plus*). This platform allows the generation of alerts through the establishment of risk factors and specific control conditions with special emphasis on the significant variations between the transactionality carried out and the transactional and/or behavioral profile declared by the client, which makes possible the identification of possible types of money laundering and/or terrorist financing in application of the PLAFT risk methodology (Prevention of Money

Laundering and Terrorism Financing/ *Prevención de Lavado de Activos y Financiamiento del Terrorismo*).

It is worth mentioning that the analysis is carried out based on the customer's comprehensive relationship, i.e. by consolidating all the active products and services that it maintains at the date of the review, which generates alerts that are prioritized according to their relevance and impact.

As part of the execution of the processes described above, and in compliance with the Know Your Customer Policy, between January and December 2019, 5,934 cases were opened that required additional analyses by the Business Units.



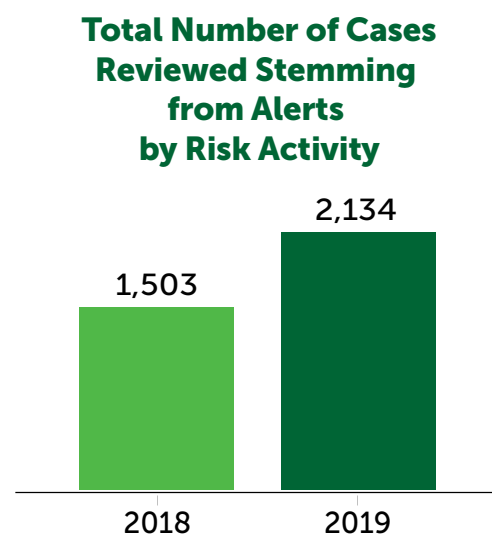
5,934 cases sent

In the previous graph it is evident that, as a result of the management carried out by Account Executives, 86.28% of the investigation cases were adequately supported as of December 2019, while 8.06% were in the process of being managed by the Business Units within the deadline established for its closure, and 5.66% were pending review by the Compliance Unit.

In addition, the Bank's main technological system (banking core) allows maintaining online preventive controls, among which are:

Alerts by Risk Activities

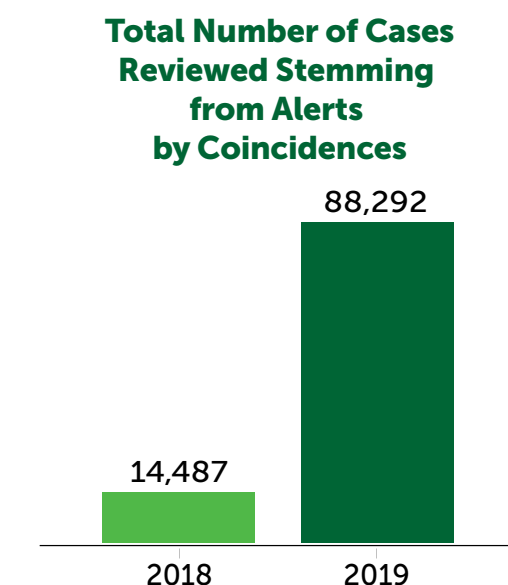
Before registering, creating, and accepting the commercial relationship with a client, there are controls that identify and alert on market segments and/or activities considered as high risk according to international standards on the prevention of money laundering. As a result of the application of this control, 2,134 cases were reviewed during 2019, versus 1,503 in 2018.



On the other hand, 21,708 records were entered in the internal control lists, and the international reserved lists were constantly updated, such as: *Office of Foreign Assets Control (OFAC)*, *Interpol*, *Federal Bureau of Investigation (FBI)*, *United Nations (UN)*, and *European Union (EU)*, among the main ones. This process was carried out through the interfaces connected to the banking core.

Alerts by Coincidences

It consists of raising alerts when there are coincidences between the names of people who are on internal control lists and/or international reserved lists, and Politically Exposed Persons (PEPs), among others; therefore, they require compliance with a due diligence process. In 2019, 88,292 cases were presented under these conditions, compared to 14,487 in 2018.



The control processes applied are:

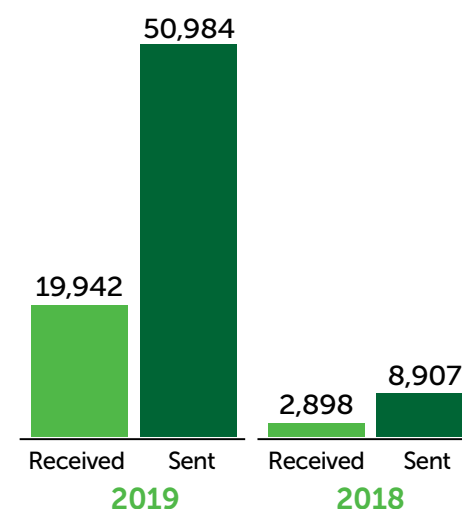
Creating or updating clients:

Approval flows generated to the Compliance Unit due to coincidences with lists, which must be undermined or rejected. 17,366 cases were analyzed under this concept, of which the start of a commercial relationship with 6,067 clients was authorized following the analysis carried out.

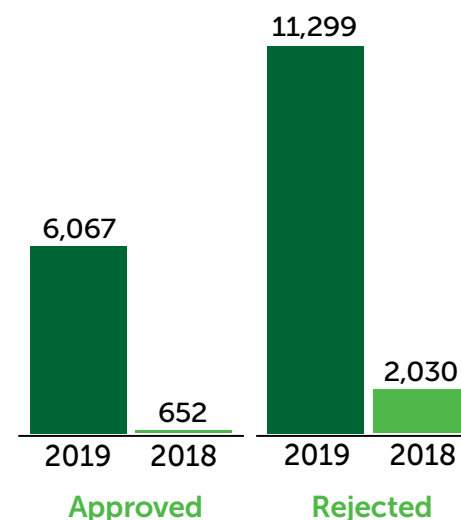
Alerts for international transfers received and sent:

Alerts automatically generated by matches (coincidences) related to the payer, beneficiary and high-risk country lists that appear in the text of the SWIFT message. During the year, 70,926 cases were reviewed, corresponding to 19,942 flows for transfers received and 50,984 flows for transfers sent.

International Transfers Received and Sent



Approved and Rejected Clients and Reserved Lists



Know your Correspondent Policy

In 2019, we received the visit of Compliance Officers of certain correspondent banks; we addressed 141 requirements of *Extended Due Diligence*, Certifications of the *US Patriot Act*, and *Know Your Client* forms, all received from banks and institutions locally and abroad. The exchange of SWIFT codes for the sending or receiving of funds was carried out and responses were made to specific inquiries from correspondent banks regarding customer information related to fund transfers to or from abroad.

Likewise, the Know Your Client form developed for national financial institutions with which the Bank maintains business relationships was updated in order to ensure that they have policies and procedures for the prevention of money laundering, terrorist financing, and other crimes.

Know Your Employee Policy

In conjunction with the Department of People and Culture, the annual update of information on Bank staff and its Subsidiaries was carried out, which is verified by the official's direct leadership office. Monitoring of the variations in assets was carried out based on the statements made by each of the employees, which led to the request for support from 343 officials to justify the variation. The analysis and review process is still pending completion.

In addition, in May, the monitoring of employee transactions was automated with the Monitor Plus tool, using a methodology based on risk factors and in accordance with institutional policies.

Finally, control procedures were applied to the information and documentation established in the process of linking and unlinking personnel.

Training

The Compliance Unit, in coordination with the Department of People and Culture, provided induction training to 498 new employees and re-induction training to 3,097 employees through the *e-learning* tool.

Controls Validation for Asset Laundering Prevention

In compliance with current regulations related to the Know Your Customer and

Market policy, during the year, several revisions were made to the controls established for the start of the business relationship (product opening) and for the course of the same (forms of origin of funds and analysis of clients by activity, banks, geographic location, and industry sectors).

Creation of New products

The Compliance Unit participated in the process of implementing new products in order to maintain control standards for the prevention of money laundering.

New Controls for the Prevention of Asset Laundering

The Compliance Officer implemented the following controls in 2019:

- *Validation of checklists using the Bridger Insight application in the cloud.* This important change allows to significantly increase the information sources of international control lists, as well as to strengthen control both for the process of creating clients, as well as for generating alerts and flows in transactions.
- *The Sanctions Screening tool*, which allows double validation with national and international checklists prior to sending and receiving transfers from abroad.

Reports to Organizations and Competent Authorities

During the year, the Monthly Reports of Operations that Exceed the Threshold (*Reportes Mensuales de Operaciones que Superan el Umbral—RESU*) were sent to the Financial and Economic Analysis Unit (*Unidad de Análisis Financiero y Económico—UAFE*) within the time established for this purpose. Before sending this information, general validation controls are carried out.

Furthermore, information related to the following structures is sent monthly to the Superintendency of Banks of Ecuador:

- E04 - Statistical report based on the information provided to the UAFE.
- E21 - Clients registered as assets in the Institution.

The Compliance Officer reported 72 cases considered as unusual or unjustified transactions to the Financial and Economic Analysis Unit; and in the same way, 1,971 offices of control agencies (SB, UAFE, and District Attorney's Office, among others) were answered regarding investigative processes.

Internal procedures of the Compliance Unit

The Compliance Unit carried out the survey and update of the procedures conducted in the area with the purpose of establishing clear guidelines in the execution

of the processes that are under its responsibility, and that they are in accordance with the provisions of the legislation and current regional provisions.

Automatic control is maintained for cash deposits that equal or exceed USD 5,000 or that their monthly accruals equal or exceed USD 10,000. This allows keeping the description of the source of income registered in the system, which in turn facilitates the analysis and review of clients when significant variations in their transactional and behavioral profile are identified.

Specific controls were carried out on 360 clients, which due to the characteristics of their business or industry, move a high volume of cash. As a result of the analysis carried out, said clients signed an Annual Form of Lawfulness of Funds (*Formulario Anual de Licitud de Fondos*), which allows them to streamline their daily operating process.

We actively participated in meetings with the Financial and Economic Analysis Unit, as well as with the Committee of Compliance Officers of Asobanca—Association of Banks of Ecuador, in which recommendations and proposals for improvement of regulations, instructions, and training were discussed, among others.

Internal, External Audits, Regulators and Others

The Compliance Unit was reviewed by various control entities, both by international firms as well as by internal and corporate audits, as detailed below:

- Corporate Audit Promerica Financial Corporation: July 2019.
- Internal Audit regarding: Know Your Client Policy - Client Transactional Monitoring; Report of Unusual and Unjustified Operations

or Economic Transactions; Know Your Employee Policy - Extra Role Transaction Monitoring; Structure, Obligations, and Functions of the Board of Directors, Compliance Committee, Unit and Compliance Officer; Compliance with the Foreign Accounts Tax Compliance Act (FATCA), and advancement of the Compliance Officer's annual work plan.

- External Audit: the firm KPMG will present during the year 2020, the results of its review with a cut-off as of December 31, 2019.



Diego Mosquera Pesantes
Chairman Compliance Committee

Currently, PLAFT regulations and policies are in the process of evaluation and compliance.

Conclusions

The activities carried out by the Compliance Unit were carried out in accordance with the annual work plan that was disclosed to the Compliance Committee and the Board of Directors. All of this was conducted through monthly reports presented by the Compliance Officer.



Aníbal Salazar Buenaño
Alternate Compliance Officer

In the course of the year, improvements were established in the processes of control of money laundering prevention and financing of crimes such as terrorism, which reinforced the internal control structure of Banco de la Producción S.A. Produbanco.



Report of the Unit of Customer Care for Financial Users

Service Quality Program

Providing memorable experiences to clients is one of the main objectives of Produbanco: in 2019, the Organization aimed its efforts at designing client-focused strategies, which allow strengthening the relationship in order to generate enhanced loyalty.

The strengthening of *customer voice measurement* models has allowed us to know their opinion at different times in the relationship. This continuous communication has made it easier for us to know their experiences, to manage them, and to improve upon them. A priority for us is to develop transformation plans based on real-time feedback in order to

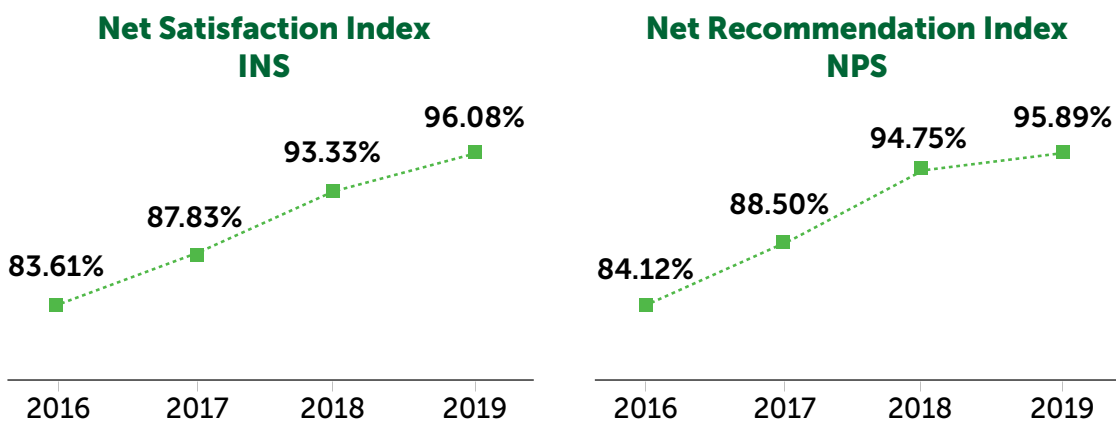
allow us to align with business results.

Within the measurement programs, the *Internal Client Voice Management* was incorporated. Its purpose is to identify the level of service provided by all areas and how each one of them contributes to the management of the end client. We want our employees to have positive experiences, to create an emotional bond with the Institution, and to be the main brand ambassadors.

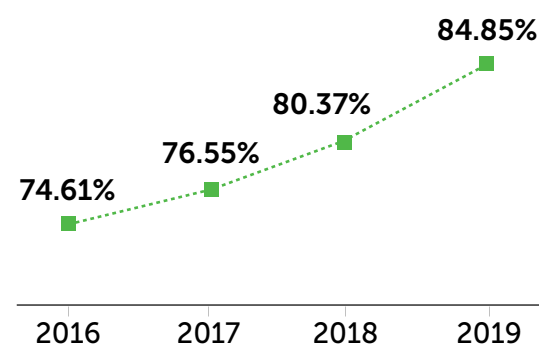
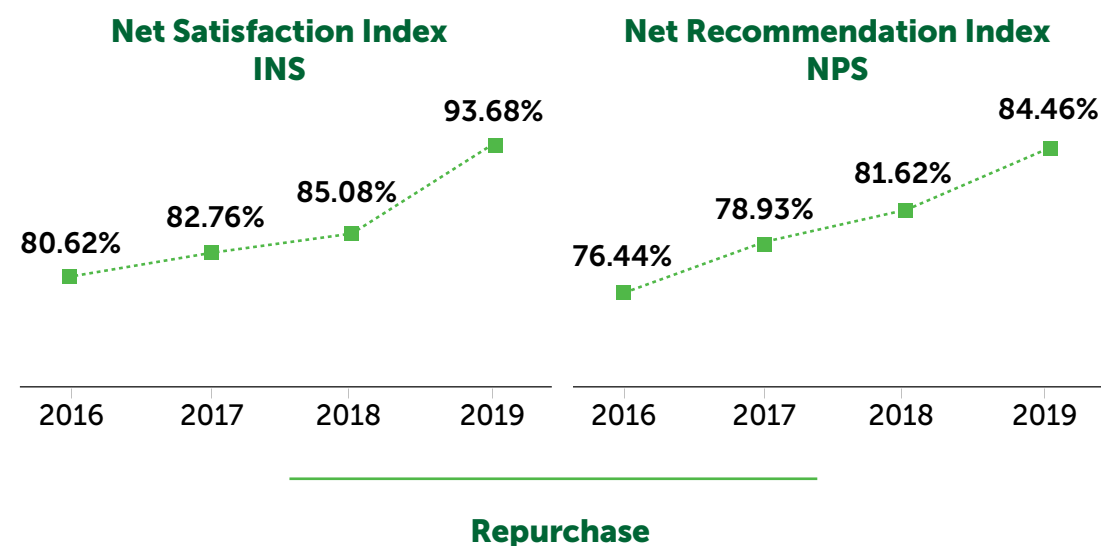
2019 Indicators

The results of the service quality indicators show a positive growth behavior.

