

# 2020 Annual Report



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



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## Vision

At Grupo Promerica, we believe that all people and businesses in our communities should surpass their limits in order to achieve the success they deserve.

## Mission

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

## Values

- Permanent empathy
- Entrepreneurs by nature
- Shared trust
- Common culture

## Message from the Chairman of the Board Grupo Promerica



The year 2020 was a very complex year for the entire world; we have faced a situation that we had never experienced before and that we could not even imagine, a new reality full of uncertainty and challenges in various areas: health, economy, political, labor, social, emotional, and in general, in all aspects. Life changed drastically from one moment to the next, and we still don't know when it will return to normal.

Within this context, the institutional priorities were: the health of two million four hundred thousand five hundred clients and our own team of more than twelve thousand four hundred employees distributed in the nine countries where we are present; to ensure the continuity of service for each of the stakeholders, and further, to strengthen our liquidity position and control of market risks in order to face scenarios of possible volatility.

Banking plays an essential role in the daily lives of communities. In these new daily lives, the importance of this function was enhanced, since our responsibility was to maintain our management efforts with greater facilities and in the conditions of care that were appropriate at the time.

We implemented prevention, safety, and hygiene measures in all our offices to protect the members of society and particularly the elderly and people at high risk. Following the various care recommendations

that were publicly known, many of the employees teleworked from their homes, even those in operational areas that we had not previously considered possible to transfer to this methodology; and for those who, due to the nature of their activities, must inevitably carry them out within our facilities, we also apply the corresponding precautions.

We put into practice a series of actions, both at the Personal Banking and Business Banking levels, to help clients face these difficult times of confinement and mobility restrictions, which the various governments adopted to control the spread of the pandemic. Along these lines, we accelerated the digital transformation process through the use of *Promerica Pay*, *PayPhone*, *Fitbit Pay*, and *Garmin Pay* solutions, as well as contactless digital devices, all of which facilitated payment transactions. We promoted the use of electronic channels and remote service systems, so that clients can solve their financial needs without having to go to the bank. For the business segment, we launched measures directed at enabling companies of different sizes to sell online through *CyberSource*, *Nidi*, and *Nidux*.

Despite the challenging environment of this atypical year, we have the trust of our clients and the institutions of the international financial community, which has allowed us

to maintain healthy growth throughout the Group.

Within the framework of sustainable and responsible banking, Grupo Promerica's strategy was based on the Analysis of Environmental and Social Risks (Análisis de Riesgos Ambientales y Sociales - ARAS), which we use as an institutional policy for granting credit to clients, taking into account compliance with environmental and social laws. All the Group's banks have been developing modalities such as green credits to motivate the transition to low-carbon economies. Another determining perspective of Grupo Promerica's sustainable strategy has been to lead by example; this is why that we have focused on investing in technologies, being efficient in the use of resources, and implementing practices neutralizing our carbon emissions. In terms of social investment, many actions were taken to help communities and non-profit organizations overcome the effects of COVID 19.

The Group has garnished significant support in the field of sustainability along with the relationships we hold with multilateral banks and investment funds, which are the main entities from which we receive facilities, the following are worth highlighting: FMO - Netherlands Development Bank, DEG - German Development Corporation, Proparco - French Development Bank,

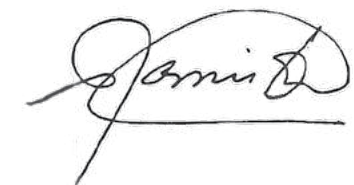
IFC-International Finance Corporation, Norfund - Norwegian Investment Fund, IDB Invest, BCIE - Central American Bank for Economic Integration, Global Climate Partnership Fund (GCPF) - responsAbility, Symbiotics, BlueOrchard, Triodos, and eco.business Fund.

In December, Grupo Promerica held its first international virtual summit called *Let's Face the Future with Fortitude* (Enfrentemos el Futuro con Fortaleza), with the intent of analyzing the challenges that will arise in the wake of the pandemic, and the leadership that must be assumed in order to obtain the desired improvements; it showcased over 10,000 attendees among clients, employees, correspondent and multilateral banks, business and union groups, opinion leaders, and the media, all from the countries in which the Group operates: Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica, Panama, Ecuador, the Dominican Republic, and the Cayman Islands.

In this manner, Grupo Promerica reinforces the promotion of a relationship banking thus fostering the development and economic wellbeing of clients and the communities in which it is located through a better understanding of their needs.

My thanks go to all those who were part of the Grupo Promerica family and walked

with us throughout this 2020. Despite the difficulties these times entailed, life continues and we must move on, be alert, learn from the circumstances, and win over adversities. We will always be by your side to draft together the story of what is to come.



Ramiro Ortiz Mayorga  
Chairman & CEO  
Grupo Promerica





## Vision

To be the best of the best in order to transcend in the lives of people.

## Mission

To accompany people and businesses everyday in overcoming their limits in order to share best experiences and to consolidate long-term relationships.

## Strategic pillars

- Cultural change to assure the success of our digital transformation.
- Data driven organization.
- Strategic segmentation driven by customer behaviour.
- Decentralized growth in every segment and geography.
- Responsible asset and risk management.
- Commitment to sustainability and corporate social responsibility.

## Corporate values

- Our essence is the customer.
- We make the difference.
- Our ideas build.
- We are one team.
- We keep our commitments.

## Message from the Chief Executive Officer Produbanco



I am writing to you at this time to present the 2020 Financial Report for Banco de la Producción, S.A. Produbanco and its Subsidiaries.

The coronavirus pandemic affected the world. The arrival of COVID-19 definitely changed the way of life for each one of us. We are living through social distancing, mobility restrictions, and confinement to slow down the spread of the virus and, however, at the time of publication of this Report, one year after its appearance, the situation continues to face great challenges until vaccines can be made available to the entire population worldwide.

Many of us have been directly affected by the loss of a loved one, a friend, a colleague, a neighbor, or an acquaintance. Fortunately, so far, we have not recorded any losses within the Produbanco family. However, we have had infections in around 25% of our population, the vast majority not presenting complications and having recovered satisfactorily.

Produbanco and its Subsidiaries focused their attention on the wellbeing of their clients, vendors, and employees during 2020. The actions did not wait, and since February, when the world was already beginning to be confined, we worked on different guidelines with a Committee that rose to the challenge of managing the

approaching crisis. The People and Culture Unit played an essential role in managing the new work methodologies. Teleworking was implemented for a significant percentage of employees thanks to VPN technology, *a modality that allows to work by being connected to the Bank's network from anywhere outside its facilities*, along with technological platforms that were also included to hold meetings from their homes.

While the adoption of digital channels by our customers has been growing, the pandemic definitely accelerated its use by enabling their transactions with complete security and from the comfort of their home through *www.produbanco.com*, the *Produbanco Mobile App*, and 'be' applications.

At the same time, while using high biosafety standards, the agencies continued their care without interruption, offering the full range of products and services that aims to provide memorable experiences to our clients. Likewise, in March, Produbanco made an extension in the repayment of loans and credit cards available for its clients.

In addition, during the health emergency, the Bank joined and contributed USD 1.5 million to the *For All* (Por Todos) initiative, a

fund with business contributions from the private sector, which was created to help mitigate the impacts of the COVID-19 crisis and provide effective and timely solutions to those who need it most.

As part of the initiatives that the Bank has executed this year, the IFC granted Produbanco a USD 50 million facility to support the economic recovery of Ecuador, thus allowing the Bank to provide new loans to companies, businesses, and vulnerable segments of the population whose cash flows have been negatively affected by the pandemic, especially micro, small and medium-sized enterprises with an emphasis on ownership by women entrepreneurs. The IDB Group granted another loan to Produbanco for USD 60 million destined to support the country's foreign trade, and during 2020, several other short-term credits were disbursed.

In line with the Digital Transformation in which the Bank is quite advanced, we continued with the development and launch of new products, such as the Mini Account and the Ideal Account, aimed at a young audience to promote a savings culture; the *Ahorra a Tu Gusto* (Save at Your Own Pace) program, flexible in terms, time, and contributions; the digital opening of savings accounts for clients who

already had a credit card; the Certificate of Deposit with advance interest payment for investors who need to receive their interest payments at the opening of the policy; and, credit alternatives in unison with certain universities, among other initiatives.

We maintain the focus of being an agent of change for Sustainable Development and we are committed to supporting the implementation of the Principles for Responsible Banking (PRB) of UNEP FI (Financial Initiative of the United Nations Environment Program). In this manner, to strengthen our sustainable management, we developed our Sustainable Banking Program aligned with these principles and high international sustainability standards.

We carried out a measurement of our corporate carbon footprint, which led us to be the first Bank in Ecuador to obtain the international *Carbon Neutrality* certification, verified by SGS (Société Générale des Surveillances). In addition, we consolidated our Environmental and Social Risk Management System (SARAS), and implemented improvements in our processes.

We continue to be leaders in sustainable financing in Ecuador and thanks to the impact of the Green Lines Program

(Programa Líneas Verdes), the Bank has been selected to co-lead Principle 3 of Clients and Consumers of the PRBs. In addition, in alliance with Conservation International Ecuador (CI Ecuador), we signed an agreement to promote the conservation and sustainable use of the moorlands, an ecosystem of vital importance for the protection and regulation of water resources in the country.

Since August 2020, I have the honor of representing South America on the UNEP FI Banking Board, as well as forming part of the Board of Directors of *Pacto Global Ecuador* (Global Pact Ecuador) and of the Board of Directors of the Ecuadorian Consortium for Social Responsibility and Sustainability (Junta Directiva del Consorcio Ecuatoriano para la Responsabilidad Social y Sostenibilidad - CERES).

Despite the complexity of these times, Produbanco has faced this situation with clarity of its vision, its strategic pillars and corporate values, all of which aim to transcend in people's lives and provide the customer with the utmost experience. We are resilient and we stick together as the great team that all of us who work in this organization make up in order to make Produbanco and its Subsidiaries *the best of the best*.



We are deeply grateful to all our shareholders, clients, suppliers, and employees, with whose contribution, motivation, and trust we have faced these adverse circumstances, and with whom we will continue to advance until we overcome them.



Ricardo Cuesta Delgado  
Chief Executive Officer  
Produbanco



Remodeled Iñaquito building




# Board of Directors

Produbanco



Francisco  
José  
Martínez  
Henares

Chairman



Karla  
Dolores  
Icaza  
Meneses

Principal  
Director



Francisco  
José  
Ortiz  
Gurdíán

Deputy  
Director



Luis  
Alberto  
Rivas  
Anduray

Deputy  
Director



Héctor  
Roberto  
Neira  
Calderón

Vice Chairman



Pablo  
Mauricio  
Argüello  
Godoy

Principal  
Director



Denise  
Marie  
Henríquez  
Noriega

Deputy  
Director




Carlos  
Francisco  
Rodríguez  
Vásconez

Deputy  
Director



Gustavo  
Francisco  
Vásconez  
Espinosa

Principal  
Director



Juan  
Diego  
Mosquera  
Pesantes

Deputy  
Director



# Senior Executives

Produbanco

## Executive Committee



Ricardo Cuesta Delgado

Chief Executive Officer



Juan Manuel Borrero Viver

Executive Vice President Management Oversight



Martha Cecilia Paredes Díaz

Executive Vice President Management Support



José Ricaurte Vela

Vice President Retail Banking



Rubén Eguiguren Arias

Vice President of Corporate Banking

## Business Units



Carolina Andrade Gallegos

Vice President Institutional Segment



Sebastián Quevedo Holguín

Vice President Payment Channels



María Isabel Román Albornoz

Vice President Highlands Distribution



José Antonio Costa Viver

Vice President Guayaquil Branch

Support Units



Esteban  
Vásconez  
Riofrío

Vice President  
Financial  
Oversight



Eduardo  
Lafebre  
Quirola

Vice President  
People  
and Culture



Rafael  
Roca  
Moreno

Vice President  
Operational  
Services




Javier  
Hidalgo  
Estévez

Vice President  
Technological  
Services


Staff and Control Units

Staff



Jorge  
Alvarado  
Carrera


Vice President  
Legal  
Affairs



Fabián  
Garzón  
Abad


Vice President  
Digital  
Transformation

Control




Fredy  
Sandoval  
Cerda

Vice President  
Internal  
Auditor



Gustavo  
Orbe  
Montenegro

Vice President  
Risk  
Management



Aníbal  
Salazar  
Buenaño

Compliance  
Officer



## Report of the Board of Directors

Dear Shareholders:

The year 2020 was marked by COVID-19, classified on March 11, 2020 as a *Global Pandemic* by the World Health Organization due to the alarming levels of spread and severity of the disease. On that same date, the *State of Sanitary Emergency in the National Health System* (Estado de Emergencia Sanitaria en el Sistema Nacional de Salud) was activated in Ecuador, and on March 16, the President of the Republic declared a State of Exception throughout the national territory, which resulted in generalized confinement given the curfew measures, suspension of vehicular circulation and of the public and private face-to-face workday.

The confinement and paralysis of most of the productive and commercial activities caused a sharp contraction in consumption, which inevitably led to the temporary or permanent closure of small, medium, and large companies, with the corresponding impact on employment due to reduction of personnel or working hours and impact on the payment chain.

Our Mission, «*To accompany people and businesses every day in overcoming their limits, sharing best experiences and consolidating long-term relationships*», acquired greater relevance in facing this health crisis and economic recession scenario.

This Report summarizes the most outstanding aspects and the main actions taken by the management of Produbanco and its Subsidiaries during 2020, which were aimed at guaranteeing the operation

and provision of services through the establishment of protocols that protect health at all times, along with the wellbeing of our clients and employees.

Faithful to the principles of Good Corporate Governance and transparency while being supported by technology, we normally held the Ordinary General Shareholders' Meeting electronically and, in addition, we maintained the Quarterly Reports in which we shared the most relevant aspects of our management, always counting on the great participation of our Shareholders.

In the section *Balance of the Economy 2020* of our Financial Report, the main events that determined the performance of the Ecuadorian economy are extensively developed, which already suffered from problems and structural imbalances, and which resulted in zero GDP growth in 2019. These imbalances were accentuated in 2020 as a result of the paralysis of activities that deepened the contraction of domestic demand—both for the Government and households—and the decrease in public and private investment. According to Central Bank forecasts, Ecuador will have registered a GDP decrease of approximately 9% for 2020, the worst annual result since GDP statistics have been kept.

Among the positive aspects that cushioned the adverse impacts of the health and economic crisis, the support of multilateral organizations that funneled external disbursements of USD 8.366 billion stands out, of which USD 4 billion came from the new agreement with the IMF and the balance from the World Bank, CAF, and IDB, among others.

The trade balance, for its part, registered a surplus of USD 3.24 billion, favored by the fall in imports and the adequate performance of non-oil exports, which grew by 9.7% compared to 2019.

In the area of employment, according to the labor market figures published by INEC, the unemployment rate at the end of 2020 was 5% when compared to 3.8% in 2019, while adequate employment stood at 30.8%, that is, eight percentage points below the previous year: the lowest rate since 2007.

At the end of the first semester, the *Organic Law of Humanitarian Support to Combat the Health Crisis Derived from COVID-19* (Ley Orgánica de Apoyo Humanitario para Combatir la Crisis Sanitaria Derivada del COVID-19) was issued, proposed by the Executive Branch to establish solidarity measures for social welfare and productive reactivation through various temporary mechanisms, among which the following stand out:

- Support for the sustainability of employment by establishing new modalities and working conditions, through the possibility of agreements among the parties, emergency reduction of working hours, and regulation of teleworking.
- No increase in the costs of public utilities.
- Discount and deferral of educational tuition.

- Suspension of evictions in terms of tenancy.
- Prohibition of unilateral termination of health policies or suspension of coverage due to non-payment.
- Payment facilities for social security.
- Tax incentives for the granting of lines of credit with a productive, commercial, or microcredit end, which include grace periods, terms, and preferential interest rates.
- Rescheduling of payments of financial obligations with entities of the national financial system.

At the beginning of September, Presidential Decree 1137 came into force, which ordered the early collection of Income Tax (IR) for fiscal year 2020, which generated an additional contribution of close to USD 257 million. By resolution, the SRI issued the regulatory framework to determine as obligated taxpayers, individuals and companies that meet the following conditions:

- Those who generate income taxed with income tax, except those from work in an employment relationship.
- Those who register a total income in their income tax return for fiscal year 2019 that is equal to, or greater than, five million dollars of the United States of America.

- Those who have obtained an accounting profit during the period from January to July 2020, excluding, in the case of individuals, income and expenses from work in an employment relationship.

In the fiscal arena, it is necessary to remember that the *Organic Law of Tax Simplification and Progressivity* (Ley Orgánica de Simplificación y Progresividad Tributaria) of December 2019, among other aspects, established the payment of a one-time and temporary contribution in fiscal years 2020, 2021, and 2022 by those companies that have generated taxable income equal to, or greater than, one million dollars during fiscal year 2018.

In summary, in the year of the greatest economic crisis in recent decades, we had to assume a double tax burden based on past fiscal capacity.

On the other hand, the Board of Directors was vigilant of the performance of the Bank and its Subsidiaries, actively participating through their delegates in the various attached committees that support the management of the Administration in order to guarantee the normal operation of all business lines and service channels, mitigate inherent risks, safeguard the health of our clients and employees, and accelerate the digital transformation that allows us to achieve the objectives and goals established in the Strategic Plan for 2023.

In this context, the Administration permanently activated the Emergency Committee to monitor the evolution of the pandemic at a global, local, and institutional level, as well as to establish protocols

for action, guarantee communication channels, and ensure the provision of supplies in order to dynamically reestablish the operability of our branch network while not putting the health of clients and employees at risk. The timely execution of tests coupled with the close monitoring by the medical team, allowed us to count 1,011 discarded cases of COVID-19 towards the end of the year, 561 discharges of confirmed cases, 24 preventive isolations, and no deaths of employees to regret. We took advantage of technology to implement new ways of working, and at the end of 2020, 32% of employees were in full or partial teleworking mode.

Mobility restrictions, limited capacity, and fear of the coronavirus, marked a disruption in the behavior of our customers, accelerating the adoption of digital channels such as the *Mobile App*, *App be*, and the *produbanco.com* website, also privileging the use of the self-service areas featuring kiosks and multi-function ATMs, in stark contrast to the teller windows of our banking agencies that registered less influx and transactional use.

We promoted the process of transforming traditional banking offices to digital agencies equipped with the most modern technological equipment and a wide menu of transactions that facilitates self-service for our clients. It is in this manner that the Produbanco network ended the year with 25 digital agencies and 91 traditional agencies, as well as 343 ATMs; while our subsidiary Externalización de Servicios S.A. Exsersa, closed with 50 ServiPagos agencies, 39 ATMs, and 12,026 PagoÁgil points with a national coverage.

Despite the difficulties, in 2020 we crystallized the opening of our remodeled agency and business service center located in the *Ññaquito* Building in the city of Quito, we opened the new *Mall del Sol* Agency, and we continued with the construction of our Branch at the *Centro Empresarial Colón* in Guayaquil.

We complemented the Organization's digital strategy with the incorporation of the subsidiary *EcuaPayphone C.A.*, which through its innovative *Apps Payphone* and *Payphone Business*, offers payment and collection alternatives for individuals and businesses, thereby promoting the digital use of any Visa or MasterCard credit or debit card, and reduces the handling of plastic and the use of cash. In April 2020, we launched the new Payphone 3.0 version that integrates digital wallet services, the payment button, collection links, and QR codes.

As part of our ongoing transformation, in August, the new subsidiary *ProContacto Soluciones Inteligentes S.A.* began operations with the mission of providing contact services through digital channels and messaging to ensure agility and quality in the care of customer needs.

The liquidity of the economy was one of the main concerns in this scenario of deep economic contraction; however, as indicated in previous lines, the significant disbursements of resources from multilateral organizations allowed the Government to cover its salary obligations and arrears with suppliers, propping up the liquidity of the financial system, especially in the last months of the year. This is how the banking system registered

an increase of obligations to the public of USD 3.85 billion (annual variation of 11.4%), largely explained by the last quarter that accounted for 75% of growth in 2020. After several years, we observed that demand deposits (checking and savings accounts) reached a growth rate of 14.3%, in contrast to term deposits that increased by 7.4% in relation to 2019.

The slowdown in the 2020 economy brought as a consequence a sharp decrease in the demand for credit, which was evidenced in a fall of USD 492 million in the banking system portfolio, equivalent to -1.6% yearly.

On the other hand, Produbanco's public deposits increased by USD 428 million until reaching USD 4.451 billion, maintaining the 11.9% share of deposits in the banking system, while the loan portfolio showed a slight growth of USD 11 million compared to the 2019, which led us to an 11.6% participation in the system. Managed assets totaled USD 5.513 million, this is 6.6% more than the previous year.

The effects of the mobility restriction and the change in behavior of our clients were clearly observed in the volume of billing with credit cards, which went from USD 1,240 million in 2019 to USD 833 million in 2020, with this being a variation close to -33%.

During the year, the Monetary and Financial Policy and Regulation Board issued various resolutions to regulate the management of the allocation of payments by financial institutions.

In summary, Resolution 569-2020-F and its subsequent reforms 582-2020-F and



588-2020-F, established the following provisions:

- Defer, reschedule, refinance, or restructure credit operations between March 22 and November 12, 2020, granting grace periods for the payment of principal and interest.
- Record in the financial statements the transfer to overdue portfolio from the 61st day of delinquency for all types of credits.
- Establish voluntary generic provisions for a balance of up to 2% of the gross portfolio in force as of December 31, 2019.

Resolution 609-2020-F of the end of October 2020 provided that the transfers to the past-due portfolio on the 61st day of delinquency remain in force through June 30, 2021. In order to mitigate the impact of credit risk on the financial statements of the regulated entities, the resolution temporarily changed the percentages of provisions for the classification and calculation of portfolio provisions, plus it also expanded the range of general provisions to 5% calculated over the total gross portfolio of December 2019.

In this context, during 2020 we implemented a huge technical and human deployment to progressively implement financial relief alternatives for our clients, as commercial and productive activities were re-established. As of the end of March, we carried out a massive deferral

of three installments of the loan portfolio for individuals and small and medium-sized companies, in addition to the two-month extension with no minimum payment required for our cardholders. In addition, we made our specialized network of executives available to companies to individually meet their financial relief needs.

As the second and third quarters wore on, many clients resumed their activity and duly honored their obligations, while others were presenting new needs caused by the prolongation of the health crisis and the measures to restrict activities.

We implemented changes to policies, procedures, and technological developments aimed at facilitating the implementation of new installment deferrals, novations, refinancing, and loan restructuring. The operations that received some type of financial relief exceeded USD 1,400 million in more than 200 thousand operations; by the end of the year, its balance was USD 603 million distributed in around 29 thousand credit operations.

With regard to the responsible management of Assets and Risks, we strengthened the Balance Sheet with the implementation of provisions for the loan portfolio in the amount of USD 161 million, which represents 174% coverage in relation to the USD 92 million of the past due portfolio. The delinquency rate was 2.69%, measured according to current regulations. These results were possible thanks to the coordinated management between the Credit and Collections team and our specialized subsidiary Protramites Trámites Profesionales S.A.

On the international scene, the pandemic caused governments, central banks, and supranational institutions to implement financial stimulus programs to inject liquidity in an agile and flexible way, maintaining a policy of very low interest rates, which also favored the Ecuadorian financial system, which has about 7% of its assets leveraged with external facilities.

For its part, the Monetary and Financial Policy and Regulation Board (Junta de Política y Regulación Monetaria) reformed the operating regulations of the *Private Financial Sector Liquidity Fund* (Fondo de Liquidez del Sector Financiero Privado), reducing the contribution percentage from 8% to 5%, which is calculated on the basis of public deposits. In the case of Produbanco, this 3% release represented USD 108 million that are now invested in instruments of maximum credit quality and high availability under the administration of our Treasury.

Our strategy and future growth capacity are supported by an equity solvency ratio of 13.46% with a cushion of USD 185 million over the regulatory requirement.

Banking system profits decreased by 62.2%, from USD 616 million in 2019, to USD 233 million in 2020. Profitability measured on equity (ROE) was 4.8%, and return on assets (ROA) was 0.5%; this represents a drop as compared to the previous year of -9.1% and -0.9%, respectively. When comparing the composition of the Bank's Income Statement with 2019, we observe that the financial intermediation margin decreased by USD 5 million as a consequence of the slight growth of the loan portfolio and

the increase in financial expenses derived from a higher volume of term deposits and financial obligations from abroad.

We implemented USD 119 million of expenses for provisions of risk assets with the purpose of mitigating the effects of the health and economic crisis, thus complying with the current regulatory framework regarding asset qualification and implementation of specific and generic provisions.

Operating expenses were USD 166 million, an annual reduction of USD 21 million. This level of efficiency was the result of permanent control management and the implementation of savings and optimization measures in the framework of the health emergency. The operating expense indicator over average assets decreased from 4.55% in 2019 to 3.97% by the end of 2020. In the year covered by the report, USD 6.5 million were recorded in the non-deductible expense account for the concept of the last installments paid to the Servicio de Rentas Internas (Internal Revenue Service - SRI in Ecuador) for determination of differences in the Tax on Assets Abroad (Activos en el Exterior - IAE) in 2013.

Operating income generated by the provision of financial services decreased by USD 17 million compared to 2019 due to mobility restrictions and fear of contagion, which produced a profound change in the transactional and consumer behavior of our clients.

The line of other non-operating income—which mainly includes the recovery of

written-off assets— had a negative variance of USD 5 million when compared to the figure reached in 2019.

Net income for the period, following the creation of reserves for the payment of employee profit sharing and income tax, showed a decrease of USD 41 million to stand at USD 20 million.

In this difficult environment, Produbanco maintained the local risk ratings of AAA and AAA- granted by the risk rating firms of PCR Pacific Credit Rating and BankWatch Ratings, respectively. In addition, we have a B- rating on an international scale, issued by Fitch Ratings and which is related to Ecuador's sovereign credit rating.

Produbanco's historic performance has been recognized year after year by the main international specialized publications. On this occasion, *Global Finance* magazine recognized us with awards such as: *Best Bank*, *Best Consumer Digital Bank*, and *Outstanding Crisis Leadership Ecuador 2020*. In addition, the Bank was awarded other important distinctions that reward categories such as corporate governance, customer satisfaction, digital transformation and others, which are detailed in our Report.

Produbanco, Banco Promerica Costa Rica, and Banpro Nicaragua, are signatories of the *Principles of Responsible Banking*, promoted by the *Financial Initiative of the United Nations Environment Program UNEP FI*, which are based on the Sustainable Development Goals and the Paris Accord on Climate Change.

In this management line, Ricardo Cuesta— Executive President of Produbanco—was chosen to represent South America on the *UNEP FI Banking Board*, with the challenge of building a sustainable agenda that prioritizes economic growth along with social and environmental wellbeing.