Welcome Survey

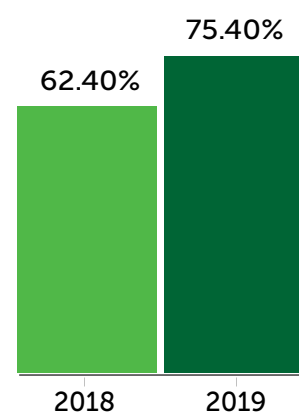


Loyalty Survey

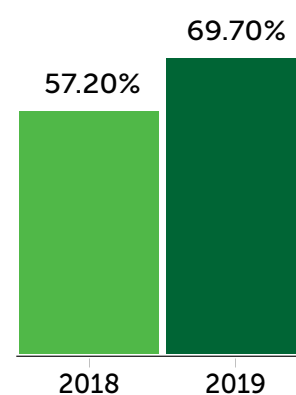


Indicators Corresponding to the Internal Client

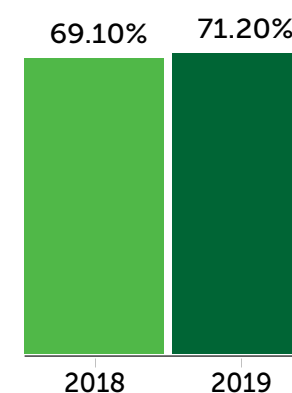
Net Recommendation Index NPS



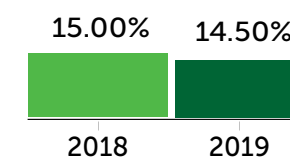
Employee Net Recommendation Index ENPS



Net Satisfaction Index INS



Effort Index or Level of Difficulty of Internal Client CES



Ekos IESC Customer Satisfaction Index

With the results of this measurement program, and thanks to the commitment of our clients, Produbanco received for the third consecutive year, the Gold EKOS first place in Service Quality award, Large Banks category.

The positive behavior of the quality indicators presented is the result of the implementation of permanent actions that impact on customer satisfaction and experience.

IESC Produbanco 88.10%

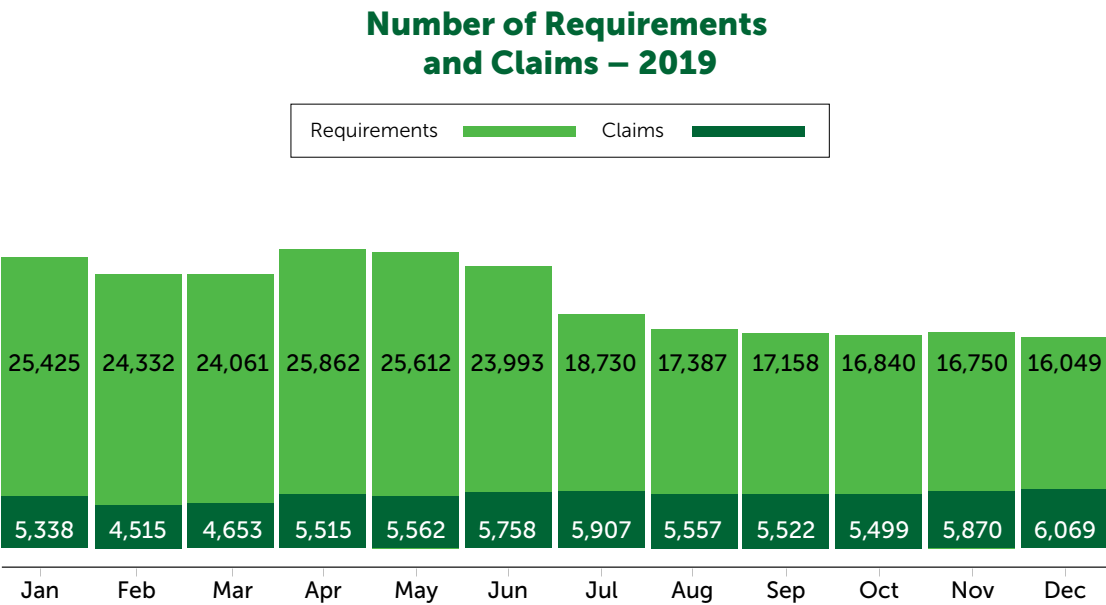
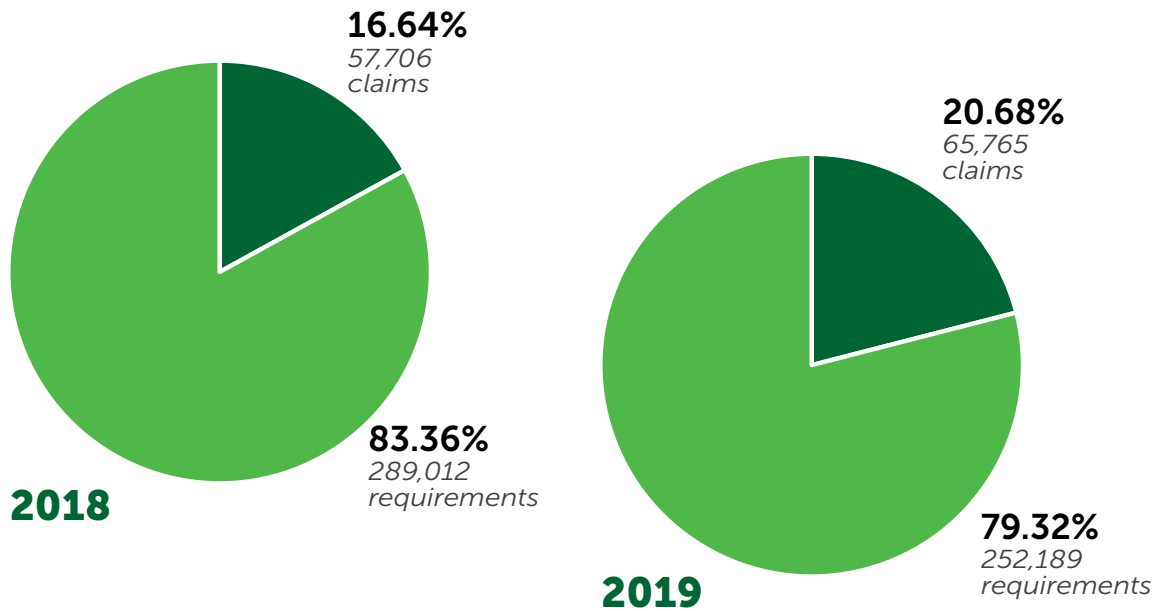
IESC Sector 77.70%

Indicators	Produbanco	Sector Average
Overall satisfaction	91.30%	82.20%
Perception of value (satisfaction/price ratio)	86.30%	73.90%
Intention of recommending	85.70%	70.50%
Buyback intention	87.30%	74.50%
Loyalty	56.70%	39.90%
Trouble Rate (% Trouble Free)	90.00%	87.60%
Reporting rate of problems (%)	86.70%	81.10%
Troubleshooting rate (%)	57.70%	59.50%

Requirements and Claims

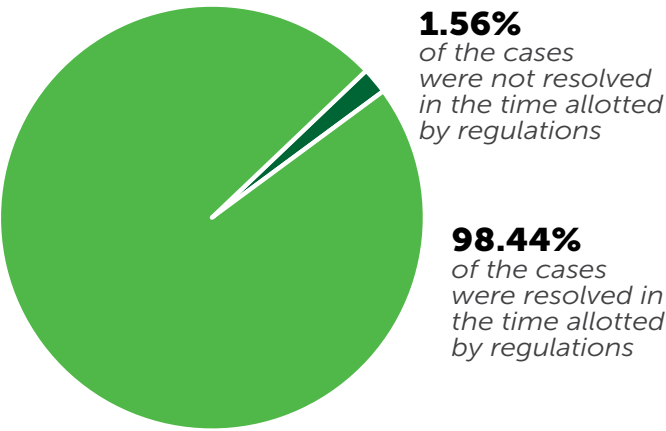
In 2019, 65,765 claims (20.68%) and 252,189 requests (79.32%) were registered, out of a total of 317,954

cases. In relation to 2018, in which 346,718 cases were admitted, there was a decrease of 8.30%.



Of the total number of cases (317,954), at the end of the year, 314,261 (98.84%) cases had been addressed, of which

98.44% were resolved within the maximum time established by legal regulations.



Operability

The cases that are received and entered in the Requirements and Claims tool go through the following level of processing:

N1

Cases resolved directly by the managers of the Customer Service Center (CAC) area, that is, during the same phone call.

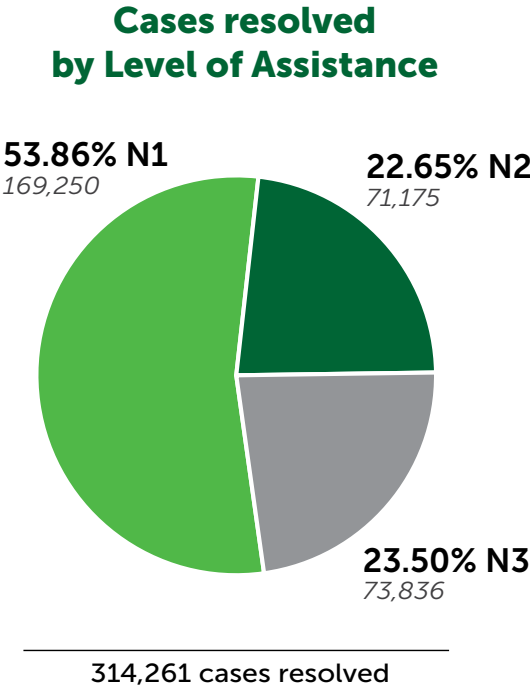
N2

Cases that are handled by the Financial User Service area.

N3

Cases that require the intervention of specialized personnel, generally from the Operational departments and the Technology area.

The 314,261 cases solved were addressed as follows:



Claims with Economic Impact - 2019

Non-recognized charges with credit cards	16.86%
Charges not processed with Visa Debit	10.32%
Local/foreign debit and non-payment	10.03%
Non-recognized charges with Visa Debit	8.00%
Cost reversals	5.70%
Non-registered deposits with errors	3.90%

Claims without Economic Impact – 2019

Produbanco online non-processed transactions	9.90%
Duplicated and non-processed payments – credit card	6.31%
Debit Visa not accepted at establishments	4.89%
Non-conformity with information provided	3.30%

Greater Impact Requirements – 2019

Credit card password request	16.28%
Foreign travel notification	13.44%
Insurance	11.28%
Credit card blocking	10.06%
Credit card activation	5.41%
Credit and debit note receipts	3.04%
Debit Visa replacement, delivery, activation	2.50%
Be debit card replacement, delivery, activation	2.48%
Produbanco be personal data updating	2.36%
Certification of payments performed	2.34%

Breakdown of Unprocessed Produbanco Online Transactions

Transaction	Cases	% Participation
Error when making payments	922	14.17%
Error when making transfers	826	12.69%
Notifications not sent	784	12.05%
Failed to enroll	642	9.86%
Erroneous notifications sent to the client	538	8.27%
Mobile application	521	8.01%
Access to produbanco.com	444	6.82%
Error displaying movements	316	4.86%
Error creating payee	247	3.80%
Your transaction could not be processed	208	3.20%
Account status not available	138	2.12%
Pre-cancel / refinance web error	136	2.09%
Token via SMS not received	134	2.06%
Failed receipt of income	114	1.75%
Scheduled payments not processed	93	1.43%
Error generating bank certificates	81	1.24%
Error parameterizing quotas	81	1.24%
Error updating data	75	1.15%
Miles redemption error	61	0.94%
Error entering additional user	50	0.77%
Failed making advances	40	0.61%
Failed to generate images	26	0.40%
Image does not belong to user	16	0.25%
Failed to log in Online Banking	14	0.22%
Debit note	1	0.02%



María Dolores Prócel
Unit for Assistance Service to Financial Users



Report of the Ethics Committee and Corporate Social Responsibility

Aware of the challenge of promoting well-being in a world facing the impacts of climate change and human actions on natural ecosystems, at Produbanco we are committed to contributing to a more prosperous and inclusive society that uses the resources of nature responsibly.

Sustainability is a commitment and as such, it forms an integral part of our Strategic Plan, being a pillar that goes beyond a statement, as we seek to ensure that it is incorporated into the operations of all areas as part of our business model with a cross-cutting strategy in everything we do.

Along these lines, we present the 2019 annual activity report to the Ethics

and Corporate Social Responsibility Committee, in which we detail our sustainability strategy with its projects, objectives and actions, with which we make the commitments assumed in the social, economic, and environmental fields a reality.

Sustainability Strategy / Our Purpose

With the formal incorporation of the "commitment to sustainability and corporate social responsibility" among the pillars of the Strategic Plan for 2019-2023, we have established our goal of maintaining sustainability in our DNA, in generating value for

each of our stakeholders such as Employees, Clients, Shareholders, Suppliers, and the Community and in this way, become agents of change for sustainable development.

Agent of Change

At Produbanco, our sustainability plan places us today as an agent of change in our value chain. As the leading bank in sustainable finance in Ecuador, we encourage our Vendors and other Stakeholders to carry out sustainable charges, practices, and options. This pillar of sustainability will be promoted in greater depth this year.

Sustainable Culture

We are an Entity with adequate internal practices in favor of building a more responsible and friendly association with the planet. This starts from an appropriate management of Corporate Governance, a culture of responsible banking, implementing the best practices with our Employees, as well as with the application of eco-efficiency measures and environment-friendly infrastructure, with the aim of mitigating CO₂ emissions that are generated from our activities.

As part of our impact management, we maintain the carbon footprint

measurement, reduction, and mitigation process for our administrative buildings in Quito, Guayaquil, and Cuenca.

Sustainable Clients

We accompany our Clients on their path to sustainability. We have deepened the self-imposed responsibility of being an agent of change and promoting it in our value chain; therefore, we manage the social and environmental risks that may have an impact on our Clients, the Community, and the Produbanco loan portfolio.

During the last year, we consolidated our Environmental and Social Risk Management System (SARAS) by incorporating a team of analysts to create the Environmental and Social Risk team within the Loan Unit. This has allowed us to support our Clients and as a result of the analysis, provide them with recommendations for best practices and more efficiency.

Green Products

We generate an offer of financial products and services through the Green Lines program. Three years after the program started, the Produbanco Green Credit reached cumulative disbursements of USD 181 million in more than 245 projects distributed among the Ecuadorian Amazon, Highlands, and Coast.

Produbanco accompanies the Client to achieve the best sustainability standards since it is essential that these

resources have verifiable impacts and that they are effectively contributing to improving the environment. Among all sustainability categories, the impacts achieved with the Green Credit, in terms of savings, are summarized below: 605 thousand m³ of water saved, 2.6 million kW/h saved, and 4.2 thousand tons of waste avoided.