In alliance with Conservation International Ecuador (CI Ecuador), Produbanco signed with the Ministry of the Environment and Water, and the Sustainable Environmental Investment Fund (FIAS), an agreement to promote the program called *Conserving our water sources: the moorlands of Ecuador* (Conservando nuestras fuentes de agua: los páramos de Ecuador). The joint commitment is to promote the conservation and sustainable use of the Andean ecosystem of enormous importance for the protection and regulation of water resources in the country.

In addition, Produbanco led the *Working Group on SDG 17: Alliances to Achieve the Objectives within the Leaders for the SDGs Initiative* of the *Ecuador Global Compact*, which aims to create strategic alliances with various stakeholders of national and international cooperation, and public and private sectors, to contribute to the fulfillment of the Sustainable Development Goals (SDG) through a multidisciplinary perspective.

Produbanco's management is comprehensive, and the incorporation of the *Commitment to Sustainability and Social Responsibility* pillar in the 2019-2023 strategy, has allowed the objectives in each of the activities we implement to promote sustainable progress in the Community.

We want to highlight two achievements that fill us with pride:

- Our *Green Account* product was recognized as an outstanding practice of SDG 9 by the Global Pact Red Ecuador.
- Produbanco is the first bank in the country to obtain the international *Carbon Neutrality* certification in accordance with ISO 14064 - 3 and verified by SGS (Société Générale de Surveillance).

We published our 2019 Sustainability and Social Responsibility Report based on the guide for preparing sustainability reports of the Global Reporting Initiative GRI in its Standards version under the *Comprehensive* option, which was submitted to the corresponding review by the KPMG auditing firm.

To provide humanitarian assistance to the most vulnerable in Ecuador during the health and social crisis caused by COVID-19, we joined in with a contribution of USD 1.5 million to the *"Por Todos"* (For All) initiative promoted by the renowned businessman and former mayor of the city of Quito, Roque Sevilla, with the participation of several national and international companies and entrepreneurs, as well as citizens, through their contributions through a *crowdfunding* system supported by the *PayPhone* digital payment platform. To manage the donations, the *"Fideicomiso Por Todos"* (Trust For All) was set up, administered by FIDEVAL S.A. Administradora de Fondos y Fideicomisos (Fund and Trust Administrator) and independently audited by *PricewaterhouseCoopers del Ecuador Cía. Ltda.*

Moreover, the Board was fully aware of, and approved the opinions and reports issued, both by the Internal Auditor and by the External Auditing firm of *KPMG del Ecuador*, on the financial statements as of December 31, 2020, which are attached hereto and are published in our Annual Report. The external audit was prepared in accordance with the International Standards on Auditing (ISA) and other regulatory provisions. The opinion confirms that the balance sheet, the statements of income, changes in equity and cash flows, reasonably present the financial situation of Banco de la Producción S.A. Produbanco and its Subsidiaries, and have been prepared in accordance with the rules and practices established by the Superintendency of Banks of Ecuador (Superintendencia de Bancos del Ecuador), the Monetary and Financial Policy and Regulation 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 established regulations, that it has an adequate level of internal control whose structure and procedures reasonably protect the Bank's assets, and that there are controls in place to verify that transactions are being properly authorized and recorded. The Audit Committee has permanently monitored the reports and observations of the Internal and External Auditors and the Superintendency of Banks, as well as the action plans established by the Administration. After analyzing the internal control environment, the Board of Directors learned about, approved, and



in turn endorsed, the following opinion of the Audit Committee for its corresponding presentation at the Shareholders' Meeting:

*«The Audit Committee, based on the reports presented and on the various aspects analyzed in the meetings held during 2020, as well as on the annual evaluation report on the internal control system issued by Internal Audit corresponding to that year, reports that the risk management structure is appropriate to the size and complexity of the entity's operations and has an appropriate internal control structure; there is no evidence of circumstances that could constitute significant weaknesses in the Bank's internal control system. In addition, in accordance with the requirements of the banking resolutions, the Committee records that it has followed up on the observations and reports of the Internal and External Auditors and the Superintendency of Banks, and also indicates that there is no evidence or knowledge of acts of suspicious or irregular conduct and conflicts of interest, in the terms of the aforementioned regulations.»*

Produbanco and its Subsidiaries comply with current legislation, including regulations on intellectual property and the guidelines provided by control bodies. Likewise, there are the necessary mechanisms for an adequate administration of the risks of money laundering and financing of crimes based on the best international practices and the provisions of the Superintendency of Banks and the Economic Financial Analysis Unit (Unidad de Análisis Financiero Económico - UAFE). In this sense, the Board of Directors approved the work plan of the Compliance Unit for the year

2021 in the area of prevention of money laundering, along with the report of this Unit corresponding to the year 2020, documents that are made available to the General Meeting of Shareholders.

The Board of Directors also learned about and approved, the Annual Report of the Comprehensive Risk Management Committee (Informe Anual del Comité de Administración Integral de Riesgos - CAIR) that details the exposures and indicators of credit, market, liquidity, and operational risks assumed by the Bank in the scope of comprehensive risk management, as well as the defined limits and recommended control actions for each position, together with the institutional risk matrix, which is part of the aforementioned report.

The Remuneration Committee, made up of delegates from the General Shareholders' Meeting and other members, reports that the remuneration policy approved for all Employees, main executives, and members of the Board of Directors, satisfactorily complies with current regulations, with no exceptions to be reported.

The Board of Directors learned about the Report of the Financial User Attention Service Unit (Informe de la Unidad de Servicio de Atención al Usuario Financiero) in which, in addition to the various quality programs, our specialized area reports compliance with the standards of time, readiness in the attention and solution of requirements, claims of service, and others generated by the Clients of the business units throughout the country.

Likewise, the Board of Directors approved

the Financial Education Program, as part of the institutional Strategic Plan.

The Bank maintains the best Corporate Governance practices aimed at strengthening the organization, control, efficiency, independence, and transparency of its administrative structure along with the operation of the Board of Directors and the various Bank Committees. The Governing Body learned and approved the Report on Accountability and Compliance with Good Corporate Governance Practices (Informe de Rendición de Cuentas y Cumplimiento de las Prácticas de Buen Gobierno Corporativo) and the Code of Ethics and Conduct.

Finally, this Board of Directors addressed Official Letter SB-INCSFPR-2021-0066-O of January 27, 2021, through which the Superintendency of Banks authorizes Banco de la Producción S.A. Produbanco, to distribute up to 20% of the profits corresponding to the 2020 economic year, for which we must first observe the provisions of articles 168 and 405 of the Organic Monetary and Financial Code (Código Orgánico Monetario y Financiero), regarding the legal reserve fund, and provides that with the balance, a special reserve shall be formed for future capitalizations.

In accordance with the provisions of the Control Body, the Board of Directors

recommends to the General Shareholders' Meeting that of the net profits for fiscal year 2020 (that is, USD 20,153,767.01), a 10% legal reserve be established for an amount of USD 2,015,376.70; from the balance of USD 18,138,390.31, a 20% dividend is distributed in cash equivalent to USD 3,627,678.06, and the difference is recorded in reserves for future capitalizations.

It also recommends that of the reserves for future capitalizations, namely USD 14,640,000.00 (USD 14,510,712.25 of this year and the difference from previous years) be allocated to its capitalization, with which the subscribed and paid capital of Banco de la Producción S.A. Produbanco would reach USD 394,760,000.00.

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

We reiterate our gratitude to the Shareholders, the members of the Board of Directors, the Administration, and all the Employees, for their support, commitment, and contribution to face the challenges and consequences derived from this pandemic, whose magnitude and impact are still unpredictable.



Francisco Martinez Henares  
Chairman of the Board



Ricardo Cuesta Delgado  
Chief Executive Officer

## Balance of the Economy - 2020

The year 2020 will be remembered for putting Ecuador's resilience capacities to the test, not only in the field of health, but also in the economy. Contrary to what was feared, the strongest effects of the crisis were controlled by the technical and financial support of multilateral organizations, the International Monetary Fund (IMF), contributions from civil society, and containment strategies from agencies of the public and private sectors.

### Initial Context, Economic Situation, and Start of Confinement

From late 2019 to February 2020, China was already facing rapid growth in the number of COVID-19 infections, and alarms that it would become a global pandemic were mounting. In the midst of this situation, the risks of paralyzing the economies were pushing the price of crude down. In the local environment, the Ecuadorian government, which had already adjusted the pace and quality of public spending in 2019, had begun 2020 with the firm intention of continuing the process of fiscal and institutional reform under the initiatives of the International Monetary Fund (IMF). In addition, at the beginning of 2020, the country was recovering from the failed attempt to approve the then-called *Economic Reactivation Law* (Ley de Reactivación Económica) in November 2019, a project that proposed reforms to several regulatory bodies and that was shelved as an inevitable political consequence of the October stoppages of the same year.

In this local economic and political context, the international rating agency Moody's announced on February 6, 2020 its decision to lower Ecuador's sovereign rating from B3 to Caa1, arguing among its justifications, the limited access to international markets due to the tight and bulky calendar of repayments of the foreign debt as of 2022, as well as the country's resistance to the adoption of urgent reforms. In addition to this, on February 29 in the city of Guayaquil, the then Minister of Public Health, Catalina Andramuño, announced that Ecuador was registering the first confirmed case of COVID-19. It was an elderly person who had arrived from Spain on February 14. After this announcement, on March 11, through Ministerial Agreement No. 00126-2020, the Ministry of Public Health announced the State of Sanitary Emergency in the National Health System, and with Executive Decree No. 1017, issued on March 16, 2020, the President of the Republic of Ecuador declared a state of exception throughout the national territory. With this last decree, the curfew, suspension of vehicular circulation, and public and private face-to-face working hours, were instituted. The generalized confinement in Ecuador had begun.

### Real Sector

At the close of the first quarter of 2020, the Ecuadorian economy had already experienced 15 days of total paralysis. With the exception of activities related to emergency care, the production chain and the export chain, all other activities were suspended from operating in person, which generated a productive deterioration. At the close of the first quarter of the year, the

Ecuadorian economy decreased both in annual and quarterly terms at rates of 1.8% and 1.0%, respectively. The five sectors most affected up to March were: Construction, Domestic services, Professional, Technical, and Administrative Activities, Financial Services, and Transportation. Domestic demand (household consumption, public spending, and investment) had shrunk 2.5% in annual terms during the same period.

During the second quarter of 2020, confinement showed its most adverse effects. By the end of the same, the Gross Domestic Product (GDP) fell 12.4% in annual terms, while the internal demand decreased 13.5% in the same period.

Furthermore, throughout the second quarter of 2020, the oil sector was affected due to two causes. On the one hand, a lower demand for crude oil at the international level due to generalized confinements, added to an amplification of the impact produced by the market war between Saudi Arabia and Russia, which resulted in subsequent and dramatic falls in the price of crude oil at the international level. On April 28, the price of a barrel of Oriente crude fell to USD 10.8 (the lowest since November 15, 2001 when it reached USD 11.5), at the same time the West Texas Intermediate (WTI), marker crude for Ecuador, was even trading in negative values and reached a minimum of USD -37.6 on April 20, 2020. However, in annual terms, the price of crude oil recovered at the end of the year and closed just USD 11.3 below the value registered on December 31, 2019 (-18.7%). This result was positive, judging by the minimum reached in April, when it was USD 49.5 less than on December

31, 2019. The growth is explained by the favorable prospects associated with the progress made public on the vaccination process in the world.

The other factor that complicated the oil sector during the second quarter of the year was the erosion of the Coca River. The Heavy Crude Oil Pipeline (Oleoducto de Crudos Pesados - OCP) Company informed the country that on Tuesday, April 7, erosion had been detected in the riverbed that triggered the rupture of the OCP pipeline on April 8, on the border of the Napo and Sucumbios provinces, for which oil-pumping operations were suspended. Likewise, the state-owned company Petroecuador announced that the operations of the Trans-Ecuadorian Pipeline System (Sistema de Oleoducto Transecuatoriano - SOTE) were also stopped, due to a land subsidence in the same sector, and the Fluidized Catalytic Fractioning Unit (Unidad de Fraccionamiento Catalítico Fluidizado) of the Esmeraldas Refinery, suspended operations for a damage produced during a power failure of the National Interconnected System (Sistema Nacional Interconectado). Although the supply of byproducts (produced by this unit) was guaranteed, the refinery stopped until the corresponding adjustments were made.

With the aim of generating spaces to sustain jobs and avoid further deterioration of the labor market, the National Assembly approved the *Organic Law of Humanitarian Support to Combat the Health Crisis Derived from COVID-19* (Ley Orgánica de Apoyo Humanitario para Combatir la Crisis Sanitaria Derivada del COVID-19) sent by



the Executive Branch to implement new modalities and conditions for employment. This law was published in the Official Registry on June 22, 2020. Among the most relevant content are the agreements between employees and employers to modify economic conditions, such as: reduction of working hours to 50% of the hours and 45% of remuneration, without falling below the sectoral minimums, and the possibility of implementing special emergency contracts with working days of 20 to 40 hours per week distributed over 6 days. In accordance with the provisions of this law, these agreements and new contracts may last one year with the option of being renewed for one more year.