In September, thanks to the management and results achieved in this program, we received recognition in Mexico during the *III International Forum of Socially Responsible SMEs* in the category *Care and Preservation of the Environment*, with the program "Green Lines."

Focused on the green community and its commitment to the environment, we have proposed to close the virtuous circle in the intermediation of resources through the creation of the Green Account with the aim of channeling local resources, exclusively to finance projects focused on environmental care and thereby contribute to a more sustainable society. In this first year, the Green Account has been very well received, both by Produbanco Clients and new users, who have been interested in its value proposition, reaching 8,200 accounts and a balance of more than 3 million dollars.

Social Management and Financial User

To generate an impact on various users and segments of the population, we agilely promote access to the financial system through our channels. This is reflected in the various products and services that Produbanco has incorporated during the last year to

provide innovative safe alternatives and new experiences for the needs of the different segments of the population and thus generate memorable moments for our Clients. This is closely linked to a fundamental value for Produbanco such as our ethical and responsible behavior, accompanied by a robust financial education program.

In compliance with Regulation SB-2015-665 and our ongoing commitment to generate financial capacities in people in order to include them in the system, Produbanco's Financial Learning Program continues to grow, and we registered more than 7,300 program beneficiaries during 2019 among children, youths, adults, and senior adults in both urban and rural areas of Ecuador, who were taught in face-to-face workshops and through e-learning courses in 68 cities nationwide, through the modalities of *Learn Employees*, *Learn Clients*, and *Learn Community*.

Relevant Facts on Sustainability

We launched in Quito the first edition in Spanish of the book "Banking for a Better World" (*Banca Para Un Mundo Mejor*), before prominent actors from academia, private and public banks, private companies, multilateral organizations, Non-Governmental Organizations (NGOs), and the media. This initiative was possible thanks to the support of Grupo Promerica and the FMO, in order to serve as a guide for Spanish-speaking countries, whose approach raises the crucial role and responsibilities that development banks and the private financial system must play as catalysts for sustainable development. In addition, the option for the digital download of the book was presented on the

Produbanco website.

In September 2019, Produbanco joined as one of the founding signatories of the "Principles for Responsible Banking", a coalition of 130 banks representing a third of the global banking sector, ratifying its strategic commitment and aligning its sustainable business approach with the Sustainable Development Goals and the Paris Climate Accord. Together with Banco Promerica Costa Rica and Banpro Nicaragua, we committed ourselves to assume a crucial role in achieving a sustainable future.

The official launch of the Principles for Responsible Banking, which kicked off the United Nations General Assembly in New York, marked a milestone with the most important partnership to date between the global banking sector and the United Nations.

In conjunction with the Principles for Responsible Banking, Produbanco joined a collective commitment of 33 banks worldwide, which seek to establish clear goals in order to achieve the tenets of the Paris Accord. To do this, in order to meet the commitments made, Produbanco is part of the *Partnership for Carbon Accounting Financial*, a program that has developed methodologies for measuring the carbon footprint for different types of Assets in Financial Institutions (IFIs).

In line with Produbanco's commitment to sustainability, during 2019 various events and talks on the subject were held, in which Produbanco participated prominently, with the aim of promoting a more sustainable environment in the country and imbuing this commitment in different actors of society. The main event of the year was "Sustainable Ecuador" (*Ecuador Sostenible*), an event

organized by the United Nations and the *Global Compact of Red Ecuador*, which was presented with the sponsorship of Produbanco as part of its strategic commitment to sustainability, where the main stakeholders in the country signed their commitment to the United Nations 2030 Agenda. This unprecedented event in the region received more than 800 attendees and business leaders from the country, and included various experiential and recreational activities that aimed to raise awareness of the most important challenges of our era: climate change and extreme poverty.

Corporate Social Responsibility

In line with our commitment to contribute to the sustainable progress of society, our approach to Corporate Social Responsibility is focused on two components: "Community Development", for which we maintain financial and volunteer support for the 'Your Change for Change Foundation' (*Fundación Su Cambio por el Cambio*); while in the second component "Caring for our Planet", we focus on the project "Conserve our water sources: Moorlands of Ecuador" (*Conservar nuestras fuentes de agua: Los Páramos de Ecuador*), in alliance with Conservation International Ecuador: in this sense, various volunteer activities were carried out.

Conserving our water sources: The Moorlands of Ecuador

We undertook a new challenge that will strengthen our environmental and social commitment to contribute to the

sustainability of the planet. We are part of an initiative that contributes to the defense of nature in return for everything it provides us daily, mainly clean air and water, which are essential elements in the preservation of life. To this end, we have signed a collaboration agreement with Conservation International Ecuador to work towards a common goal: the protection and sustainable use of the moorlands (wetlands) through the program "Conserve our water sources: the moorlands of Ecuador". This Andean ecosystem is essential for the protection and regulation of water resources, since the soil of the moorlands acts as a sponge that absorbs, stores, and releases water from rain or glaciers. In this manner, the moorland supplies water for human consumption, irrigation, and generation of electrical energy.

The initiative "Conserve our water sources: The moorlands of Ecuador" aims to:

- Expand the number of hectares of moorlands under conservation agreements.
- Increase the number of beneficiaries who receive economic incentives for the conservation and responsible management of this ecosystem.
- Promote the conservation of emblematic species of the moorlands.
- Ensure the conservation of moorlands that supply water for the population of Ecuador.

Volunteering

In October, the "International Promerica

Volunteer Day" was held, in which simultaneously in 8 Grupo Promerica banks, various activities were carried out with a social and environmental purpose.

On this occasion, Produbanco employees and their families participated from three cities in the country in favor of reforestation in the *Yanacocha Reserve* located an hour and a half from Quito, also in Ayampe - Puerto López from the cities of Manta and Guayaquil, as well as also in Cuenca at the *Yunguilla Reserve*, in collaboration with the *Jocotoco Foundation*. The chosen sites are protected reserves where actions are carried out to recover the habitat of species that are in danger of extinction, or through reinsertion actions after their recovery in reception centers.

Fundación Su Cambio Por el Cambio (Your Change for Change Foundation)

We maintain our commitment to financial support and direct support to the Foundation, establishing ourselves as a fundamental pillar for the development and continuity of its projects in Quito and Guaranda.

The Educational Project *Su Cambio por el Cambio* in Quito, helps approximately 176 children and adolescents between the ages of 6 and 18 who come from dysfunctional environments where poverty, migration, or violence affect their behavior and development. The objective of the Foundation is to provide comprehensive care to this group (includes family) in order to improve their quality of life and insertion into society.

We have also concentrated efforts on the approval of the lease to the Foundation once the land use loan made to *Fundeporte*, which in turn allowed for the operation of *Su Cambio por el Cambio*, was reversed by the Municipality of Quito. We currently have a land use authorization from the Metropolitan Company for Mobility and Public Works (*Empresa Metropolitana de Movilidad y Obras Públicas*).

Likewise, and once the termination of the lease has been verified, we contribute to successfully culminating the liquidation of *Fundeporte*, supporting payments to the workers there in terms of all of their salaries and employment benefits.

In the Guaranda project, located in the *San Simón* parish in the province of *Bolívar*, we promote the development of sustainable production in favor of the progress of the town and its inhabitants, who number 400 families. The program includes educational plans, food, production, self-management, and community action. The production produced there is sold weekly at the *Echandía Market* in Guaranda and to our employees in the city of Quito.

For the fifth consecutive year, we carried out the "Foster" (*Apadrina*) Christmas campaign, in which our officials voluntarily collaborated by delivering presents to 198 children and 65 grandparents from Quito and Guaranda. On this occasion, Produbanco sponsored the organization of entertainment events in the two cities and with presents for 74 teenagers and 68 project employees; its success could

be corroborated in the smiles of all attendees.

We continue to deliver recycled material to authorized recyclers as a result of the internal waste separation campaign. The economic value generated by this activity is delivered to the Foundation so that it can be managed according to their needs.

Other Contributions

In the social sphere, our contribution allows other organizations to manage various causes; this is how through *Fudrine* we collaborate so that children with physical or motor disabilities can prepare themselves so that their development and inclusion in society is as seamless as possible. In the *Atucucho* community, through the medical dispensary that we sponsor, it is possible to continue providing general medicine services to the population of children, adolescents, and adults in this sector. We deliver a supply of groceries produced by the Your Change for Change Foundation to the *San Juan de Dios* Shelter on a monthly basis, and in the gerontological field, we also provide financial support to the *San José* Foundation. In December, we contributed to the Guayaquil and Manta *Telethon*.

Investment

Below, we detail the figures of the investments made:

During the year 2019, we invested USD 1,065,760, of which 43.62% went to the social and health sector, 35.55%

to sports and recreation, 11.08% to the Financial Education Program, and 9.76% to other projects and sectors.

Transparency and Communication

In 2019, we published the twelfth *Corporate Social Responsibility Report* developed with the guidance of the

Global Reporting Initiative—GRI, following the Standards version under the 'Comprehensive' option. Through this report, we communicate to our stakeholders and the community in general about 2018's management in the social, economic, and environmental fields. We also have the seal *Materiality Disclosures* of the *GRI*, which certifies the correct arrangement in the report of all relevant aspects of the organization.

Social	464,844	43.62%
Fundación Su Cambio por el Cambio	357,608	
Telethon	26,000	
Fudrine (cerebral palsy)	24,000	
Atucucho (medical dispensary)	14,400	
San José Foundation (gerontological care)	4,400	
Operation Smile (surgical campaign)	5,000	
San Juan de Dios Hostel	3,356	
Ecuador Teaches	25,850	
Sponsorships	4,231	
Sports and Recreation	378,838	35.55%
Fundeporte	369,774	
Collaborative sports sponsorships	6,503	
Racing and sporting events	2,562	
Financial Education Program - Learn	118,079	11.08%
Social Responsibility Report	34,605	3.25%
Environment and Sustainability	50,393	4.73%
Carbon Neutral	11,863	
Alliances (Global Compact, UNEP FI, CERES)	11,380	
Events and others	17,873	
Volunteering	5,270	
Women's workshop	4,008	
Arts and Culture	19,000	1.78%
"El Apuntador" Foundation	18,000	
Sponsorships	1,000	
Total Investment for 2019	1,065,760	100.00%

Ethics

Among the important events of 2019 are the following: at the end of April and as a good practice, the process of implementation and communication of the Ethics Line was shared with Promerica Nicaragua. In May, the first year of managing the confidential and anonymous channel was held, focused on the employee with the campaign "You are not alone in this situation; when you report, we walk together", and on the pillars of confidentiality and reliability. In June, the first annual report was published as an accounting of the management carried out in the reception and resolution of cases. In July, the first satisfaction survey on the Ethics Line was launched; among the results, it is highlighted that 92.37% of the employees know about this channel and that they also relate it to other means of communication such as email with lineaetica@produbanco.com, the open door policy, approach with the leadership and team of People and Culture; it was also known that 9.26% of employees used this channel due to the need for confidentiality and/or anonymity.

As an improvement action, it was proposed to promote communication campaigns to reinforce the use of the anonymous site; thus, at the end of October, a change was made on the intranet so that the employee registered the necessary information for the resolution of the case, therefore maintaining confidentiality and anonymity.

This year, 90 cases were handled, which were resolved, in the first instance, in 23 Ethics Line Commissions, in an average time of 9.7 days. Among the relevant actions

for the resolution of cases, the following are mentioned: raising awareness among department heads concerning the importance of leadership and maintaining an adequate work environment, application of personnel policies

and procedures as well as service protocols; work climate surveys, and improvement plans; workshops for the development of personal and group skills, visits to branches and development plans per each employee. On the other hand, in some

cases, and as a result of the application of the respective regulations, the employee separated him/herself from the Institution. It is also reported that during 2019, 12 cases were exposed to the Ethics and Corporate Social Responsibility Committee.

It is important to emphasize that Produbanco and its subsidiaries maintain other means of communication through which employees express themselves directly and openly.



Diego Mosquera Pesantes
President Committee on Ethics and
Corporate Social Responsibility



Report of the Remunerations Committee

The Remuneration Committee analyzed three relevant issues:

1. Regulations on Salary Cap

It is the responsibility of this Committee to ensure compliance with current regulations regarding salary limits for the financial sector, a process that is carried out annually. In the course of 2019, we validated the execution of each of its provisions:

- That the first line can earn a maximum of 40 times the remuneration of the lowest salary position in the organization (cashier).
- That the second line can earn a maximum of 30 times the

remuneration of the position with the lowest salary level in the organization (cashier).

- That the first line cannot earn more than twice the level of the second line.

2. Variable Remuneration Model

As presented in the March 2018 committee, the new variable remuneration model for strategic level positions (A and B) was applied. In this way, the objectivity of the results obtained as an organization was guaranteed, as well as the equality and salary competitiveness of employees at these levels.

This process includes the most important variables regarding contribution to the results in an organization, among them, organizational contribution, that of the position, and that of the employee (performance evaluation).

3. Salary Increases - 2019

Every year we safeguard the planning and review of salary increases ensuring consistency with the country's situation and with the main indicators related to this variable (inflation, SMV, sectoral, D&T, and PwC projections).

We try to maintain a competitive salary policy that guarantees equality in the Institution.

The Committee addressed this point taking into account both the government guidelines regarding minimum and sectoral wages, as well as the application of the methodology of salary increases according to performance, which includes tools such as *Nine Box* and the performance calibration process.

Jaime Dávalos Fernández-Salvador
President Remunerations Committee



Subsidiaries

Externalización de Servicios S.A. Exsersa



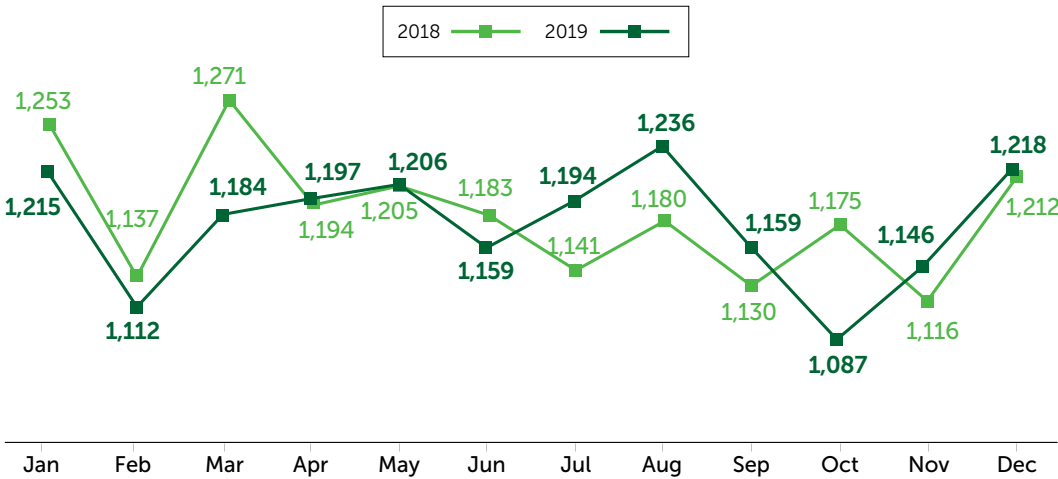
Outsourcing of Servicios S.A. Exsersa closed 2019 with 66 agencies nationwide and 7,238 Pagoágil points.