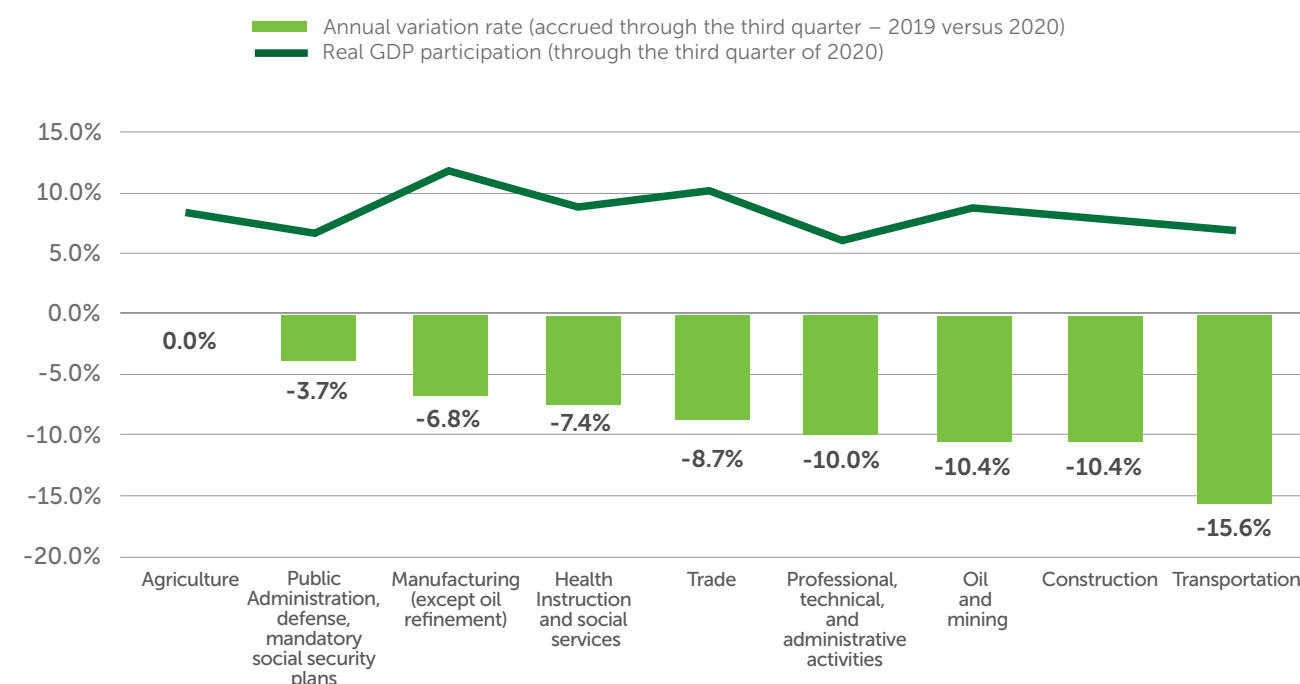
With the end of the confinement and consequent relaxation of mobility restrictions, during the third quarter of 2020, the economy showed signs of recovery. According to the latest official information published by the Ecuadorian Institute of Statistics and Censuses (Instituto Ecuatoriano de Estadísticas y Censos - INEC) and the Central Bank of Ecuador (Banco Central del Ecuador - BCE), the quarterly variation rate (quarter III versus quarter II) was 4.5%, in contrast to the annual rate (quarter III of 2020 versus quarter III of 2019) which was -8.8%; both rates better than those observed in the second quarter of -10.6% and -12.4%, respectively. If we add production by industry for the three quarters of the year and compare these values with the results for the same period of 2019, we can see that within the most representative industries in GDP, there was a generalized impact. Of the largest economic activities in the country, the most affected were: Transportation

(-15.6%); Construction (-10.4%); Oil and Mines (-10.4%); Professional, Technical, and Administrative Activities (-10.0%), and Commerce (-8.7%), as shown in graph 1.

In the case of employment, the INEC conducted a mixed methodology survey: face-to-face 99.9% and telephone 0.1% and, according to the latest data, the unemployment rate in Ecuador closed 2020 at 5.0% (versus 3.8% in December 2019). However, adequate employment is the indicator that has contracted the most in the last year, falling from a 38.8% share of the Economically Active Population (Población Económicamente Activa - EAP) in December 2019, to 30.8% in December 2020.

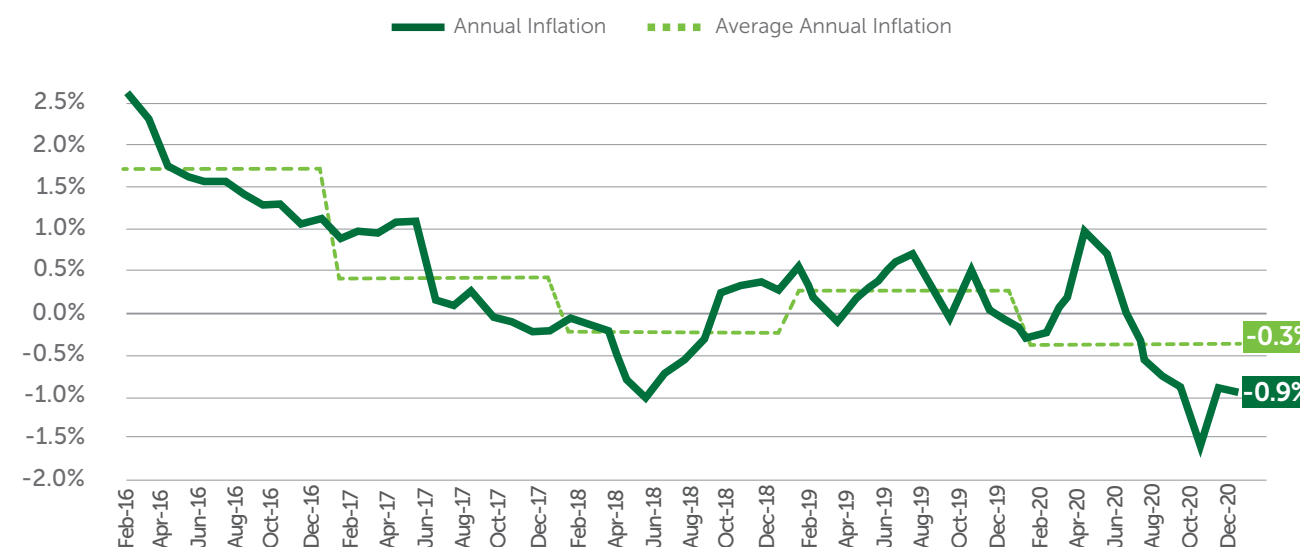
Finally, due to the recession that the economy experienced during 2020, annual inflation was negative in eight of the twelve months of the year. Annual inflation as of December was equal to -0.9%, while the annual average was -0.3%. This result was lower than that observed in 2019 (0.3%) and 2018 (-0.2%), as shown in graph 2. The three consumption divisions with growth in prices during 2020 (on average annual variation) were: Health (2.8%), Communications (2.4%), and Food and Non-Alcoholic Beverages (0.8%), while those with the greatest downward adjustment in prices (on average annual variation) were: Transportation (-2.0%), Recreation and Culture (-2.3%), and Clothing and Footwear (-3.6%). As an effect of the behavior described, the monthly basic family staple food basket became cheaper (USD 710.1) when compared to that of December 2019 (USD 715.1).

**Graph 1: Annual Growth per Economic Activities<sup>1</sup>**



Source: BCE

**Graph 2: Evolution of Annual Inflation in Ecuador**



Source: INEC

<sup>1</sup> Included are only those industries with participation higher than 5% of the GDP; in total, the nine industries considered represent 75% of real GDP accrued through the third quarter of 2020.

## Fiscal Sector

As expected, from the beginning of 2020, tax collection was lower. In gross terms, it fell 13.2% in relation to the previous year, a rate that represents a decrease of around USD 1,887 million. The collection of the Value Added Tax (VAT) was lower by 17.6% as compared to 2019, while that of the Income Tax (Impuesto a la Renta - IR) decreased by 7.6% in the same period. One of the reasons why the IR was less affected lies in the anticipated collection requested by the Government according to Presidential Decree 1137 of September 2, 2020. The total value of the anticipated collection amounted to USD 257 million.

The approval of reforms to the *Organic Code of Planning and Public Finance* (Código Orgánico de Planificación y Finanzas Públicas - COPLAFIP) crystallized new disbursements from the IMF. With the health emergency booming and spreading, on April 30, 2020, the Ecuadorian Government formally requested the cancellation of the *Extended Fund Facility* (Facilidad Extendida de Financiamiento - EFF) program signed in March 2019 and in force to-date, and requested access to the maximum possible disbursement under the modality of the Rapid Financing Instrument - RFI. The RFI was approved and disbursed in May 2020. This loan has a term of five years with a grace period of three years and a rate of 1.05% per year. The money arrived in May for an amount of USD 643 million.

To achieve this rapid disbursement and initiate the negotiation of a new successor EFF, the Government sent the COPLAFIP

reforms to the National Assembly as a sign of commitment and prior action. Finally, these reforms were approved by the Legislature on May 16 and subsequently published in the Official Registry on July 24, 2020. As a complementary measure to the approval of the reforms to COPLAFIP, on May 19 the Government finalized its proposal to reform fuel subsidies. The alternative implemented consisted of a price band system (+/- 5% dictated by Executive Decree 1054 for pump prices) based on the evolution of the WTI and Oriente crude indices.

In 2020, Ecuador negotiated a large part of its foreign debt. On March 23, 2020, the Minister of Economy, Richard Martínez, explained that Ecuador would only make the capital payment of the Global Bonds 2020 for USD 326 million and that it would issue a *Consent Solicitation* to the bondholders to defer the payment of interest while the debt was negotiated until August 15, 2020. Almost four months later, on July 6, the Government announced that a formal agreement had been reached with the main sovereign bond investors; then, these new conditions would be ratified by 98.3% of them.

On August 31, the foreign debt swap was completed after the announcement of a staff-level agreement with the International Monetary Fund (IMF). Ecuador obtained new conditions and exchanged nine bonds (for a total of USD 17,375 million) for three new ones (for a total of USD 15,834 million), with a capital cut of 8.87% (USD 1,541 million) and a reduction of 14.0% in the interest generated but not paid during the negotiation period in 2020 (going from

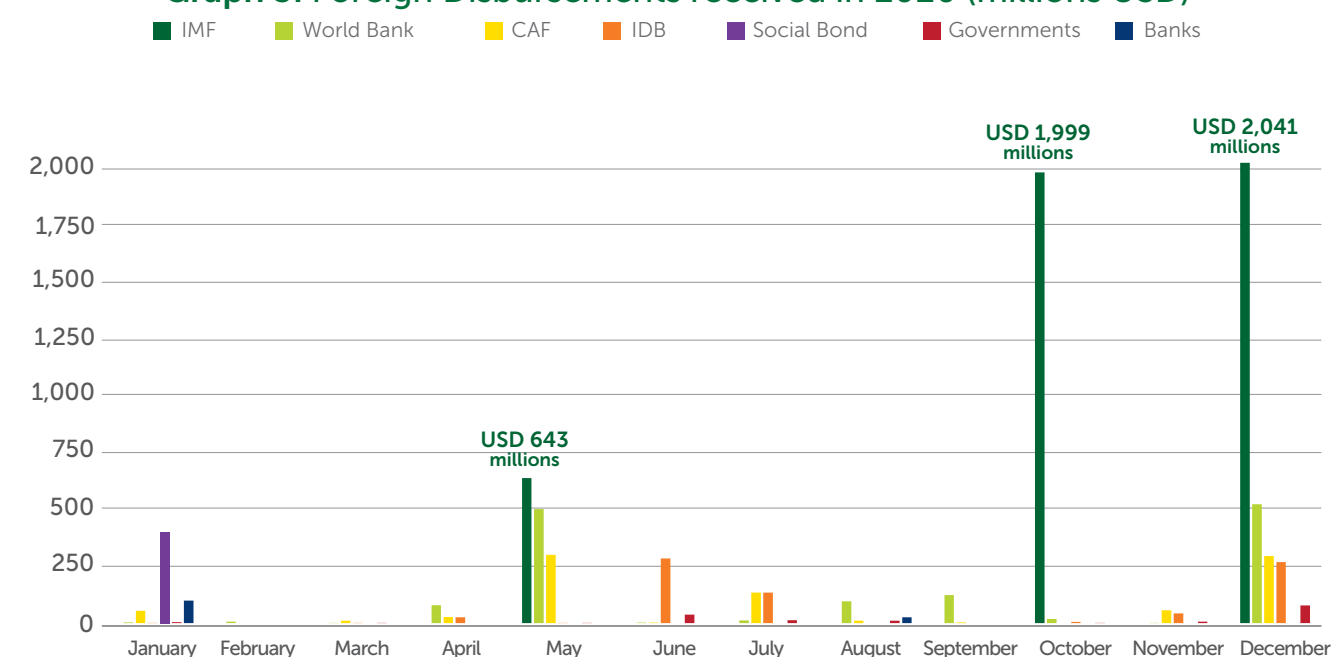
USD 1,060 million to USD 910 million), which will be paid with a zero coupon bond from 2026 to 2030. The rate went from 9.2% per year to 5.3% on average, while the term increased from 6.1 to 12.7 years with a five-year grace period. Announcing a staff-level agreement with the IMF was one of the conditions that the new terms of the negotiation stipulated; thankfully, the announcement came in August 28, 2020.

The amount of the new agreement with the IMF exceeded expectations. The value amounted to USD 6.5 billion, with disbursements of USD 4 billion during 2020, USD 1.5 billion in 2021, and USD 1 billion in 2022: the average interest rate is 2.9%, over a 10-year term, with a four-year grace period. The technical support will be

for 27 months, in which the fulfillment of goals will be evaluated. It is an *Extended Fund Facility (EFF)* program and the line reaches the maximum possible under the extraordinary access scheme.

The support of multilateral banks was essential to sustain the economy in 2020. The country received USD 8,366 million from external disbursements. Of this value, 56.0% came from the IMF, 16.3% from the World Bank, 10.6% from the Development Bank of Latin America - CAF, 9.1% from the IDB, 4.8% from a social bond issue (which did not enter the negotiation package due to having a guarantee from the IDB), 1.8% from governments, and 1.5% from banks (see graph 3).

**Graph 3: Foreign Disbursements received in 2020 (millions USD)**



Source: Ministry of Economy and Finance

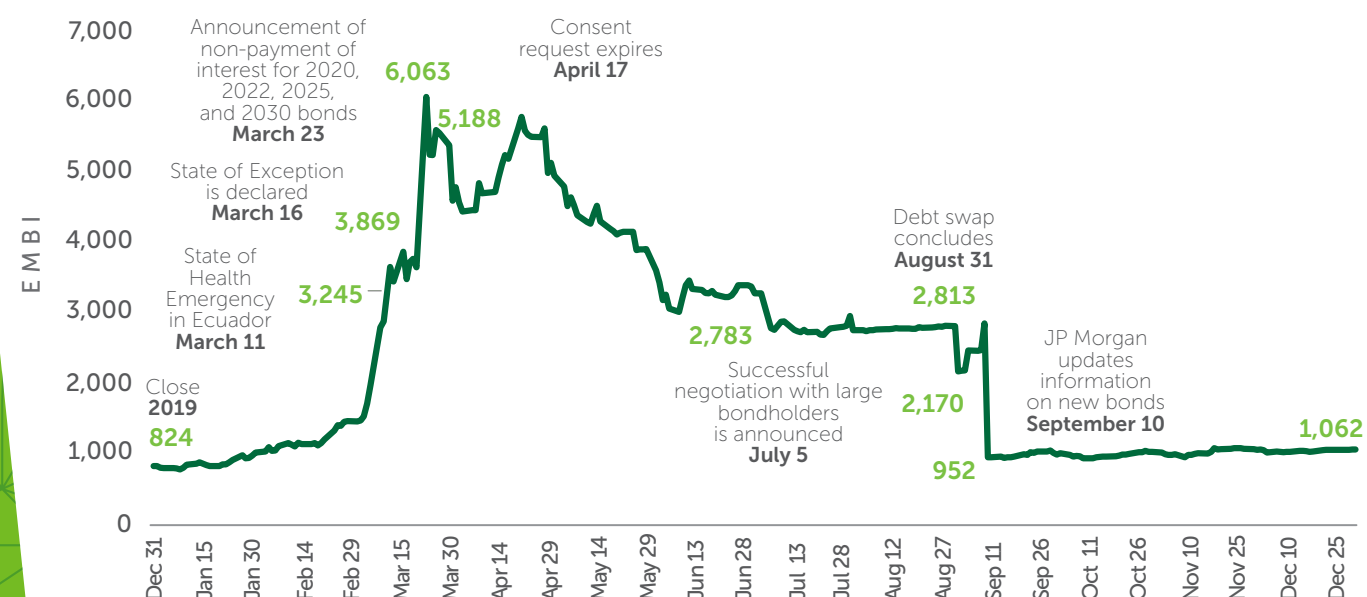


## Country Risk

In annual terms, the EMBI closed at 1,062, that is, 238 points above the value observed a year ago. Due to the upheavals brought on by the pandemic, the debt negotiation process, and multilateral support, the EMBI recorded strong volatility for much of the year (see Chart 4). Fitch Ratings rated Ecuador with CCC on March 19 (previously B- with a stable outlook) and at the end of the first quarter the rating was lowered again to CC. Then, on April 20, Fitch Ratings placed the country's rating at RD (*Restricted Default*); for its part, Moody's, which had already downgraded Ecuador's

rating in February, lowered its rating again to Caa3 on April 3. Finally, S&P rated the country with SD (*Selective Default*) on April 20, 2020. Upon completion of the negotiation and the announcement of a new agreement with the IMF, S&P upgraded Ecuador's rating from SD to B- with a stable outlook on September 1. Similarly, Fitch revised the rating up from RD to B- with a stable outlook on September 3. For its part, Moody's did not review Ecuador's sovereign rating until the end of 2020, and the one published on April 3, 2020, remains in force.

**Graph 4: Evolution of the EMBI in Ecuador during 2020**



Source: JP Morgan, Bloomberg

## Monetary and Financial Sector

The financial sector supported its clients. Due to the unfavorable conditions caused by the coronavirus crisis, the entities decided to grant relief in the payments of their clients' loan installments for the months of March, April, and May. Each bank applied a different support strategy: some even set up private aid funds to attend to the health emergency. For its part, the Superintendency of Banks decided to freeze the credit rating of customers in the banking sector for a period of 120 days, counted from March 31, 2020. In addition, the delinquency cut-offs for the commercial credit and consumption segments were changed, and the days of arrears were homologated to 61 days. To reinforce the solid liquidity of the banking institutions, it was decided to reduce the contribution that entities must maintain in the Liquidity Fund from 8% to 5% of the deposits subject to this calculation. Finally, with the approval of the Humanitarian Law, the term to grant credit deferrals was extended until November 12, 2020.

The generation and preservation of liquidity was the strategy that dominated in 2020. Due to the initial shock that the country faced, the months of March and April recorded outflows of deposits for USD 934 million and USD 101 million, respectively. Financial institutions strengthened their liquidity positions by maintaining high-quality assets to meet the potential demands of their clients in the face of the pandemic. Until the end of 2020, with the exception of the month of November,

deposits had a significant recovery with an annual growth of USD 3.85 billion (+11.4%), an unprecedented amount in the last 20 years.

Loan placement followed deposit taking, but at a gradual pace. Although credit placement was impacted by lower demand in a situation of uncertainty and a prudent supply in order to preserve liquidity, the variation in the gross portfolio balance in annual terms reached USD -492 million (-1.6 %). However, it is important to note that with the end of the state of exception and the return to productive activities, since September 2020, the credit placement grew at a faster rate. Only from September to December 2020 did the banking system's gross portfolio balance grow by USD 931 million.

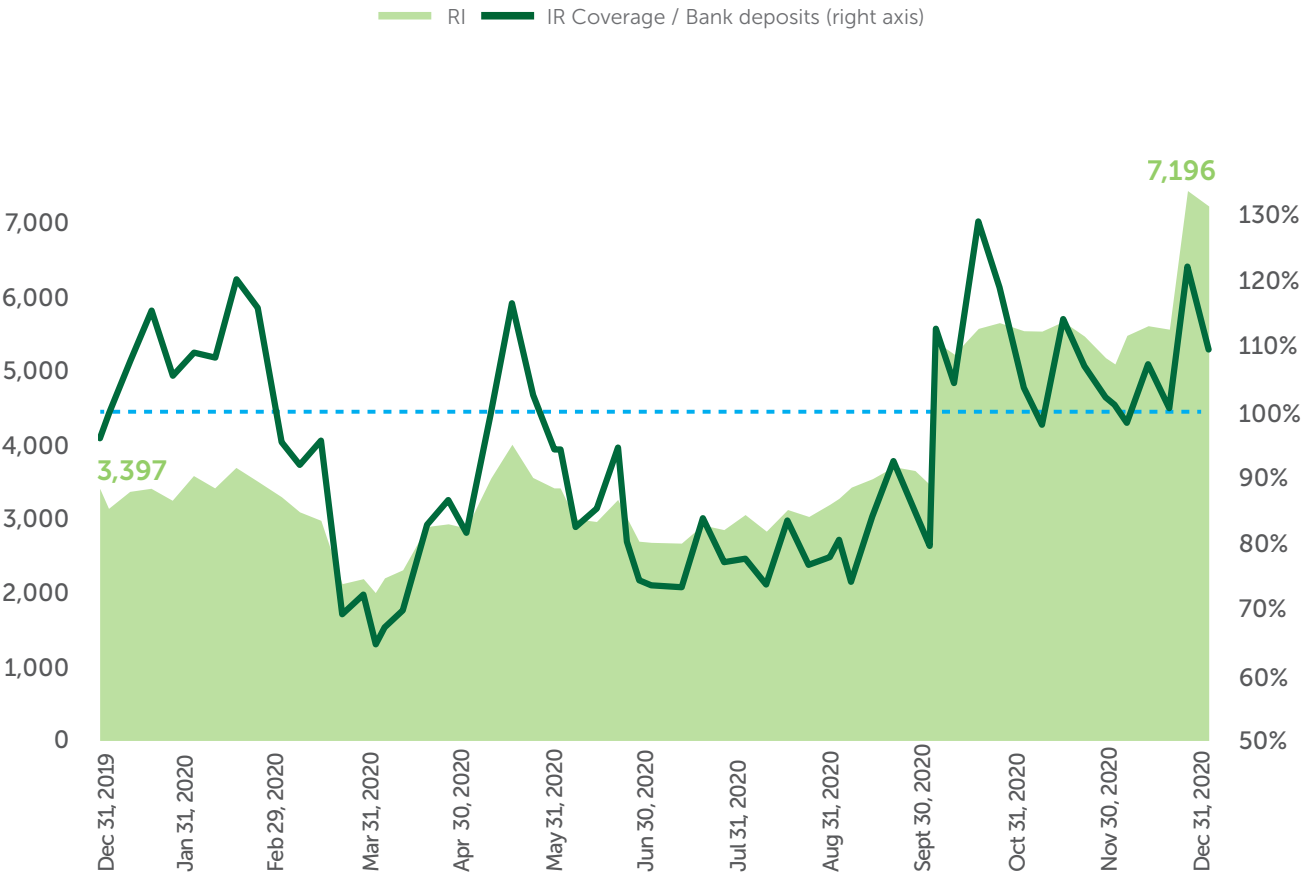
The 2020 closing indicators were not immune to the circumstances. In terms of performance, profits amounted to USD 232.9 million for the total of 24 private banking institutions (62.2% lower than those of 2019); furthermore, the ROE was 4.8% (65.5% lower than 2019) and the ROA 0.5% (65.2% lower than 2019). In terms of risk management, bank solvency reached 14.5%, i.e., one percentage point above the 2019 value, and 5.5 points above the regulatory requirement of 9.0%. The technical equity of private banks in Ecuador totaled USD 5,286 million, an amount 5.5% higher than the value of 2019. In terms of coverage, the provisions of the banking system represented 2.9 times the non-performing portfolio of the system (0.6 percentage points above the 2019 value). Finally, non-performing loans closed at

2.6%, 0.1 percentage points lower than the 2019 indicator, due to the regulatory change described.

The amount of International Reserves (IR) closed at an all-time high. The balance of international reserves registered USD 7,196 million as of December 31, 2020 (see graph

5), an amount higher by USD 3,799 million than that observed on December 31, 2019 (USD 3,397 million). The rapid disbursements of multilateral organizations and the IMF, as well as the surplus trade balance registered throughout 2020, allowed IRs to reach the highest amount in the last 20 years since dollarization began in the country.

Graph 5: Evolution of International Reserve Balances (millions USD)



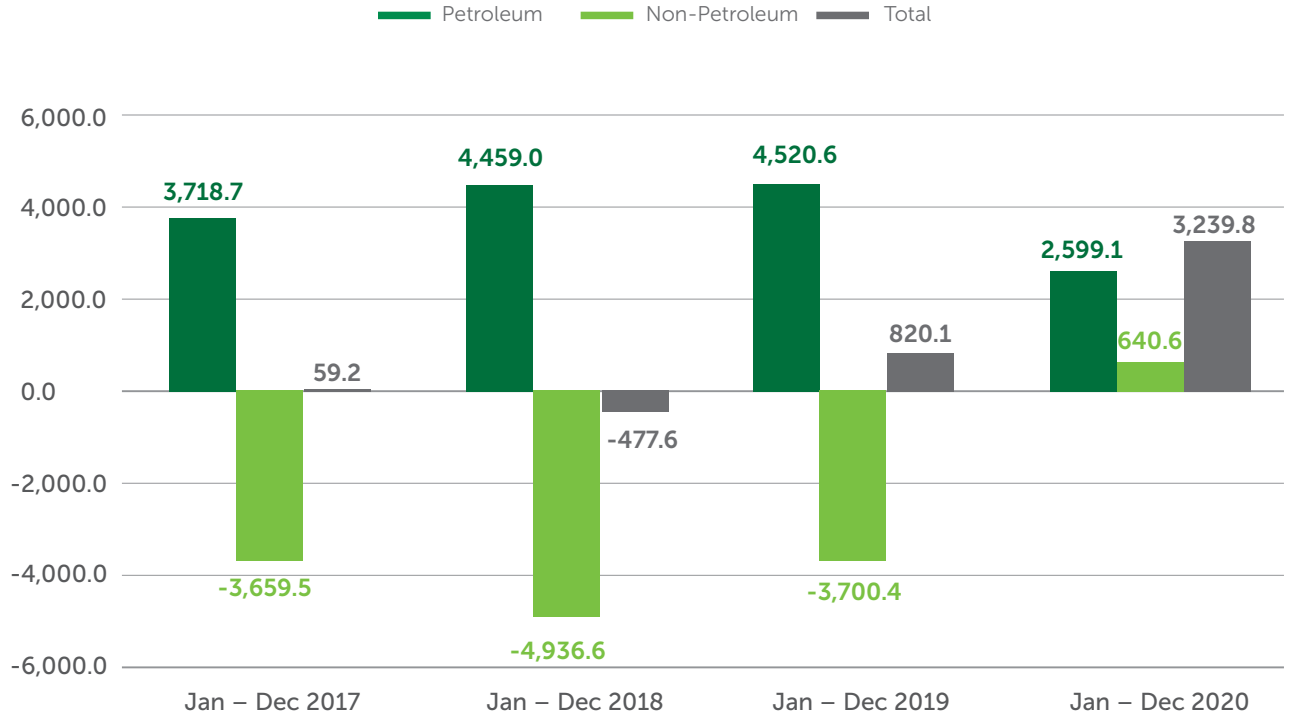
Source: INEC

### External Sector

During 2020, the trade balance registered historic surplus balances. In the year 2020, the Ecuadorian economy accumulated USD 3,239.8 million as a surplus in the trade balance (see graph 6). The factors that influenced this result were, on the one hand, the slowdown in consumption by households and companies due to the confinement, a slower pace in sales, and a consequent drop in imports, -21.0% between 2019 and 2020; and, on the other hand, a lesser impact on the export sector, whose balance decreased by just 9.4% in the same period.