During the year, the Subsidiary continued with its growth strategy based on the implementation of the transactional *switch*, thanks to which corporate and business clients can offer *Servipagos* products directly to their clients. This initiative contributed to the strengthening of strategic alliances and the notable increase by 83.10% of Pagoágil service points, which went from 3,953 at the end of 2018, to 7,238 in 2019.

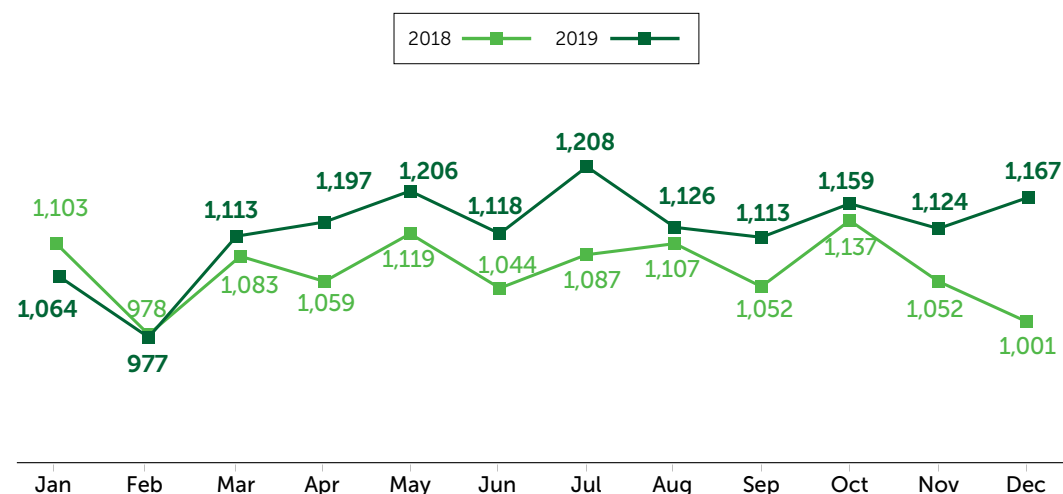
The *Portal* agency was inaugurated in the *Servipagos* network in Quito, and the *Chillogallo* agency was also remodeled. As for the operation of *Servipagos* brand ATMs connected to *Banred*, it continued to consolidate its purpose of decongesting lines in the agencies.

The behavior of transactions in *Servipagos* agencies and Pagoágil points is presented in the following charts:

Monthly Evolution of Transactions in Servipagos Agencies
(thousands of transactions)



Monthly Evolution of Transactions at Pagoágil Points (thousands of transactions)



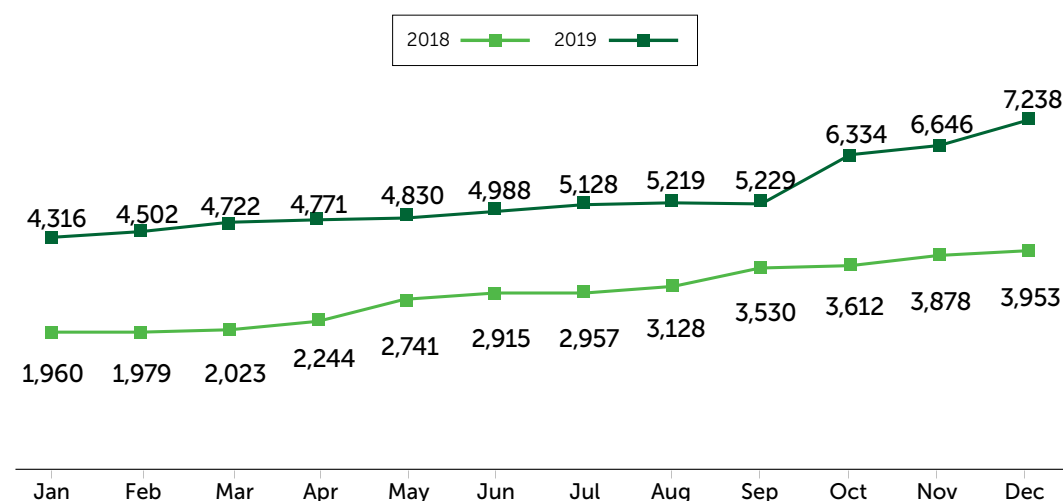
Reducing dependence on agency revenues by promoting other channels was again one of the strategic approaches of the subsidiary Externalización de Servicios S.A. Exsersa.

Channels Evolution in Income Share

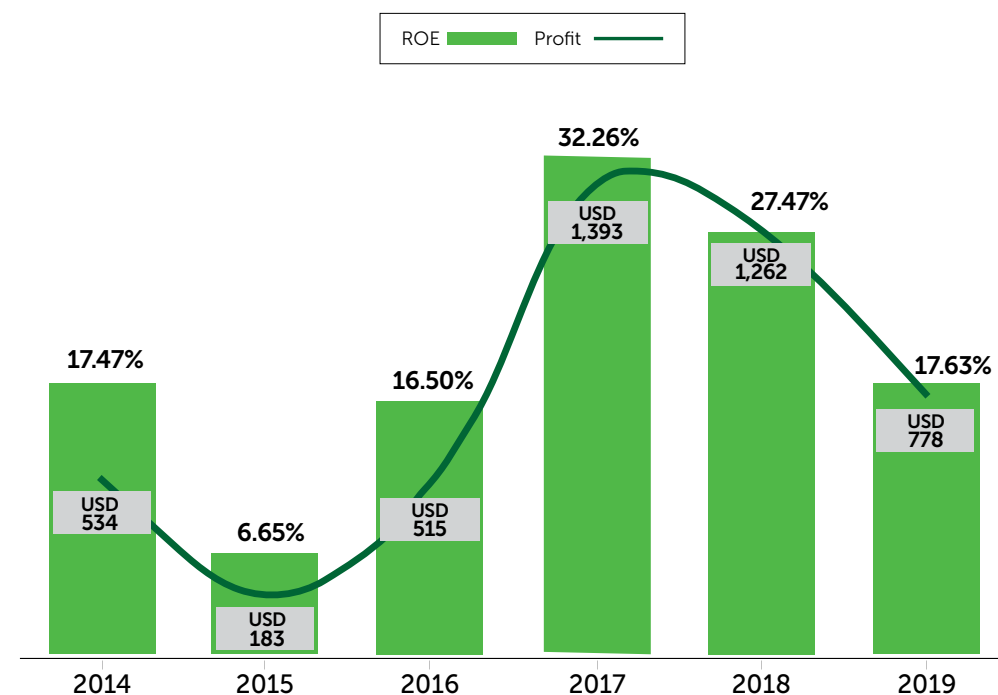
Channel	% Participación 2018	% Participación 2019
Agencies	40.70%	44.08%
Pagoágil Points	32.41%	36.75%
System of Transfers and Payments	20.28%	13.28%
ATMs	4.63%	4.63%
Others	1.99%	1.26%

The profitability of Externalización de Servicios S.A. Exsersa was reflected in the increase in its service points and in the return achieved for its shareholders.

Monthly Evolution of Pagoágil Points (number of points)



Evolution Profits Over Equity Externalización de Servicios S.A. Exsersa



Protrámites Trámites Profesionales S.A.



Protrámites Trámites Profesionales S.A. contributes with Produbanco in two essential aspects: the management of past due loans in the People Segment, and the recovery of written-off loans in all segments.

The net profit with which the Subsidiary contributed to the Bank in 2019 amounted to USD 736 thousand, in contrast to the USD 518 thousand in 2018, which represents a growth of 42.08%. Revenue exceeded its projection by 104.33%, as a result of the consolidation of the Legal Procedures area in the agencies of Quito, Guayaquil, Manta, Portoviejo, and Machala for the Individual and SME Segments.

An important front the Subsidiary emphasized this year was the adequate treatment of human resources, which given the type of activity it carries out, requires actions to stay motivated. To address this constant challenge of all lines of supervision, in 2019, Protrámites Trámites Profesionales S.A. brought together all employees at the national level in a day whose primary goal was to strengthen teamwork, a fundamental pillar of the work performed. This action paid off in all the results of the company.

Another objective that required intense efforts was the creation of processes and the complete streamlining of information for the implementation of the Credit Force Collection Project, which will go into production in the first half of 2020, and through which collection management due to the systematization of processes and the use of specialized, cutting-edge technology, will be optimized.

With regard to the past-due portfolio, the Collection Intelligence team provided support in the application of strategies for early and medium arrears, thanks to which a rate of 4.93% was reached at the end of December. In the same way, it gave support in the elaboration of different analyses that allowed both decision-making based on technical aspects (historical data, market data, trends, among others), and the construction of dashboards for the generation of the management strategy and its monitoring.

Early Arrears

The 100% growth in the workforce allowed us to manage the new portfolio volumes assigned by Produbanco. The change in the structure of the organization and the creation of a team focused on operational processes gave rise to the formation of a competitive group that was able to increase the level of recovery effectiveness exceeding 94%, 2% more than the previous year.

At the end of 2019, 25 thousand operations were registered for an amount of USD 138 million, compared to 14 thousand operations amounting to USD 83 million in 2018.

Average Arrears

The focus on average arrears was directed to the management and control of the credit card product, without neglecting the activity on other products, to the strengthening of the work team, and to the strengthening of the continuous improvement process.

As of December 2019, USD 88 million were managed corresponding to 11 thousand clients (concentrated mainly in credit cards), compared to USD 57 million from 6 thousand clients in 2018.

In order to obtain this compliance and implement strategic planning, changes were applied, among which it is worth highlighting the orientation of the organizational structure towards human resources, which resulted in a considerable increase in managers focused on the credit card product, and the modification in the collection strategy for said product with the use of a specialized collection prioritization model (grouping by buckets) that resulted in better control of write-offs and provision expense.

Advanced Arrears

2019 was a challenge for recovery goals, both for the write-off portfolio and our own portfolio. With the leverage of a committed and professionally developed human team that knew how to successfully manage the difficulties of the market and the country's situation, compliance with the advanced default budget stood at 103.50% in what corresponds to the written-off portfolio, and 102.10% in our own portfolio (purchased).

The progress of the purging of the portfolio under legal action was very satisfactory, since this process concluded with the certainty of information in 95% of cases that were handed over to external lawyers for their management. This led to sound decisions and contribution to certain Bank processes, such as portfolio sales.



Management of the Business Units

Corporate Banking

Corporate Segment

Obligations with the public of the Corporate Segment amounted to USD 768 million, 13.59% more than in 2018. This amount represented 19.18% of the Bank's total fund receipts.

The portfolio as of December 2019 (USD 1.258 million) increased by 1.56% compared to the previous year as a result of support for the renewable energy and retail sectors, which were the most economically dynamic, and which compensated other sectors that

contracted. Within this context, the Segment portfolio represented 36.78% of the Bank's total portfolio.

One of the focuses of 2019 was to serve the productive chain of corporate clients with the financing scheme for its vendors and clients, which at the end of the year reached the sum of USD 154 million. USD 14 million were placed in credits directed to its vendors. In addition, for those corporate clients with a sustainability strategy, financing solutions amounting to USD 44 million were proposed.

Lastly, with respect to contingents, these decreased compared to 2018 due to less contracting by the Public

Sector. Despite this, more than 450 operations were carried out during the year, with which the Segment contributed to the development of the country's importers and exporters.

Business Segment

The obligations with the public of this Segment, which at the end of 2019 reached USD 215 million, showed an increase of 6.03% compared to the final balance of 2018. In relation to the total deposits of the Bank, this item had a participation of 5.37%.

For its part, the Segment closed 2019 with a USD 330 million

portfolio, an amount 10.68% higher than the previous year, and which represented 9.64% of Produbanco's total placements. Certain strategic locations contributed to this result, such as Cuenca, where growth was 46.28%, and Manta, where growth amounted to 35.58%. In 2019, the Business Segment was consolidated as an ally of projects with a positive environmental and social impact through the financing of USD 27 million in sustainable initiatives.

During the year, we worked to strengthen the proximity strategy with clients through tools with managerial information that were made available to business executives, and through

talks related to corporate governance and succession plans, which took place in all cities where the Business Segment has a presence.

Institutional Segment

This Segment has a portfolio of innovative products and solutions designed to meet the strategic needs of our more than 310 institutional clients, including: banks, segment 1 cooperatives, public institutions, brokerage houses, fund managers and trusts, international and non-profit organizations, insurance companies, and religious congregations, with whom we have developed strong and long-term relationships.

Our value proposition seeks to resolve different requirements in terms of liability management, transactional solutions, and collections. In addition, the Institutional Segment manages a credit portfolio focused mainly on insurance companies and financial institutions.

Correspondents and Multilaterals

The team of professionals in this Segment is in permanent contact with each of our clients, whose nature and size of their positions in the Bank require constant monitoring of deposit cycles, rate levels, generation of opportunities, and the participation of Produbanco as compared to other financial institutions.

During this year, Produbanco received facilities from important foreign entities with which we have a relationship, such as the International

Finance Corporation (IFC) of the World Bank group, the Inter-American Development Bank (IDB), the Netherlands Development Bank (FMO), the Development Bank of Austria (OeEB), the Development Bank of Latin America (CAF), and responsAbility, among others.

Specifically, the Bank obtained USD 200 million, of which USD 30 million came from IFC, USD 32 million from FMO with co-financing from OeEB, USD 20 million from various responsAbility funds, USD 60 million from a syndicated structure led by IDB Invest, which included global and regional banks, and USD 39 million from commercial banks, among others.

Quantitatively, these resources supported the growth of green businesses, which implement environmentally friendly practices; they contributed to the development of small and medium-sized companies, supported businesses led by women, and strengthened our clients' foreign trade businesses. Qualitatively, the benefit was translated into consultancies related to various sustainability issues, which have been shared with clients.

Equity Segment

The Equity Segment served 1,961 clients in the cities of Quito, Guayaquil, Cuenca, and Ambato in 2019, through its work team.

The mission of this Segment is to provide personalized, professional advice under the highest standards of confidentiality, so that our client and his/her family group hold secure

and profitable wealth over time. In addition, the professionals in the Equity Segment provide their clients with updated and relevant information on local and international financial markets as an instrument for decision-making.

Our tailor-made portfolio of products and services along with the *premium service* we offer, have earned us the trust of customers and led us to build long-lasting relationships.

Retail banking

People Segment

The People Segment, committed to building long-term relationships of trust, ended the year with one million clients. At the end of the year, savings deposits amounted to USD 834 million, a result that contributed to the Bank achieving a 5.47% growth in this type of deposit taking, compared to 3.02% registered by the Financial System.

In relation to time deposits, the figures were very satisfactory; at the end of 2019, they reached USD 770 million, which placed Produbanco in third place in the Ecuadorian Banking System.

Regarding portfolio, the year ended with an amount of USD 1,308 million. The Bank's total credit card portfolio reached USD 605 million, of which USD 590 million came from the People Segment. These volumes placed Produbanco with an 11.44% participation within the national Financial System.

An important segment of our clients is made up of those who receive payment of their payroll through our Cash Management service. In order to improve their experience, during 2019, various steps were taken; one of them was the launch of Online Credit whose value offer is that the client does not need to approach an agency or sign any documentation. More than 350 clients benefited from this new service with which USD 1.8 million were disbursed.

Another initiative was to hold talks with the Human Resources departments from more than 49 companies in Quito and Guayaquil, who maintain the payroll service for employees with Produbanco. This scheme was intended to provide them with tools that contribute to their daily work, which helped in turn to build loyalty and strengthen the commercial relationship with these companies and their employees.

The sum of these actions led the segment to end the year with 159,000 clients who receive payment of their salaries through Produbanco, and grow by 13.99% in companies that execute payroll through Cash Management.