In terms of exports by product, the behavior of the non-oil sector stood out, which grew 9.7% in 2020 in annual terms. In a scenario not seen in dollarization, the balance of the non-oil trade balance closed with a surplus of USD 640.6 million, a figure USD 4,341.1 million higher than the balance registered at the end of 2019. These products sustained the fall in oil exports by the decrease in price and production of crude oil during 2020. Oil exports totaled USD 5,250.4 million (annual fall of 39.5%), a figure that represented 26.0% of total exports in 2020.

Graph 6: Evolution of the Trade Balance



Source: BCE



# Report on Corporate Governance



## **Good Corporate Governance Report Banco de la Producción S.A. Produbanco Shareholders' Meeting March 25, 2021**

Corporate Governance is a fundamental pillar at Produbanco, and this is why in the year 2020, marked by the crisis due to the global pandemic caused by Covid-19, we have managed to optimize and consolidate tools that allowed and continue to allow having a long-term hold of a solid Corporate Governance structure, thus guaranteeing the Bank's institutional framework. Along the same lines, a telematic communication mechanism among the various interest groups has been solidified.

Corporate Governance is a fundamental pillar at Produbanco, and this is why in the year 2020, marked by the crisis due to the global pandemic caused by Covid-19, we have managed to optimize and consolidate tools that allowed and continue to allow having a long-term hold of a solid Corporate Governance structure, thus guaranteeing the Bank's institutional framework. Along the same lines, a telematic communication mechanism among the various interest groups has been solidified.

In the formation of the Governing Body for the 2020-2022 period, the approximation mechanism foreseen in its regulations for gender equality was already considered; as such, there is an important contribution from Karla Icaza and Denise Henríquez as members of the Produbanco Board of Directors. Similarly, the non-incursion of supervening events due to normative prohibitions or situations that cause conflict of interest of its members was ratified, the Executive President was evaluated, and the periodic monitoring of the Strategic Plan was verified as well where the Bank has a Board (Dashboard) Planning, which detailed the state of the various action plans and level of compliance with the corresponding breakdown by units and departments. In the methodology used to measure the management and evaluation of the Board, carried out by the General Secretariat, the appropriate skills and experience of its members were taken into account, as well as the knowledge, updating, and understanding of the applicable legislation. Aspects related to the diversity of its members were also covered in relation to abilities, university studies, gender, age, and professional experience. Regarding the sessions, the efficiency of the sessions was reviewed in relation to their dynamics, active participation, information received, duration, and topics covered. The measurement carried out yielded positive results that indicate a correct application of the Principles of Good Corporate Governance. Regarding the management and fulfillment of the Executive President's objectives, the Board of Directors spoke highly positively, accrediting the work carried out, especially in a year with complex characteristics, highlighting his leadership in the Organization.

Regarding internal control, there is a standard development with significant results of the self-assessment instruments carried out by Produbanco regarding Corporate Governance, Planning, Policies and Procedures, Personnel Administration, Control Systems, and Management Information Systems.

Data protection is a fundamental aspect for Produbanco, which implies its collection and treatment. Throughout the last decade, data protection has been a topic of discussion and its regulation, especially at the international level, has taken on an important relevance. In line to comply with adequate transparency, and being at the forefront in matters of personal data protection, the Bank's Data Governance committee developed the Data Protection and Privacy Policy in order to establish the procedures for collection, storage and treatment of the data of financial consumers that are handled in the Institution. In this way, we seek to guarantee our clients the quality and integrity of the information provided, complying not only with due bank

In accordance with the Institution's Strategic Plan, sustainability and corporate social responsibility represent an essential commitment in Produbanco's day-to-day life, which is characterized by its crosscutting nature throughout all areas. For this reason, and thanks to the efforts of our employees and all



those who are part of the Bank, the international Carbon Neutrality certification was achieved according to ISO 14064 - 3 and verified by SGS (Société Générale de Surveillance), making Produbanco the first financial entity in the country to obtain it. At the same time, the Bank permanently executes activities and projects related to sustainable development, green products, social management, volunteer activities, development with the community, and caring for nature and the Planet, such as the Moorlands initiative. Currently, work is being done so that Produbanco becomes part of the companies of System B. This System is intended to motivate the creation of a positive impact on society and the environment, while the interests of the employees, communities, and the environment, as well as other governance tools, are also included, thus allowing Senior Management and the Board of Directors to balance the long-term needs of all external interests with the short-term financial returns of their Shareholders.

On the other hand, and in line with good Corporate Governance practices, the anonymous whistleblower channel "Línea Ética" (Ethical Line) knew about and efficiently managed 40 cases presented during 2020. Likewise, the Ethics and Corporate Social Responsibility Committee, besides being cognizant of the generic reports of the aforementioned channel, it analyzed the cases of non-compliance with the Code of Ethics of Produbanco and Subsidiaries, within which the appropriate corrective actions were taken.

For its part, the Remuneration Committee brings into consideration to the Shareholders' Meeting the alignment of the Bank's general salary management policy, in accordance with current regulations and the change in the salary scheme of Bank employees, going from net salary to gross salary, and in this way making it possible to be aligned with the market while unifying with the Bank's subsidiaries, thus carrying out an important communication and information process to each employee for its application starting from the year 2021.

In compliance with the recent regulations issued on the rights of financial consumers, the Produbanco Board of Directors approved the change of name from the Financial User Service Unit to the Financial Consumer Service Unit, a unit in charge of administration, management, and monitoring of claims submitted by clients, in order to meet the required standards of care. The Report presented for the purposes of this year, contains the management indicators, the details of requirements, and claims entered with the operational analysis as well as the detail of affected values. In the same manner, the claims and requirements that have been favorably addressed for clients are broken down, same that have been known by the Superintendency of Banks, together with the respective recommendations in order to continue providing an excellent customer service to the client. The Bank has defined policies as well as a specialized Committee for the efficient handling of claims and self-evaluation mechanisms based on the quality of service. With regard to the Customer Ombudsman, he has performed his duties normally and independently.

In accordance with the foregoing, it is resolved to make this report known, together with the attached information and its 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 the fulfillment of its institutional objectives.

Quito, DM, March 15, 2021

Dr. Jorge Iván Alvarado Carrera  
Secretary General

# Report of the Comprehensive Risk Management Committee (CAIR)

## Management and Risk Control Model

The year 2020 was characterized by periods of high uncertainty as a result of the global COVID-19 pandemic. The adverse economic environment, resulting from confinement and an important fiscal deficit that had been accumulating from previous years, caused that during the first half of the year financial institutions focus their efforts on strengthening their liquidity positions. Likewise, the demand for credit was considerably affected by the lack of clarity regarding the speed and intensity of a potential economic recovery.

The second half of the year saw a remarkable growth in deposits, once the agreements with the International Monetary Fund, the debt swap by the Ecuadorian government, and the strong injection of resources from multilateral agencies were finalized; however, credit remained repressed according to the economic cycle.

To answer the difficult circumstances that the health crisis brought about, Produbanco consolidated its risk management system through activities coordinated by corporate government and business units, control and support, as well as through comprehensive monitoring of the risk it carried out in accordance with the level that the Bank is willing to assume depending on the internal and external environment.

In this sense, the Bank has established a robust risk governance model, the primary objective of which is to maintain exposure aligned with the risk appetite

defined by the Board of Directors, and within the framework of local regulations and international best practices. The risk management of Produbanco and its subsidiaries has a proactive and comprehensive vision based on:

- **A solid risk management culture:** which when committed to the Institution's corporate values, manifests itself in clearly identified lines of defense and in the roles and responsibilities defined and assigned to all risk managers and employees.
- **Risk appetite and tolerance:** supported by consolidated quantitative and qualitative limits and methodologies.
- **Establishment of operational structures with a risk-based approach:** through which employees apply risk management practices that leverage the achievement of the business strategy and objectives.
- **Comprehensive risk vision:** which allows the timely detection of risks and their impacts throughout the organization and, therefore, generate optimal, dynamic, and flexible mitigation and response strategies. This perspective anticipated the effects of various conjunctural scenarios along with the proactive management of the risks, and have led Produbanco and its subsidiaries to successfully complete its strategic planning goals, thanks to the efficient management of its assets and maintenance of high levels of service for its customers and its reputation in the market.

- **Robust methodologies aligned to best practices in risk management:** which incorporate cutting-edge quantitative and qualitative models, complemented with analyses of stress scenarios and backtesting to strengthen efficient data-led decision-making.
- **Mature internal control system:** which makes possible the progressive improvement of the effectiveness and efficiency of the processes, the improvement of the applied controls, and the reduction of residual risk.

## Liquidity and Market Risk

Produbanco's business is financial intermediation through a wide range of products adapted to the needs of its various clients. The credit activity is financed by means of a stable and diversified funding both in terms and in geographical area, which allows it to achieve an adequate funding cost.

During 2020, and framed in the context of the global coronavirus crisis, obligations with the public reached a value of USD 4,451 million, this is USD 427.6 million more than the previous year, which represented a year-on-year growth rate of 10.6%. Demand deposits grew by USD 299.4 million, from USD 2,431.8 million (December 2019) to USD 2,731 million (December 2020). Time deposits increased by USD 128 million to reach USD 1,719.7 million, and achieve a 38.7% participation in the Bank's total deposits.

For their part, the banks increased their obligations to the public by USD 3,850 million (11.4% growth), a figure with which they registered a balance of USD 37,528 million as of December. The sources of external financing that both the institutions of the financial system and the Government were able to specify in 2020 were the main causes for this growth.

As a preventive response to the pandemic, Produbanco maintained a prudential liquidity position, expanding its liquid assets and coverage against its short-term liabilities. In addition, it executed several actions, among which the increase in the balances that was kept in boxes to meet any cash requirement from customers stands out. Similarly, in order to provide solutions to mobility restrictions, the Bank enabled as many services as possible available on its network of digital channels. The Cash versus Demand Deposits ratio increased from a level of 5% at the end of 2019, to 11% in the most critical months of the pandemic. The liquidity index—the ratio between available funds and short-term deposits—amounted to 33.82% at the end of 2020, an increase of 3.2 percentage points compared to the same period in 2019. At the same time, liquidity monitoring was intensified, defining new stress scenarios, backtesting, gap calculations, and analysis of assumptions—both macroeconomic and financial—with the intention of measuring any impact on the asset and liability management strategy and balance sheet risk.

We can highlight that in each of the four stress scenarios created, Produbanco



showed ample coverage, which remained stable from the beginning of the lockdown until the end of the year. The results of the variations in deposits in 2020 did not reach levels close to any of the deposit outflow scenarios proposed in the aforementioned stress scenarios.

Regarding the liquidity management of the investment portfolio, the investment strategy of the resources managed by the Treasury was to carry out operations in high-quality assets and with a short-term periodic maturity scheme in such a way that Produbanco could quickly make effective its assets to meet any liquidity requirement from its clients. At the end of December, 88% of the assets managed by the Treasury were convertible to liquidity in less than 30 days, and 93% in 90 days.

Regarding compliance with regulatory requirements, internal limits and of the Promerica Financial Corporation, Produbanco presented a wide coverage regarding its indicators, and in addition, a comfortable liquidity position.

In regard to market risk, the benchmark-lending rate went from 8.78% in December 2019, to 8.50% in December 2020. Meanwhile, the benchmark-deposit rate decreased from 6.17% in December 2019, to 5.89% in December 2020. This behavior derives from the lower demand for credit compared to a stock of accumulated liquidity in the financial system due to the reduction in economic and productive activity. On the side of the deposit rate, it is noteworthy that as of the last quarter, there

was a significant decrease in its nominal value due to the recovery of deposit levels in the system.