As part of the Bank's strategic plan, the transformation of traditional agencies into digital agencies continued, in which the service model is focused on migrating transactions to digital channels. These agencies also have the advice of a *host* who supports the client in this process of migration to the use of virtual channels: this year, five were transformed.

Likewise, 119 customer digital service kiosks were installed in 67 agencies nationwide. These devices make

it possible to create contact, via videoconference, between the client and the executives of the Customer Service Center to solve requirements and claims. The teams also facilitate access to online banking for the creation of web users, transfers, balance inquiries, etc.

Likewise, the number of machines in the ATM network was expanded to 379, including state-of-the-art (multifunction) dispensers and recyclers. For the first time, an analysis of the location of ATMs was implemented by means of surveying points of interest, based on a model supported by business geo-analysis.

One of the main achievements of the year was the opening of the *Business Center Agency*, which constitutes a different banking model. It is the first space in Ecuador that brings together *co-working*, great coffee, and financial advice that seeks to promote and generate business. This new concept was conceived so that clients and non-clients can work with the security and support of Produbanco. The Business Center Agency has become an icon and a recognized competitive advantage for the client.

Thinking about providing better customer service, Produbanco implemented its first *Mobile Office*, an innovative bank office that began its operation in the city of Guayaquil, moving to different points to provide bank transactions with comfort and security. This alternative seeks to bring financial services closer to citizens and offer personalized financial advice and digital attention channels.

Regarding coverage, the cities of Tulcán, Milagro, Cayambe, Portoviejo,

and Pasaje were incorporated to the locations that serve this segment, with which Produbanco closed 2019 with 117 agencies throughout the country.

With the first anniversary of launching the Green Account, we reached 7,700 accounts, with a total balance of more than three million dollars that were used to finance Green Line loans; this has allowed Produbanco to continue promoting the responsible banking strategy.

In 2019, we adopted new transactional campaign mechanisms to promote digitization. As a result, 56.69% of the clients who started their first relationship with the Bank created their user to operate in our Online Banking; the previous year the percentage was 44.49%. On the other hand, the payment of public utilities through digital channels registered an increase, and cash withdrawals without debit cards at ATMs grew by 61.40%.

In October, Produbanco became part of the 16 banks that have BIMO (*My Mobile Wallet*), a platform that allows payment and collection transactions to be made via a smartphone, with all people in the Financial System who have this service.

In another area, the automotive market sold a total of 132,018 units, compared to 137,615 in 2018, a drop of 4.07%. Despite this, 2019 was a good year for the Bank, as 5,071 automotive loans were placed, 13.12% more than the 4,483 in 2018.

The year 2019 was very dynamic in the creation and promotion of new products tailored to customer needs, which spurred growth in origination.

One point that we must highlight is the strengthening and consolidation of the relationship with General Motors as a result of the signing of an agreement that reinforced the link between *wholesale* and *retail*; this made Produbanco the main strategic ally in financing the brand as well as becoming the leader in automotive credit.

be by Produbanco

In December 2016, we introduced to the market be Produbanco, the first 100% digital account in the country, to manage money from a smartphone without having to visit a physical agency, a product developed understanding the needs of the *millennial generation*. Three years after its launch, we have reached 125,455 clients, of whom 68,000 maintain their active accounts with an average balance of USD 86. 37.25% of the accounts are concentrated in Quito, 2.74% in Ambato, and 24.35% in Guayaquil.

The communication approach used for the users of this product is completely digital, and for this reason, all our publications are made on social networks. Produbanco's be customer has a clearly digital behavior characterized by a notable use of digital channels, less use of cash, and online shopping for 70% of its charges.

Something very novel that was carried out this year was the offer of ambulatory medical coverage plans, with the functionality of accessing online consultations via teleconference. This campaign, which lasted around two months, benefited 1,131 clients.

Lastly, we are pleased to share that for the first time, a welcome survey was applied to Produbanco's be customers, in which we obtained a Net Satisfaction Index (INS in Spanish) of 90.60% along with a Net Recommendation Index (NPS) of 94.40%.

Virtual Segment

Considering the globalization of information and the rise of omni-channels, which is one of our institutional strategic guidelines, Virtual Banking was created in 2014 to offer a non-face-to-face service model.

The mission of this segment is to offer quality products, services, and specialized attention in a virtual manner to clients with a preference for digital channels, which has led us to the forefront of the Financial System in the context of this digital era.

The Virtual Segment closed 2019 with 400 thousand clients. The strategy is maintained with a telephone service instrumented by a team of 19 executives in charge of attracting new business.

SME Segment

The SME Segment expanded its presence to the cities of Portoviejo, Milagro, Cayambe, and Pasaje, thanks to which we are present in 18 cities in the country. The business team's focus is to meet the needs of entrepreneurs (whether individuals or corporations) that have sales of up to USD 5 million per year, and provide them with support in their growth.

As of December, obligations to the public corresponding to 26,317 active clients in the segment amounted to USD 460 million, 4.76% more than in 2018. In this growth, a decisive factor was the increase of USD 13 million in sight deposits at a national level.

On the other hand, at the end of 2019, the SME Segment portfolio reached USD 427 million, a 12.49% share with respect to the total Produbanco portfolio.

During the year, 4,820 loan operations were originated for portfolio clients, of which 1,957 (40.60%) were granted in cities other than Quito and Guayaquil. Of this group, 1,662 had amounts of less than USD 100,000. This denotes the vision of geographic de-concentration and risk diversification of the Segment.

As part of the objective of achieving sustained growth in our portfolio, there were disbursements throughout the country for USD 73 million in operations with a term equal to, or greater than, five years. With these resources, clients generated investments in capital goods, infrastructure, and global improvements in their productive capacity.

This year the SME Segment launched the Click Signature (*Firma Click*) product, an innovative solution whose main characteristic is the disbursement of credit through promissory notes and digital signatures. Initially, it has only been implemented in the cities of Quito and Guayaquil. This product, which has been very well received, is a window for the digitization of the segment. Its nature makes it ideal for recurring clients in credit transactions, since it eliminates the need to go in person to

Bank agencies to sign documents. In 2019, 108 operations were carried out under this modality, totaling USD 6.44 million. This is equivalent to 1.70% of the total loan origination for the year of the SME Segment, and there are clear growth prospects for 2020.

Visa Pyme Card

The Visa Pyme (SME) card reached a nominal value of USD 15 million, a growth of 35.65% in 2019. This product, aimed exclusively at the segment, focuses on providing a fast and dynamic credit solution to cardholders, either through its use in direct charges or via cash advances on available balance. Nearly two thirds of the Visa Pyme cards have been issued to clients with annual sales of less than USD 1 million.

The work team that makes up the SME Segment is focused on building relationships of trust with a long-term vision, while accompanying clients in the various stages of the lifecycle of their businesses. With this purpose, we have maintained the annual SME Talks program for several years, made up of trainings and workshops that provide high added value for the development of small and medium-sized companies. In 2019, more than 400 clients were reached throughout the country with a specialized theme in the digitization of business and in the way in which the main global industries are advancing technologically.

The *Líneas Verdes* (Green Lines) program was launched in 2016 to finance businesses whose processes generate efficiencies in the use of

energy and natural resources that promote cleaner and more sustainable environmental management while being socially responsible. Since then, it has generated 245 credit operations for an amount of USD 181 million. At the end of 2019, its balance in the portfolio was USD 85 million, which represents 2.49% of the total Produbanco portfolio.

Since the beginning of the program, USD 84 million have been granted to clients with agricultural activities, USD 61 million to clients with manufacturing activities, USD 17 million to construction, and the rest is divided among commercial, real estate, and water and electricity supply activities. The use of these funds helps them improve operating conditions thus generating significant savings in the charges of water, energy, and adequate waste disposal. This approach favored the incorporation of four new cities to the *Green Lines* portfolio: Manta, Cuenca, Quevedo, and Riobamba.

As part of a technical assistance program that will culminate in 2020, Produbanco, together with IDB Invest, started a specialized consultancy for 27 client projects in Machala, Santo Domingo, and Ambato. It seeks to identify spaces in which, by investing in efficient technology, savings in water and energy use are enhanced.

In partnership with IFC (part of the World Bank Group), two training workshops on sustainable construction (EDGE Certification - Excellence in Design for Greater Efficiencies) were held for construction clients and their supply chain. As a result, the financing of USD 15 million has been finalized

for the first IFC-certified EDGE building in the city of Guayaquil. This shows Produbanco's commitment to sustainability and its intention to continue developing areas where the efficient use of natural resources is ensured.

Produbanco, through its Green Lines program, was recognized internationally by the Mexican Center for Philanthropy (CEMEFI) for innovation and the impact generated in society. For this reason, the Bank has participated in various forums to present its success story, including the World Water Forum organized by the IDB. This places Produbanco as a local leader in this type of financing and approach.

Payment Methods

Credit Card

In 2019, we set a new record with the incorporation of 60 thousand accounts, 23.32% more than the 49 thousand in 2018. The credit card placement strategy maintained its focus on the medium and high-value segments. We ended the year with 216 thousand cards (120 thousand Mastercard and 96 thousand Visa), of which 83.98% registered balances for their charges.

The implementation of multiple initiatives contributed to the growth of billing in USD 266 million, additional to the USD 975 million in 2018, which led us to surpass the billion dollars in accumulated billing during 2019.

This year, the Means of Payment area coordinated more than 110 campaigns focused on offering memorable experiences to cardholders. Among the main ones are: concerts and shows such as *Melendi*, *Les Luthiers*, *Pandora*, *Yuri*, *Manzanero*, *Mocedades*, and *Chayanne*, among others; *Jueves a Tu Gusto* (Thursday to Your Taste) in selected restaurants; *2x1 Mondays* in fast food restaurants, and lodging packages, and events in the main hotels in the country.

In accordance with the new digital trends, long-term alliances were developed with benefits for our clients in the main delivery platforms that operate in the market, among which are *Uber*, *Rappi*, *Tipti*, and *Glovo*.

The credit card portfolio reached a balance of USD 605 million in 2019, which represents a 34% growth compared to 2018.

Number of Credit Cards Placed by Card Type

Type	2018 Cards	% Part.	2019 Cards	% Part.
Gold and Platinum	29,571	60.75%	38,182	63.60%
Black Signature and Infinite	10,075	20.70%	11,436	19.05%
Classic	7,926	16.28%	9,400	15.66%
Corporate	1,107	2.27%	1,012	1.69%
Total	48,679	100.00%	60,030	100.00%

Evolution of the Number of Credit Cards by Card Type

Type	2018 Cards	% Part.	2019 Cards	% Part.
Gold and Platinum	96,955	55.60%	123,977	57.40%
Black Signature and Infinite	33,151	19.01%	44,153	20.44%
Classic	40,330	23.13%	43,185	19.99%
Corporate	3,934	2.26%	4,690	2.17%
Total	174,370	100.00%	216,005	100.00%

Billing Evolution by Card Type (millions of dollars)

Type	2018 Billing	% Part.	2019 Billing	% Part.
Gold and Platinum	435	44.68%	561	45.21%
Black Signature and Infinite	368	37.80%	500	40.32%
Classic	105	10.72%	103	8.30%
Corporate	66	6.80%	77	6.17%
Total	975	100.00%	1,240	100.00%

Evolution of the Portfolio Balance by Card Type

Type	2018 Cards	% Part.	2019 Cards	% Part.
Gold and Platinum	206	45.71%	274	45.26%
Black Signature and Infinite	185	41.02%	265	43.86%
Classic	41	9.05%	43	7.05%
Corporate	19	4.22%	23	3.83%
Total	452	100.00%	605	100.00%

Another relevant fact of 2019, and which was widely accepted, was the implementation of the charges payment transaction in establishments with QR codes.

Debit cards

The Bank closed 2019 with 772 thousand debit cards, 22.22% more than in 2018.

Produbanco Debit Visa clients made purchases for USD 377 million (16.09% more than the previous year) and made more than 14 million transactions (28.79% growth compared to 2018).

Cash management

It is a digital tool with specialized and low-cost solutions for the efficient management of the main Treasury operations of a company. It uses the highest technology to directly reach vendors, employees, shareholders, and customers with different transactions.

During 2019, we concluded the migration process of all our clients to the Cash Management 2.0 platform. This version includes improvements in design and functionality, a friendlier way of use and new security features such as sending OTP (One Time Password) temporary codes to customer contact users and self-management in transactions such as unlocking or resetting passwords.

Cash Management now has the Cash Management Produbanco mobile application, which allows customers to carry out their transactions from anywhere, using their smartphone.

Evolution of Clients, Transactions and Cash Management Revenue

	2018	2019	Variation	% Increase
Number of customers	3,873	4,418	Increase	14.07%
Number of Transactions	15,432,850	16,707,096	1,274,246	8.26%
Revenue USD	8,746,376	9,253,058	506,682	5.79%

The App is available on the Apple Store and Google Play.

The main Cash Management figures in 2019 and their comparison with the previous year are summarized below:

Digital Channels Produbanco Online


The number of transactions carried out through the Bank's transactional channels grew by 50.45% in relation to that registered in 2018.

The maintenance and improvements implemented in the various channels ensured customer service and its quality of service.


The increase in the volume of transactions of the Mobile App is due to the fact that in 2019, new services were incorporated into the application that were not available in 2018.

Evolution of Transactions in Technological Channels of Produbanco Online


Mobile App

Channel	2018	2019	% Variation
 Mobile App	3,769,790	25,270,127	570.33%


produbanco.com

 produbanco.com	68,755,991	93,434,218	32.00%
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1700 123 123

 1700 123 123	3,429,732	4,310,149	25.67%
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Produbanco and Servipagos ATMs

 ATMs	14,739,655	16,935,691	14.90%
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Self-service Queries

 Self-service Queries	896,282	529,454	-40.93%
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Total Online Produbanco Channels

 enlínea	91,591,450	137,801,006	50.45%
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Recognitions



Bank of the Year 2019

Awarded by:
The Banker Magazine

Other years:
2017, 2009 to 2015, 2007, and 2002



Bank of the Year 2019
Best Consumer Digital Bank 2019

Awarded by:
Global Finance Magazine

Other years:
2018 and 2017



Customer Service Provider
of the Year 2019
South America

Awarded by:
International Banker Magazine



Best Innovation in
Retail Banking 2018

Awarded by:
International Banker Magazine

Other years:
2017



Best Bank Governance 2019

Awarded by:
Capital Finance International (cfi.co)

Other years:
2018, 2017



2019 Ekos de Oro Award for First Place in Service Quality

Awarded by:
Ekos Customer Satisfaction Index

Other years:
2018 and 2017



Innovative Digital Retail Bank of the Year 2019

Awarded by:
The European



Bank of the Year 2019

Awarded by:
The European

Other years:
2018, 2017



Best Corporate Governance 2018

Awarded by:
The European



First Place in the Category Most Respected Financial Institution of Ecuador 2018

Awarded by:
Ecuadorian Business Committee,
Price Waterhouse Coopers (PwC),
and Ecuavisa



Bank of the Year 2017

Awarded by:
Latin Finance Magazine

Other years:
2003

AAA

AAA Rating

Awarded by:
PCR Pacific Credit Rating

Local Rating
since December 2018

AAA-

AAA- Rating

Awarded by:
BankWatch Ratings

Local Rating
since December 2010

B-

B- Rating

Awarded by:
Fitch Ratings

Long-Term (IDR)
since 2013



Financial Statements 2019

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

Thousands of USD dollars

	2018	2019	% Growth
Asset			
Available funds and investments	1,497,131	1,537,409	2.69%
Loan portfolio	2,992,169	3,296,575	10.17%
Debtors by acceptances			
Accounts receivable	36,488	44,991	23.30%
Realizable property, awarded by payment	11,699	15,094	29.02%
Property and equipment	59,116	73,614	24.52%
Other assets	172,466	210,621	22.12%
Total Assets	4,769,070	5,178,305	8.58%
Liabilities			
Obligations to the public	3,686,123	4,020,869	9.08%
Interbank operations			
Immediate obligations	49,377	21,581	-56.29%
Outstanding acceptances			
Accounts payable	149,303	164,099	9.91%
Financial obligations	335,345	372,429	11.06%
Subordinated debt	114,000	118,500	3.95%
Other liabilities	14,899	19,429	30.41%
Total Liabilities	4,349,048	4,716,907	8.46%
Total Equity	420,022	461,398	9.85%
Total Liabilities and Equity	4,769,070	5,178,305	8.58%
Contingents	1,109,928	1,162,621	4.75%

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

Thousands of USD dollars

	2018	2019	% Growth
Income			
Interest and discounts earned	294,103	354,714	20.61%
Commissions earned	20,594	22,311	8.34%
Financial profits	13,032	17,502	34.30%
Service income	80,757	90,110	11.58%
Other operating income	7,082	9,289	31.17%
Other Income	28,520	29,728	4.23%
Total Income	444,089	523,654	17.92%
Expenses			
Interest accrued	84,452	119,800	41.86%
Commissions accrued	2,501	2,227	-10.99%
Financial losses	2,779	1,841	-33.73%
Provisions	43,112	65,555	52.06%
Operating costs	208,575	231,184	10.84%
Other operating losses	2,190	2,345	7.08%
Other expenses and losses	290	282	-3.04%
Total Expenses	343,899	423,233	23.07%
Earnings before provision for personnel profit sharing and income tax	100,189	100,421	0.23%
Provision for personnel profit sharing	15,167	15,325	1.04%
Profit before provision for income tax	85,022	85,096	0.09%
Provision for Income tax	25,241	24,381	-3.41%
Net profit	59,781	60,715	1.56%

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

Thousands of USD dollars

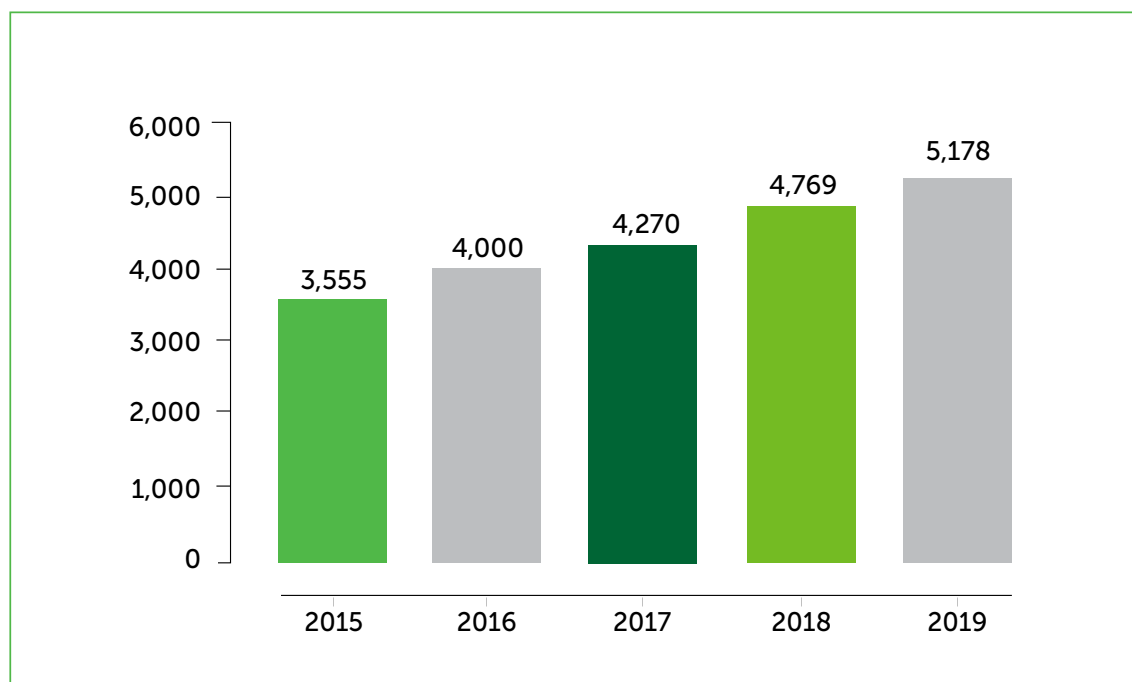
	Dec 2018	Dec 2019	Variation
Income Tax	25,241	24,381	-860
COSEDE contributions	21,527	22,660	1,133
Contributions Superintendency of Banks	5,085	5,600	515
Municipal Taxes	2,021	1,851	-170
Other Taxes and Contributions	2,641	2,617	-24
VAT on purchases	11,685	14,681	2,996
Total Direct Taxes	68,200	71,790	3,590
Payment of Income Tax Employees	1,950	2,536	586
Payment of IESS employee contributions	8,320	9,165	845
Total Indirect Taxes and Contributions	10,269	11,701	1,432
Direct Tax Burden / Group Profit	114.08%	118.24%	4.16*
Direct and indirect tax burden and group contributions / profits	131.26%	137.51%	6.25*
Net profit	59,781	60,715	934

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

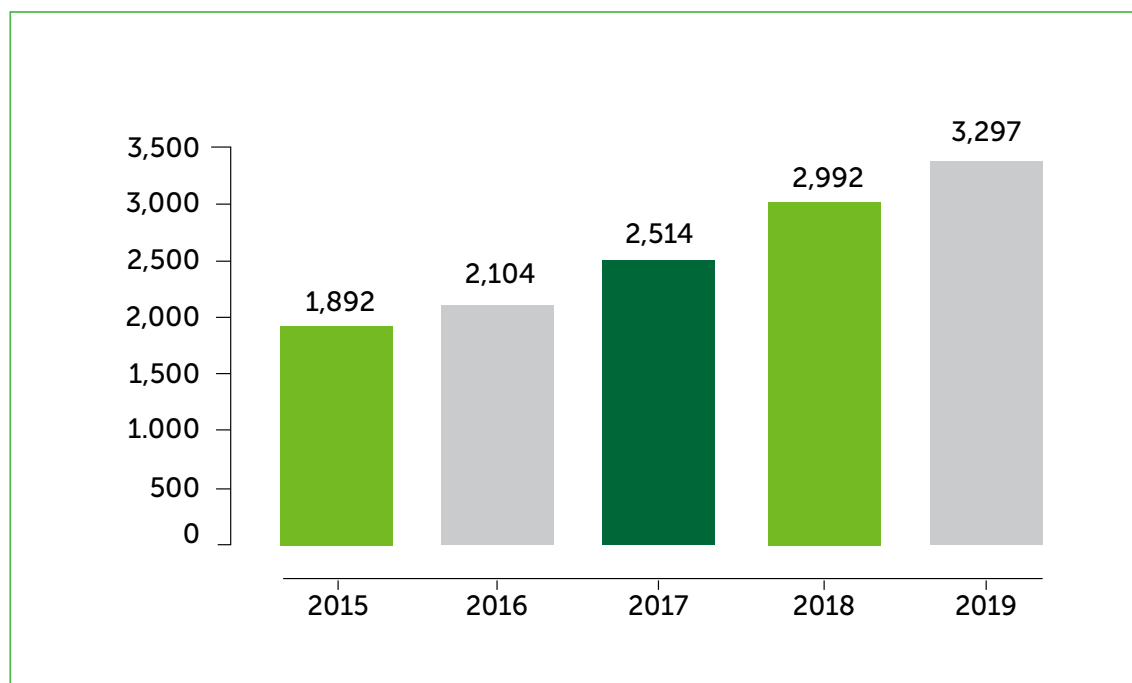
Total Assets and Net Loan Portfolio Banco de la Producción S.A. and Subsidiaries

Millions of USD dollars

Total Assets



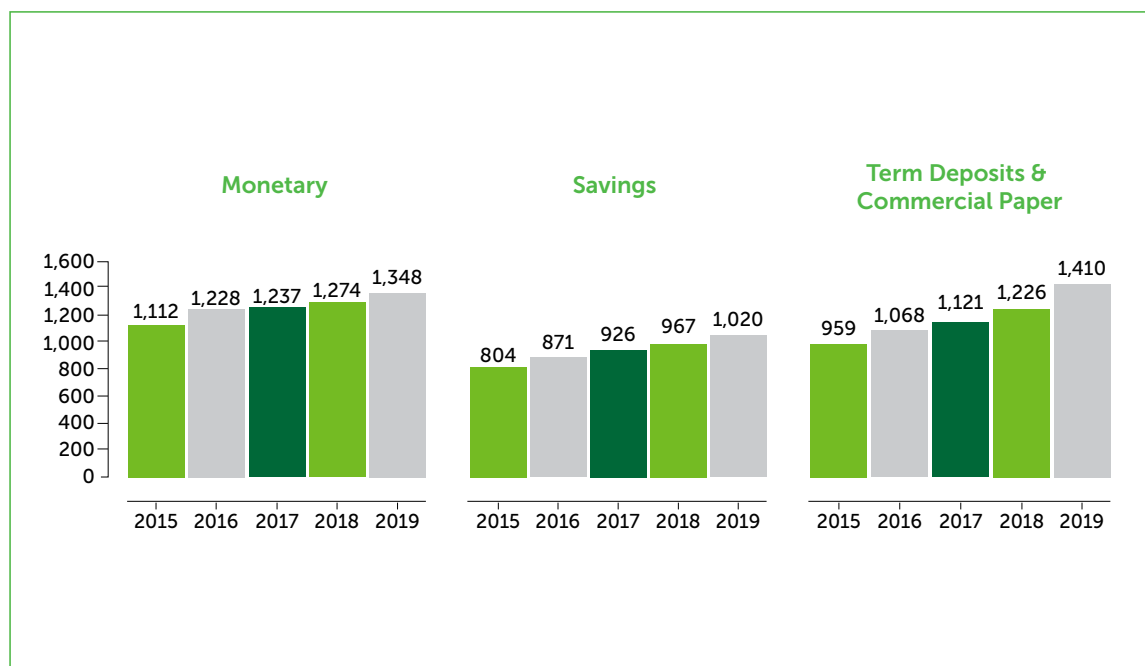
Net Loan Portfolio



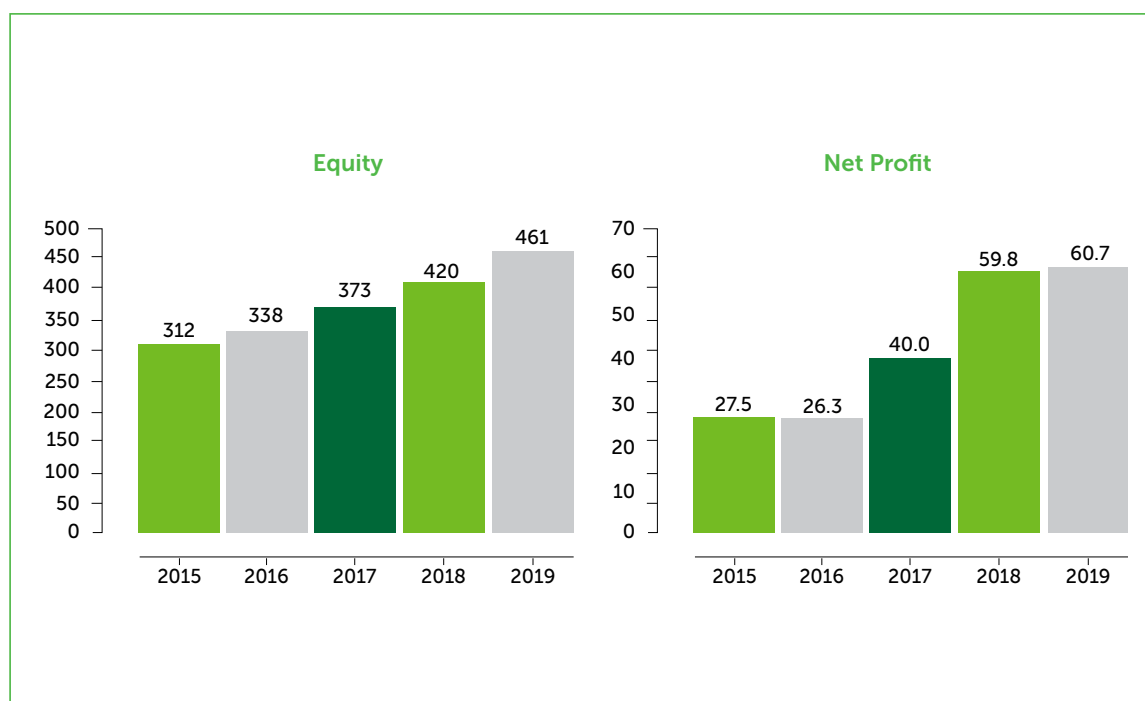
Obligations with the Public and Commercial Paper, Equity, and Net Profit Banco de la Producción S.A. and Subsidiaries

Millions of USD dollars

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 dollars

	2018	2019	% Growth
Accounts			
Total assets	4,769,070	5,178,305	8.58%
Available funds and investments	1,497,131	1,537,409	2.69%
Credit portfolio	2,992,169	3,296,575	10.17%
Obligations to the public	3,686,123	4,020,869	9.08%
Equity	420,022	461,398	9.85%
Net profit	59,781	60,715	1.56%
Contingents	1,109,928	1,162,621	4.75%
Assets + contingents	5,878,998	6,340,926	7.86%
Indicators			
Solvency			
Technical constituted equity / risk-weighted assets and contingent	13.59%	13.61%	0.02*
Asset Quality			
Total gross arrears	1.74%	2.31%	0.57*
Administrative Management			
Productive assets / liabilities with cost	150.58%	146.64%	-3.94*
Cost effectiveness			
Yield / equity - ROE	16.59%	15.15%	-1.44*
Liquidity			
Funds available / total short-term deposits	31.08%	30.72%	-0.36*

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

General Consolidated Balance Banco de la Producción S.A.