### Liquidity Risk Indicators

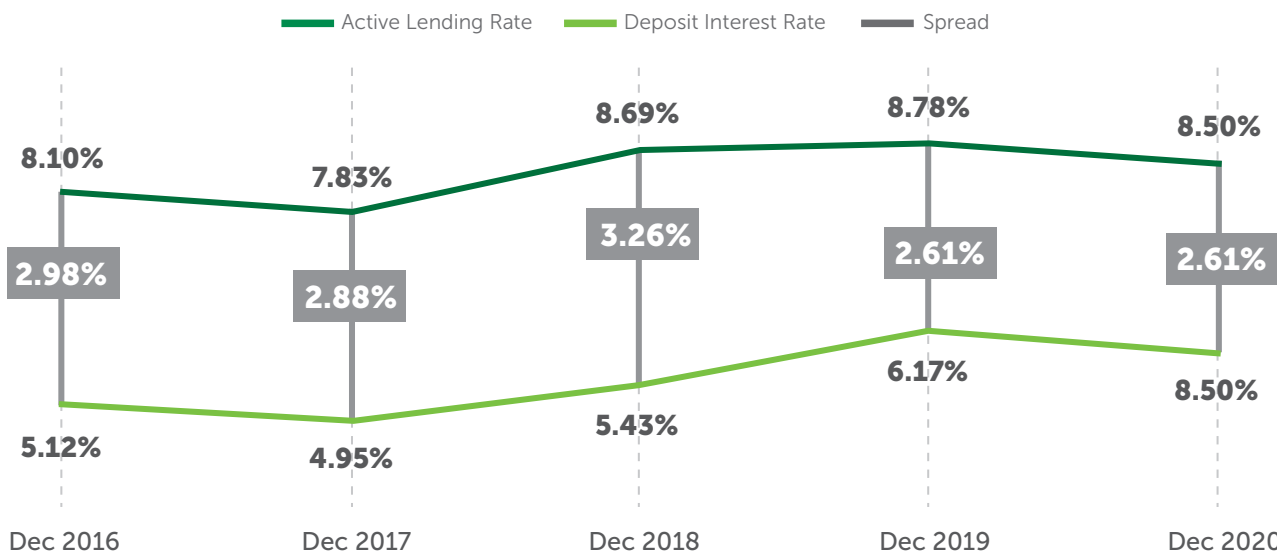
#### Normative

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

#### Group

Indicator	Compliance regarding the limit
PFC Coverage Days	✓

### Evolution of Referential Rates



Produbanco's balance sheet structure maintained the same conservative trend on the asset and liability side and allowed potential fluctuations in interest rates to have a reduced impact on the financial margin and equity value. Given a variation of 100 basis points in the rates, the sensitivity was 3.49% and 1.47%, respectively; both indicators are considerably below the established internal limits.

In its constant practice of mitigating financial risk and complying with all regulatory requirements, in 2020 Produbanco prepared and updated the documentation regarding market risk and liquidity—mainly manuals, methodologies, stress scenarios, technical notes, and contingency plans—in accordance with an organized scheme and a solid technical base that takes as a reference the best international practices, thereby strengthening the already existing system of internal control and monitoring of these risks. In addition, it strengthened

its early warning and threshold system to warn of any deviation in risk appetite.

### Market Risk Indicators

#### Normative

Indicator	Compliance regarding the limit
Sensitivity to Equity	✓
Sensitivity to Financial Margins	✓

#### Group

Indicator	Compliance regarding the limit
Interest rate risk in the investment portfolio	✓
Interest rate risk in bank ledger	✓

continues on the next page

## Market Risk Indicators (continued)

### Internal

Indicator	Compliance regarding the limit
Exposure by counterpart of the investment portfolio	✓
Exposure by type of instrument	✓

## Credit Risk

Produbanco offered its clients financial relief options as of March 2020, considering the effects of the lockdown.

For personal loans, housing, microcredit, small, and medium-sized companies, the payment of three installments was deferred without additional surcharges. In the case of credit cards, a two-month grace period was granted, a period within which the account statement reflected a minimum payment of USD 0.00. Clients who did not need to opt for this benefit could contact any of the service channels to express their non-acceptance of the deferral. Starting in July, once the term of the first deferral had concluded, new analyses were carried out of what the clients required with the aim of agreeing on modifications to payment conditions.

The actions carried out allowed a satisfactory control of credit risk. For the non-commercial portfolio, the main lines of action and management levers were: the analysis and preparation of the COVID credit policy; updating of product sheets according to the determination of profiles and conditions for consumer products; risk modeling by segmentation and follow-up strategy for credit card quotas; mapping and sensitivity analysis of the portfolio of individuals by levels of economic activity, and adjustments in processes and procedures for the non-commercial portfolio such as deferrals, novations, refinancing, or COVID restructuring.

The business credit unit focused on understanding the particular impact of each of the customers in the segment in order to propose a solution that would be consistent with the dynamics of the sector, with its financial situation, and with the prospects for recovery of its business; in this manner, we were able to contribute to the stability of the economic and commercial structure of our clients, maintaining jobs, and strengthening long-term relationships. At the same time, the financing needs of strategic sectors that required immediate credit lines to combat the health emergency were met, and credit facilities were granted that had special and flexible conditions to support the economic reactivation of clients and consequently the country.

In this year, seeking to take our commitment to sustainability and social responsibility to the next level, once the SARAS analysis of the commercial loan portfolio was

concluded, an even more challenging project began: to analyze and implement tools and methodologies that would allow measuring the impact of our portfolio on the climate, social, and economic factors. The results derived from here will lead us, in the medium term, to enhance those positive effects and mitigate the negative ones. With this important contribution, we are part of the commitments assumed as signatories of the *Principles of Responsible Banking* and the *Collective Commitment to Climate Action* initiative.

Another of the priorities of the year was the deepening of credit operations control and the constant monitoring of our clients with a preventive approach. The objective was to generate immediate responses to the various regulations issued by control entities, while at the same time providing the Bank's administration with timely information for making decisions regarding credit risk management.

The closeness with the regulators and trade associations, mainly Asobanca, was constant and essential to align criteria and effectively face the regulatory changes that were required in the face of the economic situation of the country.

Regarding preventive monitoring, the traditional scheme was deepened through a closer review of the situation of commercial clients reflected in compliance with the covenants that they maintain with Produbanco and their historical payment behavior.

In addition, in particular, the generation of a diversity of projected scenarios

regarding non-performing loans, and the provisioning requirements and coverage, became one of the main tools for the respective adjustments to the strategy.

Regarding the collection of monies for the People Segment, an accompaniment campaign was carried out to understand the real situation of the clients and guide them towards financial relief for the payment of their loans. The collection management model was based on the efficient administration of the consumer segment portfolio in order to achieve financial solutions for the customer. To this end, communication channels, policies, procedures, credit technology, and overdue portfolio control were combined in accordance with current regulations in the context of the health emergency.

By the fourth quarter of 2020, the *Credit Force* application was put into production, whose objective is to automate the collection process in a comprehensive manner, and thus achieve productivity and efficiency by relying on state-of-the-art technology and applying the best practices in the industry, with targeted actions to the client.

Regarding the management of recovery of the cases of Business Banking, the strategy of approach, one by one, to the clients was deepened. Together with the Business and Credit teams, a proactive analysis was carried out that allowed reaching agreements to adjust to the original conditions.



## Credit Risk Indicators

### Normative

Indicator	Compliance regarding the limit
Limits of Regulatory Credit	✓

### Group

Indicator	Compliance regarding the limit
Index of Concentration of 25 Major Debtors	✓

### Internal

Indicator	Compliance regarding the limit
Limits of Internal Concentration	✓

## Reputational Risk

The year 2020 was a year of consolidation of reputational risk management thanks to the correct application of policies, procedures, methodologies complemented with the monitoring of early warning indicators, crisis alert protocols, and application of action plans in light of the events presented. This entire scheme is intended to protect the image and continue to strengthen the corporate reputation of the Bank and its subsidiaries.

Reputational risk management was fundamentally based on strengthening the risk culture for which an emphasis was placed on education and training at various levels of the Bank. Similarly, work was done on adjusting and updating the communication protocols and alerts for reputational risk events in accordance with the reality and requirements of each of the subsystems identified in the Organization.

Reputational Risk coordination supports its management in two subsystems: the first, the use of digital marketing through which social networks are monitored, and the second, the services of an external company that, in addition to monitoring social networks, does a comprehensive review of brand mentions across the digital world.

During 2020, the Reputational Risk team contributed significantly to the prompt resolution of customer concerns and requirements, which arose due to the adjustments made in some processes because of the pandemic.

## Operational Risk

Risk control was strengthened in critical processes and in others that, without being so, are an essential complement to the Bank's operation. As a result of the analyses carried out, the assessment of their level of risk and the definition of mitigation measures for those with medium and high levels was obtained. The proposed mitigants were monitored until their fulfillment; in this way, it was ensured

that the identified risk was managed in a timely and adequate manner.

Operational risk management was complemented through constant monitoring of early warning indicators (KRI - Key Risk Indicators) set forth by the corresponding managers.

The operational risk management process is based on a strong internal risk culture established in the Bank through various mechanisms (such as e-learning courses complemented with face-to-face training for the co-managers of the various processes), and reinforced with the dissemination of informative advice on operational risk and business continuity issues in the institutional channel *AIDía*.

As part of the institutional digital transformation, the analysis capacity of the comprehensive risk management unit was reinforced with the creation of a new coordination focused on strengthening, in a specialized way, the management of technological risk.

Exposure to operational risk remained stable throughout the year and within internal limits.

## Business Continuity

Produbanco's business continuity management system is based mainly on the ISO 22301 standard in addition to what is stipulated in Ecuadorian legislation. International best practices are constantly

reviewed to incorporate them into all related methodologies, policies, and procedures.

During 2020, business continuity management focused on managing the pandemic by activating a permanent Emergency Operations Center - COE in Ecuador (Centro de Operaciones de Emergencia) and developing a specific contingency plan for this emergency. The plan considered the possible scenarios, new work modalities, prioritization of services towards the client, specific policies, necessary infrastructure, support services, technological services necessary to face the emergency, dependence on suppliers, and internal and external communication systems. Special care was taken to include measures to protect the health of clients and Bank employees.

Since the main objective of any business continuity management system is to keep critical processes operational, and since technology is the cornerstone of said system, regular tests of all contingency and continuity schemes were carried out in order to ensure that these were ready in case their activation was made necessary. In addition, the technological systems linked to teleworking and the uninterrupted operation of all physical and electronic channels that customers could access, were strengthened. In 2020, 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 leveraged on contingency plans designed to give them continuity in the face of

events that expose them to a possible stoppage. In 2020, all plans were reviewed and updated, including new scenarios such as COVID-19.

Modeling

During the year, the quantitative models for the identification of unusual transactions for individuals and legal entities were updated. Likewise, an economic-financial model was built to support the Compliance Unit in its analysis of *Know Your Market*. Finally, a methodology was developed to update the survey of the risk matrix for Money Laundering.

Security of the Information

The most relevant milestone in 2020 was the updating of the Information Security Management System (Sistema de Gestión de Seguridad de la Información - SGSI). This contains an analysis of the internal and external context of the institution complemented with a CAME analysis (Correct, Adapt, Maintain, Explore – Corregir, Afrontar, Mantener, Explotar), which served as input for the definition of the strategies that consolidate the SGSI.

The methodology for surveying the inventory of information assets and their associated risks was designed through workshops with the interested parties of the following processes defined in the scope of the SGSI: *Origination of Credit Operations and Liquidity Management, Portfolio, and Currency Negotiation*.

The Information Security team continued with the implementation and execution of projects, such as the putting into production of "use cases" of the *Security Operations Center - SOC*, and thus more vulnerability monitoring consoles were added, which will contribute to the generation of proactive responses before they become incidents.

Social engineering exercises were carried out in order to generate a solid security culture that seeks to ensure that Bank officials are not victims of attacks through methods such as phishing.

*Ethical Hacking* exercises were carried out on the Apps and the critical infrastructure of the Bank, with the application of methodologies such as *Black Box* (black box without any type of authentication) and *Gray Box* (gray box with defined authentication).

Within the cyber security framework, as an integral part of information security, internal scans of the infrastructure, forensic investigations, support in incidents, evaluation of the SWIFT environment, and support for the recertification of the subsidiary Ecuapayphone C.A., were carried out.

At the same time, the Cyber security team constantly monitored the various weaknesses detected in security incidents at the financial, local, international, and regional industry levels.

We continued promoting awareness of the safety culture within the Institution and the various stakeholders. Communications were sent to officials and clients with various recommendations to better protect their

sensitive information. Along these lines, annual training was also carried out for all employees of the Bank and its subsidiaries with the help of e-learning tools.

As part of the information security projects, the final phase of the *Identity and Access Management IAM* solution was reached to more efficiently manage the life cycle of an employee from their entry into the Bank until their final separation. In addition, the implementation of a process that allows the activities of infrastructure or service administrators (privileged identities) to be monitored in real time is in the production stage.

The Information Security Committee held regular meetings throughout the year.

Through these, the Bank ratified the priority that the administration has defined for the protection of its own information assets and those of its clients.

Finally, the result of the Institutional Risk Matrix with a cut-off as of December 2020 is presented. It is noteworthy to mention that in Liquidity and Market Risks, after marking upward trends towards the middle of the year due to the effects of the pandemic, at the close of 2020, a considerable improvement was observed in the two types of risk mentioned.

Produbanco maintained its low residual risk profile at the end of the year.

Institutional Risk Matrix			
Risk Type	Qualification of Residual Risk	Trend	
Liquidity	Low	Downward	↓
Market	Low	Downward	↓
Credit	Moderate	Downward	↓
Operational, Business Continuity, and Information Security	Low	Downward	↓
Business	Low	Stable	→
Reputational	Low	Stable	→
Residual Risk Profile	Low Risk	Downward	↓

Francisco Martínez Henares  
Chairman of the Committee of Comprehensive Risk Management



# Report of Activities on the Prevention of Asset Laundering and Financing of Crimes such as Terrorism

As of December 31, 2020

In accordance with the provisions of numeral 10.5 of article 10, Section IV, Chapter VI, Title IX of Book I of the Codification of the Regulations of the Superintendency of Banks, this Report discloses the main actions that were carried out throughout 2020 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.