Thousands of USD dollars

	2018	2019	% Growth
Asset			
Available funds and investments	1,494,777	1,536,014	2.76%
Loan portfolio	2,992,169	3,296,575	10.17%
Debtors by acceptances			
Accounts receivable	35,901	44,174	23.04%
Realizable assets, awarded by payment	11,699	15,094	29.02%
Property and equipment	57,881	66,306	14.55%
Other assets	175,843	213,764	21.57%
Total Assets	4,768,270	5,171,927	8.47%
Liability			
Obligations to the public	3,688,404	4,023,489	9.08%
Interbank operations			
Immediate obligations	49,377	21,581	-56.29%
Outstanding acceptances			
Accounts payable	146,328	154,754	5.76%
Financial obligations	335,345	372,429	11.06%
Subordinated debt	114,000	118,500	3.95%
Other liabilities	14,894	19,234	29.14%
Total Liabilities	4,348,348	4,709,986	8.32%
Equity			
Paid-in capital	303,850	341,470	12.38%
Share placement premium	1,105	1,105	0.00%
Legal reserve	44,020	49,971	13.52%
Valuation surplus	11,299	8,115	-28.19%
Accrued profit	131	136	4.43%
Profit for the year	59,517	61,144	2.73%
Total Equity	419,921	461,941	10.01%
Total Liabilities and Equity	4,768,270	5,171,927	8.47%
Contingents	1,109,928	1,162,621	4.75%

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

Thousands of USD dollars

	2018	2019	% Growth
Income			
Interest and discounts earned	293,946	354,550	20.62%
Commissions earned	20,594	22,311	8.34%
Financial profit	13,032	17,380	33.36%
Service Income	67,612	78,299	15.81%
Other operating income	8,598	10,355	20.44%
Other income	28,021	30,386	8.44%
Total income	431,803	513,281	18.87%
Expenses			
Interest caused	84,455	119,190	41.13%
Commissions caused	2,501	2,227	-10.99%
Financial losses	2,779	1,841	-33.73%
Provisions	43,112	65,555	52.06%
Operating costs	197,654	221,917	12.28%
Other operating losses	2,190	2,345	7.08%
Other expenses and losses	290	282	-3.03%
Total expenses	332,981	413,356	24.14%
Earnings before provision for employee profit sharing and income tax	98,822	99,925	1.12%
Provision for employee profit sharing	14,749	14,982	1.58%
Earnings before provision for income tax	84,073	84,943	1.04%
Provision for Income tax	24,556	23,799	-3.08%
Net profit	59,517	61,144	2.73%

Equity Movement Banco de la Producción S.A. January to December 2019

Units of USD dollars

	Capital	Legal Reserve	Special Reserve	Premium or discount on placement of shares	Surplus by valuation	Accrued Profit	Profit For Year	Total
Balances as of Dec 31, 2018	303,850,000	44,019,516		1,104,774	11,299,277	130,693	59,517,011	419,921,271
Valuation of shares and participations					410,623			410,623
Valuation of investments in financial instruments					-3,465,268			-3,465,268
Capital, legal reserve, reserve for equity appreciation								0
Contributions future capitalizations			37,495,717			-37,495,717		0
Dividend payment						-16,069,593		-16,069,593
Transfer to accrued earnings						59,517,011	-59,517,011	0
Legal reserve appropriation		5,951,701				-5,951,701		0
Depreciation year 2019 valued portion of assets					-130,066	130,066		0
Asset valuation								0
Increase in capital	37,620,000		-37,495,717			-124,283		0
Profit for the year							61,144,015	61,144,015
Balances as of Dec 31, 2019	341,470,000	49,971,217	0	1,104,774	8,114,566	136,475	61,144,015	461,941,047

Relationship between Total Technical Equity and Risk-Weighted Assets and Contingents Banco de la Producción S.A. December 2018-2019

Units of USD dollars

	Dec 2018	Dec 2019
Total primary technical equity	339,041,585	384,344,222
Total secondary technical equity	192,701,566	194,469,671
Total Technical Equity	531,743,150	578,813,893
Deductions to total technical equity	6,281,269	6,649,262
Constituted Technical Equity	525,461,881	572,164,632
Total risk-weighted assets and contingents	3,890,730,332	4,219,830,530
Required Technical Equity (9%)	350,165,730	379,784,748
Surplus or deficit of required technical equity	175,296,151	192,379,884
Total and contingent assets x 4%	235,127,916	253,381,920
Solvency Index (technical equity / risk-weighted assets and contingents)	13.51%	13.56%

Summary of the Credit and Contingent Rating Portfolio and Provisions Constitution Banco de la Producción S.A. as of December 31, 2019

Units of USD dollars

231 A.1 Priority Commercial Credit

		Credits covered with self-liquidating guarantees	Balance subject to rating	% Participation	% Provision	Provisions required	Constituted Provisions	Difference between required and constituted	Provisions mitigated by mortgage guarantees	Provisions excess or deficient
A1		18,248,685	154,588,327	10.01%	0.71%	1,685,693	1,235,317	450,376	450,376	0
A2	Normal Risk	3,457,375	313,715,667	18.36%	1.42%	6,343,461	4,496,204	1,847,257	1,847,257	0
A3		28,105,948	933,206,420	55.66%	2.58%	39,302,730	24,778,388	14,524,342	14,524,342	0
B1	Potential Risk	65,999	51,658,610	2.99%	3.40%	3,187,236	1,757,889	1,429,346	1,429,346	0
B2		0	7,888,708	0.46%	7.12%	989,758	561,352	428,406	428,406	0
C1	Deficient	11,200	4,311,108	0.25%	12.33%	1,020,586	532,826	487,759	487,759	0
C2		0	1,686,272	0.10%	43.53%	734,015	734,015	0	0	0
D	Doubtful collection	0	3,517,600	0.20%	74.37%	2,615,920	2,615,920	0	0	0
E	Loss	0	7,341,513	0.43%	100.00%	7,341,513	7,341,513	0	0	0
AL	100% self-liquidating guarantee	199,415,623	0	11.55%	0.00%	0	0	0	0	0
Total		249,304,830	1,477,914,225	100.00%	2.55%	63,220,911	44,053,423	19,167,487	19,167,487	0

Summary of the Credit and Contingent Rating Portfolio and Provisions Constitution
Banco de la Producción S.A. as of December 31, 2019

Units of USD dollars

231 A.1 Ordinary Commercial Credit

		Credits covered with self-liquidating guarantees	Balance subject to rating	% Partici- pation	% Provision	Provisions required	Constituted Provisions	Difference between required and constituted	Provisions mitigated by mortgage guarantees	Provisions excess or deficient
	Total									
A1	3,497,600	0	3,497,600	2.89%	0.98%	34,976	34,148	828	828	0
A2	Normal Risk	33,815	92,311,641	76.29%	1.50%	1,846,909	1,380,623	466,286	466,286	0
A3		11,047	24,803,762	20.50%	2.66%	1,016,342	659,887	356,455	356,455	0
B1	Potential Risk	0	273,723	0.23%	4.79%	16,740	13,112	3,628	3,628	0
B2		4,052	82,592	0.07%	9.30%	8,976	8,061	915	915	0
C1	Deficient	0	0	0.00%	0.00%	0	0	0	0	0
C2		0	0	0.00%	0.00%	0	0	0	0	0
D	Doubtful collection	0	9,398	0.01%	97.09%	9,125	9,125	0	0	0
E	Loss	0	25	0.00%	100.00%	25	25	0	0	0
AL	100% self-liquidating guarantee	10,756	0	0.01%	0.00%	0	0	0	0	0
Total	121,038,411	59,670	120,978,742	100.00%	1.74%	2,933,092	2,104,980	828,112	828,112	0

Summary of the Credit and Contingent Rating Portfolio and Provisions Constitution Banco de la Producción S.A. as of December 31, 2019

Units of USD dollars

231 A.5 Productive Credit

		Credits covered with self-liquidating guarantees	Balance subject to rating	% Partici- pation	% Provision	Provisions required	Constituted Provisions	Difference between required and constituted	Provisions mitigated by mortgage guarantees	Provisions excess or deficient
	Total									
A1		54,981	55,640,706	12.03%	0.91%	556,957	509,073	47,884	47,884	0
A2	Normal Risk	1,037,116	83,352,564	18.23%	1.37%	1,687,794	1,155,176	532,617	532,617	0
A3		2,192,740	307,998,803	67.01%	2.18%	12,438,660	6,761,728	5,676,931	5,676,931	0
B1	Potential Risk	13,411	12,244,621	2.65%	3.05%	736,772	374,262	362,510	362,510	0
B2		0	191,153	0.04%	8.20%	22,912	15,682	7,230	7,230	0
C1		0	0	0.00%	0.00%	0	0	0	0	0
C2	Deficient	0	0	0.00%	0.00%	0	0	0	0	0
D	Doubtful collection	0	896	0.00%	60.00%	538	538	0	0	0
E	Loss	0	143,572	0.03%	100.00%	143,572	143,572	0	0	0
AL	100% self-liquidating guarantee	0	0	0.00%	0.00%	0	0	0	0	0
Total		3,298,248	459,572,314	100.00%	1.94%	15,587,203	8,960,031	6,627,172	6,627,172	0

Summary of the Credit and Contingent Rating Portfolio and Provisions Constitution Banco de la Producción S.A. as of December 31, 2019

Units of USD dollars

231 A.2 Ordinary Consumer Credit

		Loans covered with self-liquidating guarantees	Balance subject to rating	% Partici- pation	% Provision	Provisions required	Provisions constituted	Provisions excess or deficient
A1		6,244,261	110,290,439	85.06%	0.95%	1,165,347	1,102,905	-62,443
A2	Normal Risk	29,797	980,375	0.74%	1.94%	20,203	19,607	-596
A3		366,678	9,906,850	7.50%	2.93%	312,126	301,069	-11,057
B1	Potential Risk	40,844	2,505,564	1.86%	6.00%	155,333	152,882	-2,451
B2		5,238	1,329,785	0.97%	10.26%	137,554	137,030	-524
C1	Deficient	25,331	1,567,830	1.16%	20.21%	327,644	321,907	-5,737
C2		3,366	1,333,721	0.98%	40.89%	548,420	546,737	-1,683
D	Doubtful collection	891	923,385	0.67%	61.70%	570,796	570,261	-535
E	Loss	0	1,443,587	1.05%	100.00%	1,443,587	1,443,587	0
AL	100% self-liquidating guarantee	6,696	0	0.00%	0.00%	0	0	0
Total		6,723,101	130,281,537	100.00%	3.35%	4,681,010	4,595,986	-85,024

Summary of the Credit and Contingent Rating Portfolio and Provisions Constitution
Banco de la Producción S.A. as of December 31, 2019

Units of USD dollars

231 A.2 Priority Consumer Credit

		Credits covered with self-liquidating guarantees	Balance subject to rating	% Partici- pation	% Provision	Provisions required	Provisions constituted	Provisions excess or deficient
A1		1,343,916	813,571,559	87.73%	1.00%	8,149,167	8,135,728	-13,439
A2	Normal Risk	1,975	3,649,100	0.39%	2.00%	73,022	72,982	-40
A3		36,890	28,830,066	3.11%	4.14%	1,197,027	1,195,561	-1,466
B1	Potential Risk	1,210	11,261,833	1.21%	7.47%	840,965	840,893	-73
B2		2,214	6,807,289	0.73%	13.92%	948,387	948,055	-332
C1	Deficient	0	10,205,329	1.10%	27.65%	2,821,833	2,821,833	0
C2		1,187	10,286,615	1.11%	48.22%	4,961,702	4,961,109	-594
D	Doubtful collection	0	9,728,062	1.05%	75.91%	7,384,614	7,384,614	0
E	Loss	0	13,836,687	1.49%	100.00%	13,836,687	13,836,687	0
AL	100% self-liquidating guarantee	19,275,014	0	2.08%	0.00%	0	0	0
Total		20,662,407	908,176,540	100.00%	4.33%	40,213,404	40,197,461	-15,943

Summary of the Credit and Contingent Rating Portfolio and Provisions Constitution Banco de la Producción S.A. as of December 31, 2019

Units of USD dollars

231 A.3 Real Estate Credit

		Loans covered with self-liquidating guarantees	Balance subject to rating	% Partici- pation	% Provision	Provisions required	Provisions constituted	Provisions excess or deficient
A1		45,285	210,521,748	80.06%	1.00%	2,105,670	2,105,218	-453
A2	Normal Risk	0	23,451,051	8.92%	2.00%	469,021	469,021	0
A3		0	16,147,447	6.14%	3.06%	494,171	494,171	0
B1	Potential Risk	0	4,323,007	1.64%	7.07%	305,750	305,750	0
B2		0	650,589	0.25%	14.35%	93,364	93,364	0
C1	Deficient	0	525,714	0.20%	25.79%	135,573	135,573	0
C2		0	816,446	0.31%	48.11%	392,786	392,786	0
D	Doubtful collection	0	2,452,432	0.93%	71.22%	1,746,575	1,746,575	0
E	Loss	0	4,065,958	1.55%	100.00%	4,065,958	4,065,958	0
AL	100% self-liquidating guarantee	12,527	0	0.00%	0.00%	0	0	0
Total		57,812	262,954,389	100.00%	3.73%	9,808,867	9,808,414	-453

Summary of the Credit and Contingent Rating Portfolio and Provisions Constitution
Banco de la Producción S.A. as of December 31, 2019

Units of USD dollars

231 A.4 Microcredit

		Loans covered with self-liquidating guarantees	Balance subject to rating	% Partici- pation	% Provision	Provisions required	Provisions constituted	Provisions excess or deficient
A1		105,627	20,146,716	83.66%	0.99%	202,524	201,467	-1,056
A2	Normal Risk	0	313,860	1.30%	2.00%	6,277	6,277	0
A3		0	552,216	2.28%	3.00%	16,566	16,566	0
B1	Potential Risk	0	347,017	1.43%	6.00%	20,821	20,821	0
B2		0	343,628	1.42%	10.52%	36,166	36,166	0
C1	Deficient	0	342,786	1.42%	21.11%	72,348	72,348	0
C2		0	184,234	0.76%	43.07%	79,348	79,348	0
D	Doubtful collection	0	435,759	1.80%	67.53%	294,277	294,277	0
E	Loss	0	393,586	1.63%	100.00%	393,586	393,586	0
AL	100% self-liquidating guarantee	1,043,336	0	4.31%	0.00%	0	0	0
Total		1,148,963	23,059,801	100.00%	4.63%	1,121,913	1,120,857	-1,056
Grand Total		281,255,031	3,382,937,549	100.00%	3.02%	137,566,401	110,841,153	-102,476

Summary of the Investment and Other Assets Rating and Provisions Constitution
Banco de la Producción S.A. as of December 31

Units of USD dollars

231 B.1

Code	Investments	Nominal values	Market values	Specific provisions	General provisions for investments
1301	At fair value with changes in the income statement of private sector entities	0.00	0.00	0.00	0.00
1302	At fair value with changes in the income statement of public sector entities	0.00	0.00	0.00	0.00
1303	Available for sale by private sector entities	170,609,233.63	169,917,165.44	0.00	0.00
1304	Available for State sale or public sector entities	147,593,132.84	144,634,911.05	0.00	0.00
	Total	318,202,366.47	314,552,076.49	0.00	0.00

Code	Investments	Book Value	Market Value	Specific Provisions	General provisions for investments
1202	Repo transactions with financial institutions	0.00	0.00	0.00	0.00
1305	Held to maturity private sector	2,701,046.24	2,701,046.24	58,801.02	0.00
1306	Held to maturity state or public sector entities	246,187,488.33	246,187,488.33	88,000.00	0.00
1307	Restricted availability	14,075,768.08	14,075,768.08	0.00	0.00
190205	Fiduciary rights - investments	0.00	0.00	0.00	0.00
	Total	262,964,302.65	262,964,302.65	146,801.02	0.00

Summary of the Investment and Other Assets Rating and Provisions Constitution Banco de la Producción S.A. as of December 31

Units of USD dollars

231 B.2

Others assets		Total	% Risk	Provisions required	Provisions constituted	Provisions excess or deficient
A1		37,003,055.06	83.49%	316,695.00	335,935.97	19,240.97
A2	Normal risk	659,119.81	1.49%	13,182.40	13,182.40	0.00
A3		246,145.90	0.56%	9,845.84	9,845.84	0.00
B1	Potential risk	461,924.69	1.04%	34,644.39	34,644.39	0.00
B2		291,417.31	0.66%	42,255.56	42,255.56	0.00
C1	Deficient	212,053.02	0.48%	62,555.70	62,555.70	0.00
C2		334,233.78	0.75%	165,445.76	165,445.76	0.00
D	Doubtful collection	547,017.92	1.23%	434,879.29	434,879.29	0.00
E	Loss	4,567,927.11	10.31%	4,567,927.11	4,567,927.11	0.00
	Assessed	44,322,894.60	100.00%	0.00	0.00	0.00
	Not rated	0.00	0.00	0.00	0.00	0.00
Total		44,322,894.60	100.00	5,647,431.05	5,666,672.02	19,240.97

% of other assets evaluated [(evaluated / total) 100] =	100.00%
% De riesgo otros activos evaluado [(prov. requerida / evaluado) 100] =	12.74%

231 B.3

Goods in dation	Total	Provisions required (a)	Provisions required by appraisal (b)	Total provisions required	Provisions constituted	Provisions excess or deficient
Risks	9,436,375.39	4,968,200.71	15,906.00	4,984,106.71	4,986,498.49	2,391.78
Total	9,436,375.39	4,968,200.71	15,906.00	4,984,106.71	4,986,498.49	2,391.78

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

(b) Provisions Required by Appraisal: Second subsection, numeral 3, article 5, section II, chapter II, title IX, book 1 of the Codification of Resolutions of the Superintendency of Banks and Insurance of the Banking Board.

General Consolidated Balance Externalización de Servicios S.A. Exsersa

Thousands of USD dollars

	2018	2019	% Growth
Asset			
Funds available	3,273	2,793	-14.67%
Interbank operations and investments			
Loan portfolio			
Debtors by acceptances			
Accounts receivable	1,436	1,288	-10.32%
Realizable assets, awarded by payment			
Property and equipment*	1,043	7,301	600.13%
Other assets	1,258	1,854	47.43%
Total Assets	7,009	13,236	88.84%
Liability			
Obligations to the public			
Interbank operations			
Immediate obligations			
Outstanding acceptances			
Accounts payable*	2,415	8,822	265.32%
Financial obligations			
Outstanding securities			
Contributions for future capitalizations			
Other liabilities			
Total Liabilities	2,415	8,822	265.32%
Total Equity	4,594	4,414	-3.92%
Total Liabilities and Equity	7,009	13,236	88.84%

(*) In 2019, IFRS 16 regarding Leases came into force. In application thereof, these items include the registration of Assets for Right of Use and Liabilities for Leasing.

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

Thousands of USD dollars

	2018	2019	% Growth
Income			
Interest and discounts earned	15	10	-31.38%
Commissions earned			
Financial profit			
Service income	18,200	16,897	-7.16%
Other operating income			
Other income	318	160	-49.57%
Total Income	18,533	17,068	-7.91%
Expenses			
Interest accrued		642	
Commissions accrued			
Financial losses			
Provisions			
Operating costs	16,519	15,116	-8.49%
Other operating losses			
Other expenses and losses			
Taxes and employee profit sharing			
Total Expenses	16,519	15,758	-4.61%
Earnings before provision for employee profit sharing and income tax	2,014	1,310	-34.99%
Provision for employee profit sharing	291	177	-39.13%
Earnings before provision for income tax	1,723	1,132	-34.29%
Provision for Income tax	461	354	-23.19%
Net Profit	1,262	778	-38.35%

General Consolidated Balance Protrámites Trámites Profesionales S.A.

Thousands of USD dollars

	2018	2019	% Growth
Assets			
Funds available	1,379	1,028	-25.45%
Interbank operations and investments			
Available-for-sale assets - purchased portfolio	518	1,167	125.29%
Debtors by acceptances			
Accounts receivable	2	3	50.00%
Realizable assets, awarded by payment			
Property and equipment*	192	332	72.92%
Other assets	111	335	201.80%
Total Assets	2,202	2,865	30.11%
Liability			
Obligations to the public			
Interbank operations			
Immediate obligations			
Outstanding acceptances			
Accounts payable*	1,125	1,336	18.76%
Financial obligations			
Contributions for future capitalizations	285		-100.00%
Other liabilities	5	2	-60.00%
Total Liabilities	1,415	1,338	-5.44%
Total Equity	787	1,527	94.03%
Total Liabilities and Equity	2,202	2,865	30.11%

(*) In 2019, IFRS 16 regarding Leases came into force. In application thereof, these items include the registration of Assets for Right of Use and Liabilities for Leasing.

Profit and Loss Statement Protrámites Trámites Profesionales S.A.

Thousands of USD dollars

	2018	2019	% Growth
Income			
Interest and discounts earned	145	157	8.28%
Commissions earned			
Financial profit			
Service income	2,241	3,143	40.25%
Other operating income	510	530	3.92%
Other income	26	32	23.08%
Total Income	2,922	3,862	32.17%
Expenses			
Interest accrued		20	
Commissions accrued			
Financial losses			
Provisions			
Operating costs	2,049	2,673	30.45%
Other operating losses			
Other expenses and losses	4	38	850.00%
Taxes and employee profit sharing			
Total Expenses	2,053	2,731	33.02%
Earnings before provision for employee profit sharing and income tax	869	1,131	30.15%
Provision for employee profit sharing	127	167	31.50%
Earnings before provision for income tax	742	964	29.92%
Provision for Income tax	224	228	1.79%
Net Profit	518	736	42.08%



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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 and Subsidiaries.

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, 2019, 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 rules and practices established by the Superintendency of Banks of Ecuador and the Monetary and Financial Policy and Regulation Board.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Banco de la Producción S. A. Produbanco and Subsidiaries as at December 31, 2019, of its consolidated operating performance, and its consolidated cash flows for the year then ended in accordance with accounting rules 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 the ethical requirements applicable to our audit of the consolidated financial statements in 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 inform that, as mentioned in Note 2, the consolidated financial statements referred to in the first paragraph have been prepared in accordance with accounting rules and practices established by the Superintendency of Banks of Ecuador and the Monetary and Financial Policy and Regulation Board. 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.

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.

Key Audit Matter	How the key matter was addressed in the audit
<p>Valuation of Loan Portfolio and Contingencies of Commercial and Productive Segments over US\$40,000 and Establishment of Provisions</p> <p>The provision of loan portfolio and contingencies of commercial and productive segments over US\$40,000 is considered one of the most significant issues due to the representativeness. Likewise, the rating process of the loan portfolio and contingencies determines the most important estimate of the Bank's financial statements, as this involves, among other aspects, the analysis of different economic and financial parameters established in the applicable regulation, including the application of certain estimates by Management.</p> <p>The Bank performs quarterly the rating process of risk assets and contingencies based on provisions of the Monetary and Financial Policy and Regulation Board.</p>	<p>Our audit procedures to cover the aforementioned matter included the following:</p> <ul style="list-style-type: none"> - Tests of design and implementation and operational effectiveness of the relevant controls related to the establishment of the specific provision, determination of default days and the internal risk ratings assigned to the debtors according to the model used. - Obtaining database of the Bank's rating of loan portfolio and contingencies and validating the accuracy and completeness of data relevant for the calculation of the required provisions. - For a sample of commercial loans with risk over US\$40,000 and with specific provisions, as well as clients who presented changes in risk rating with respect to the previous period, we examined their credit files and reprocessed the rating assigned according to the rating criteria contained in the rulings in effect, as well as the review of guarantees based on appraisals made by external valuers. - Recalculation of the provision for loan portfolio and contingencies of commercial and productive segments over US\$40,000 in accordance with the parameters established by the Regulators. <p>No material differences were identified as a result of the procedures performed.</p>

(Continued)

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.

Our opinion on the Group's 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 consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. We have nothing to report in this regard.

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 rules 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 Group'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 Group 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 consolidated 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 Group's internal control.

(Continued)

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- 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 Group 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.

KPMG del Ecuador

AE-7808

March 6, 2020

Sherry R. Bolivar
Sherry R. Bolivar Isurza-Socio



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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 individual financial statements of Banco de la Producción S. A. Produbanco ("the Bank"), which comprise the balance sheet as at December 31, 2019, 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 individual financial statements have been prepared by Management based on accounting rules and practices established by the Superintendency of Banks of Ecuador and the Monetary and Financial Policy and Regulation Board.

In our opinion, the accompanying individual financial statements present fairly, in all material respects, the individual financial position of Banco de la Producción S. A. Produbanco as at December 31, 2019, of its individual operating performance, and its individual cash flows for the year then ended in accordance with accounting rules 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 Individual 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.

Emphasis of Matter

Accounting Basis

We inform that, as mentioned in Note 2, the individual financial statements referred to in the first paragraph have been prepared in accordance with accounting rules and practices established by the Superintendency of Banks of Ecuador and the Monetary and Financial Policy and Regulation Board. 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.

(Continued)

Consolidated Financial Statements

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

Key Audit Matters

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

Key Audit Matter	How the key matter was addressed in the audit
<p>Valuation of Loan Portfolio and Contingencies of Commercial and Productive Segments over US\$40,000 and Establishment of Provisions</p> <p>The provision of loan portfolio and contingencies of commercial and productive segments over US\$40,000 is considered one of the most significant issues due to the representativeness. Likewise, the rating process of the loan portfolio and contingencies determines the most important estimate of the Bank's financial statements, as this involves, among other aspects, the analysis of different economic and financial parameters established in the applicable regulation, including the application of certain estimates by Management.</p> <p>The Bank performs quarterly the rating process of risk assets and contingencies based on provisions of the Monetary and Financial Policy and Regulation Board.</p>	<p>Our audit procedures to cover the aforementioned matter included the following:</p> <ul style="list-style-type: none"> - Tests of design and implementation and operational effectiveness of the relevant controls related to the establishment of the specific provision, determination of default days and the internal risk ratings assigned to the debtors according to the model used. - Obtaining database of the Bank's rating of loan portfolio and contingencies and validating the accuracy and completeness of data relevant for the calculation of the required provisions. - For a sample of commercial loans with risk over US\$40,000 and with specific provisions, as well as clients who presented changes in risk rating with respect to the previous period, we examined their credit files and reprocessed the rating assigned according to the rating criteria contained in the rulings in effect, as well as the review of guarantees based on appraisals made by external valuers. - Recalculation of the provision for loan portfolio and contingencies of commercial and productive segments over US\$40,000 in accordance with the parameters established by the Regulators. <p>No material differences were identified as a result of the procedures performed.</p>

(Continued)

Other Information

Management is responsible for preparing the other information presented together with the financial statements, which comprises the "Board's Report" and the "Annual Report" and does not include the individual financial statements and our auditors' report thereon.

Our opinion on the Bank's individual 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 individual 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 individual financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. We have nothing to report in this regard.

Responsibilities of Management and Board of Directors for the Individual Financial Statements

Management is responsible for the preparation and fair presentation of these individual financial statements in accordance with the accounting rules 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 individual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the individual 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 Individual Financial Statements

Our objective is to obtain reasonable assurance about whether the individual 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 individual 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 individual 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 Bank's internal control.

(Continued)

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- 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 individual 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 individual financial statements, including the disclosures, and whether the individual 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 individual 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 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 individual 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.

KPMG del Ecuador

AE-7808

March 6, 2020

Shanny Bolívar
Johnny R. Bolívar Isturiz, Socio



**OPINION OF THE AUDIT COMMITTEE ON THE
SUFFICIENCY OF INTERNAL CONTROL SYSTEMS
IN FORCE AND THE APPROPRIATE APPLICATION OF
RISK MANAGEMENT - YEAR 2019**

“The Auditing Committee, based on the reports presented and on the various aspects analyzed in meetings held during 2019, as well as in the annual evaluation report regarding the internal control system issued by Internal Auditing corresponding to the above year, informs that the structure of risk management is adequate to the size and complexity of the Bank's operations, and has an appropriate internal control structure; there is no evidence of circumstances that could comprise important weaknesses in the Bank's internal control system. Furthermore, in keeping with the requirements of banking resolutions, the Committee hereby affirms that it has followed up on the observations and reports of the Internal and External Auditors and of the *Superintendencia de Bancos* (Superintendency of Banks), and also indicates that there is neither evidence nor knowledge of suspicious and irregular behaviors or of conflicts of interest in the terms of the above norm”.

Chairman of the Audit Committee



INTERNAL AUDIT REPORT

Quito, February 28, 2020

Messieurs and Mesdames

SHAREHOLDERS

BANCO DE LA PRODUCCIÓN S.A. PRODUBANCO

Quito - Ecuador

Dear Shareholders:

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

This report contains the opinion on the financial statements as of December 31, 2019, the degree of compliance with the legal, statutory, internal regulations, and the regulations established by the Control Agencies, as well as on the quality of the internal control system.

My opinion is supported by the reviews, proofs, and control evaluations carried out during 2019. The reviews were carried out in accordance with auditing standards, which mandate that relevant ethical requirements are met, an audit is planned and performed to obtain reasonable certainty that the financial statements do not contain significant errors. An audit also includes, based on evidence, examining the evidence supporting the figures in the financial statements and evaluating the internal control system, as well as evaluating the accounting practices applied, the principles used, and the significant estimates made by the Administration. I consider that the tests carried out, which were executed according to the annual work plan approved by the Audit Committee and the Board of Directors of the Bank, and that was communicated to the Superintendency of Banks, provide a reasonable basis for expressing the following opinion:

1. In relation to the financial statements:

- a. In the portfolio, it was verified that the credit operations have been granted in compliance with the legal provisions and current regulations while applying the policies approved by the Board of Directors.

The provisions established herein satisfy the requirements established by the regulations determined by the Superintendency of Banks.

During this period, no operations granted to related parties have been identified.

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- b. Investments in securities have been made based on the quotas and limits approved by the Board of Directors.
- c. Both in active and passive operations, the Bank has complied with the standards of transparency of information.
- 2. Produbanco's front-line liquidity index had an annual average level of 27.60%, exceeding the minimum established by the Superintendency of Banks during every month.
- 3. The ratio of the Bank's Technical Equity to risk-weighted assets presented at the end of the year a surplus position of USD 192.37 million, which is equivalent to a solvency indicator of 13.56%, higher than the required minimum of 9%.
- 4. Tax and labor obligations are adequately observed.
- 5. The Bank and its Subsidiaries maintain a reasonable internal control system for its transactions and processes, which allows it to provide an adequate degree of security to its operations.
- 6. In relation to the control system for the prevention of money laundering from illegal activities of the Bank and its Subsidiaries, I can conclude that: it generally observes the requirements established by the current legal provisions and the regulations set forth by both the Superintendency of Banks and by The Financial and Economic Analysis Unit (*Unidad de Análisis Financiero y Económico—UAFE*); it covers the operations of the Organization; is applied in all branches; and is disseminated to all staff through the means available to the Bank.
- 7. Regarding comprehensive risk management regulations, the Bank has generally complied with the terms and deadlines established by the Superintendency of Banks. The Bank's Administration issued the necessary policies and procedures for the implementation of comprehensive risk management. There is an adequate evaluation of the exposures to the various risks, and the Board of Directors is apprised of the periodicity established by the Administrative Body on the administration thereof.

OPINION

The financial statements are the responsibility of the Bank's Administration. My responsibility as Internal Auditor is to express an opinion on the reasonableness of these financial statements based on the audit tests performed.

In my opinion, the Balance Sheet, as well as the Profit and Loss Statement, as of December 31, 2019, both of Produbanco and its Subsidiaries, are presented reasonably in accordance with norms and ac-

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cordance with norms and accounting practices established by the Superintendency of Banks and other regulatory and control agencies.

In addition, I can report that Produbanco and its Subsidiaries have an adequate level of internal control; they comply with current legal provisions; their transactions respond to banking techniques; and they comply with policies and procedures approved by the Board, as well as by legal regulations in force.

Sincerely,

INTERNAL AUDITOR

3 of 3

Credits

Coordination

Planning and development

Graphic line

Grupo Promerica

Editing and Layout

Solange Luna

Translation

Rodrigo Sandoval

Photography

Produbanco

Carmen Ulloa Ulloa / Conservation International

March 2020