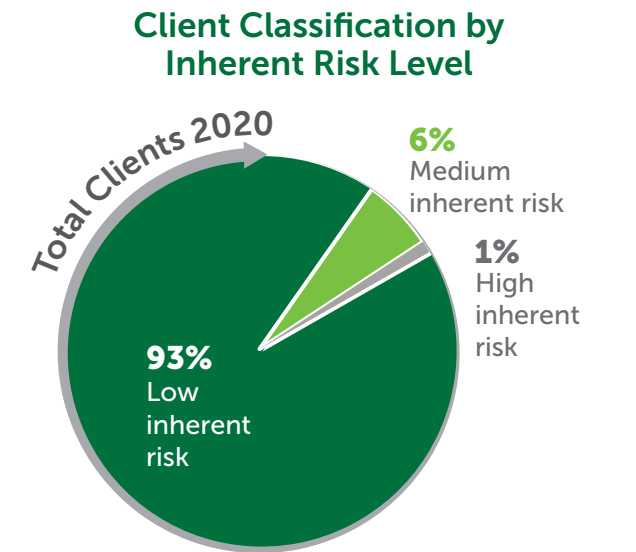
Produbanco’s operations and businesses are carried out within ethical and control standards, prioritizing sound banking practices and the prevention of money laundering and the financing of crimes such as terrorism in order to achieve commercial goals. To this end, and during 2020, the new control standard for the *Risk Management of Money Laundering and Financing of Crimes such as Terrorism (ARLAFDT – Administración de Riesgos de Lavado de Activos y Financiamiento de Delitos como el Terrorismo)*, was implemented, established by the Superintendency of Banks, which consists of a system of stages and elements of money laundering risk management. The procedures and rules of conduct on the application of all control mechanisms and instruments, which are mandatory for all employees, are contemplated in the ARLAFDT Procedures Manual and in the Code of Ethics and Conduct approved respectively by the Board of Directors and the Board of Shareholders of the Bank.

The policies and procedures applied by the Bank and its Subsidiaries comply with the legal framework and the ARLAFDT manual, referred to above.

## Knowledge of the Client and Market - Monitoring

During 2020, client-monitoring processes were carried out with the specialized technological tool *Monitor Plus*, which allows the generation of alerts through the establishment of risk factors and specific control conditions, with special emphasis on significant variations between the transactionality carried out and the transactional and/or behavioral profile declared by the client. This makes it possible to identify the possible typologies in application of the money laundering and terrorist financing risk methodology. It is worth mentioning that the analysis is carried out based on the integral relationship with the client, i.e. by consolidating all the active products and services that it maintains at the date of review, which generates alerts that are prioritized according to their relevance and impact.

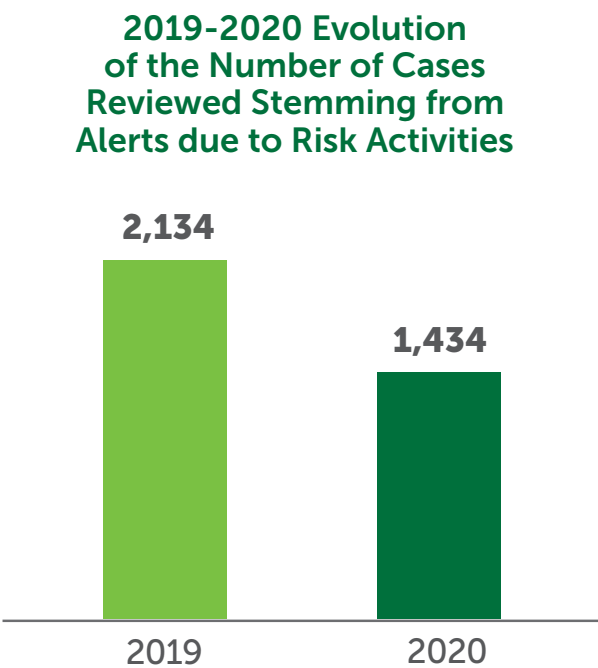
As part of the execution of the processes described above, and in compliance with the *Know Your Customer* policy, between January and December, 7,442 cases were opened that required additional analysis by the Business Units.



The above graph shows that of the total number of clients, 1% register a high inherent risk level, 6% a medium risk level, and 93% a low risk level.

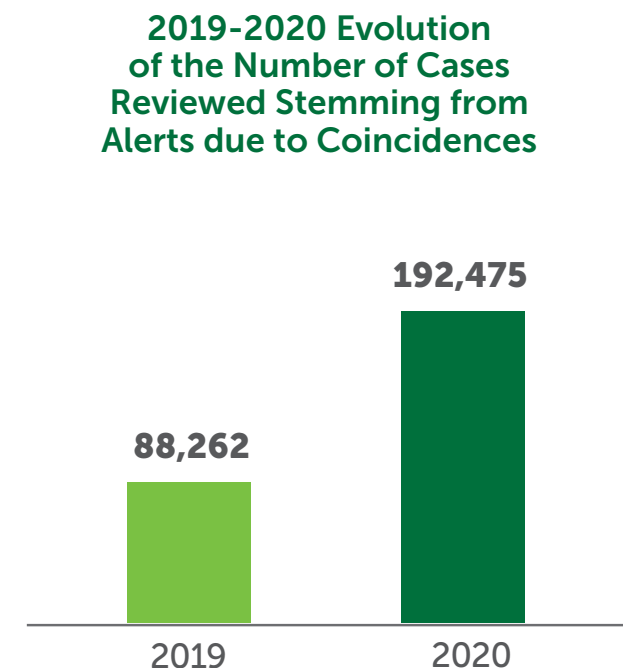
In addition, the main technological system of the Bank (banking core) allows maintaining preventive controls online, among which are:

- **Alerts for Risk Activities:** Prior to the registration, creation, and acceptance of the commercial relationship with a client, there are controls that identify and alert in reference to market segments and/or activities considered as high risk, according to international standards related to the prevention of money laundering of assets. As a result of applying this control, 1,434 cases were reviewed during 2020 versus 2,134 in 2019.



On the other hand, 70,945 records were entered and updated in the internal control lists and in the international reserved lists 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. Said process was carried out through the interfaces connected to the Bank’s main technological system.

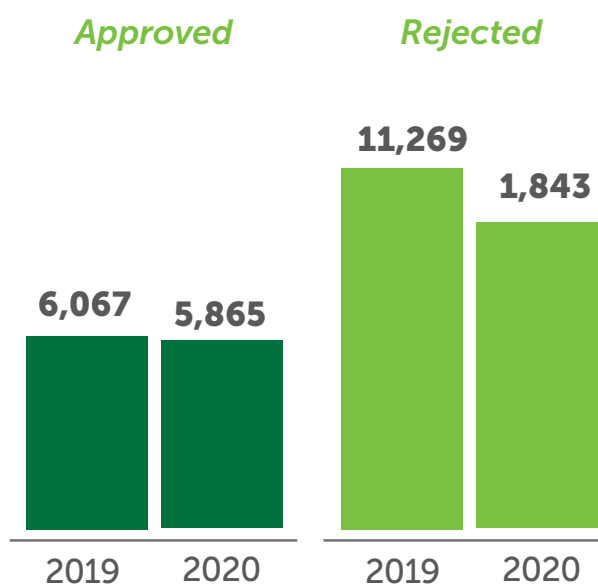
- **Alerts for Coincidences:** It consists of raising alerts when there are coincidences between the names of people who are in internal control lists and/or international reserved lists, Politically Exposed Persons (PEPs), among others; therefore, they require compliance with a due diligence process. In 2020, 192,475 cases were presented under these conditions as compared to 88,262 in 2019.



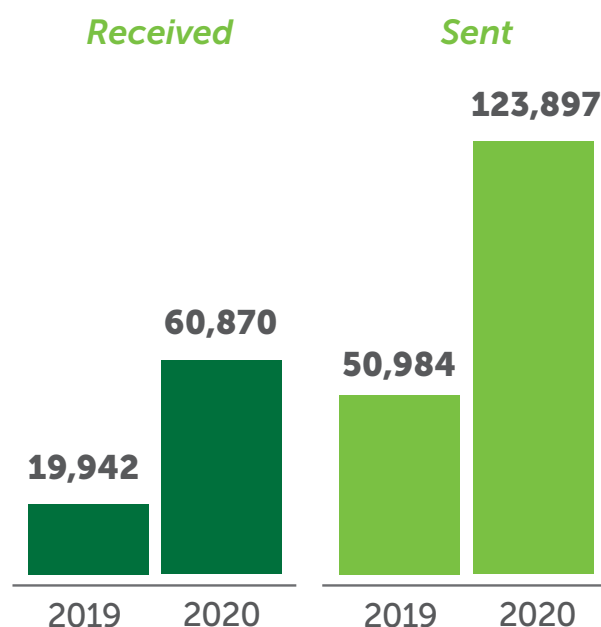
The control processes applied are:

- **Client Creation or Updating:** Are approval flows generated towards the Compliance Unit due to coincidences with lists, which must be detracted or rejected. Under this concept, 7,708 were analyzed, after which the start of the commercial relationship with 5,865 clients was authorized.
- **Alerts for International Transfers Sent and Received:** Are generated automatically when matches are detected with lists of originator, beneficiary, and high-risk countries that appear in the text of the SWIFT message. During the year, 184,767 cases corresponding to transfers received (60,870 flows) and transfers sent (123,897 flows) were reviewed.

### 2019-2020 Evolution of Clients Approved and Rejected During the Process of Creation or Updating



### 2019-2020 Evolution of Transfer Flows Received and Sent for Alerts due to Coincidences



### Know your Correspondent Policy

In 2020, a call was received from Compliance Officers of certain correspondent banks meeting a total of 127 requirements for Expanded Due Diligence, Certification of the *USA Patriot Act*, and *Client Knowledge* forms from local and foreign banks and institutions. SWIFT codes were also exchanged for sending or receiving funds, and specific queries from correspondent banks were answered regarding information on clients with funds transfers to or from abroad.

Likewise, the *Client Knowledge 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 aimed at preventing money laundering and financing crimes such as terrorism.

### Know your Employee Policy

The Department of People and Culture instituted in 2020 an automatic system for the entry and updating of data of the Bank's personnel and its Subsidiaries, information that is reviewed and approved by the direct leadership of the employee through flows. In addition, a centralized information system was implemented that allows the online collection of employee data, with which the administration of this information is made more efficient.

In the period between January and December, following the methodology based on risk factors, 1,709 information requests were notified to employees as a result of the monitoring of extra-role transactions.

Finally, control procedures were applied on the information and documentation pertinent to the process of hiring and termination of the staff.

### Training

Produbanco recognizes the importance of training and understands that employees are essential in the prevention and detection of money laundering and financing of crimes such as terrorism.

For this reason, all employees receive training on the provisions related to the ARLAFDT according to the role they are going to perform through induction programs designed for this purpose. Employees, who maintain direct contact with clients and those who manage relationships with clients defined as having a higher risk, receive periodic reintroduction in this matter.

The Compliance Unit, in coordination with the Department of People and Culture, this year provided induction training to 130 new employees and re-induction training to 3,094 employees through a technological platform, as established in internal policies and regulations of ARLAFDT.

### Creation of New Products

The Compliance Unit participated in the process of launching new products in order to maintain control standards for the prevention of money laundering and financing of crimes such as terrorism.

### Validation of Existing Controls

The policies, controls, and procedures applied under the ARLAFDT guidelines, seek due diligence to prevent the use of the Institution by criminal elements for illegal purposes. Said actions include, among other aspects, knowledge of the client and their operations with the Bank; the definition of market segments;



segmentation of customers, products, channels, and jurisdictions; transaction monitoring; training of personnel, and reports of suspicious operations to the competent authorities.

### New Controls for the Prevention of Money Laundering

The Compliance Officer was in charge of the design and implementation of the system to ensure that Bank transactions are not used as a means for money laundering and financing of crimes, in accordance with the regulations for *Risk Management of Money Laundering and Financing of Crimes such as Terrorism (ARLAFDT)* issued in May by the Superintendency of Banks.

To ensure that the controls are applied effectively, there are elements and instruments such as warning signals; the segmentation of risk factors in relation to the market; monitoring, electronic consolidation, and technological infrastructure for the analysis of operations; training for all Bank employees; preservation of documents; disclosure of information; control bodies, and the responsibilities of the Bank's organizational structure.

### Reports to Organizations and Competent Authorities

Throughout this year, the monthly *Reports of Operations that Exceed the Threshold* (RESU – Operaciones que Superan el Umbral) were sent to the Financial and Economic Analysis Unit (UAFE – Unidad de

Análisis Financiero y Económico), within the deadlines provided in the regulations. Before proceeding with the delivery of said information, the general validation controls were carried out. In the same manner, each month the information related to the following structures was sent to the Superintendency of Banks of Ecuador:

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

The Compliance Officer reported 68 cases considered as unjustified unusual transactions to the Financial and Economic Analysis Unit; in the same manner, 1,268 notices from control bodies (SB, UAFE, Prosecutor's Office, among others) about investigation processes were answered.

### Internal Procedures of the Compliance Unit

In compliance with the legal framework, Banco de la Producción S.A. Produbanco implemented the *Risk Management Program for Money Laundering and Financing of Crimes such as Terrorism (ARLAFDT)*, as part of the organizational culture. This is based on stages, elements, and instruments disseminated through policies and procedures aimed at the prevention, detection, and reporting of operations related to money laundering and the financing of crimes such as terrorism, and in compliance with the provisions of the *Organic Law of Prevention, Detection*

*and Eradication of the Crime of Money Laundering and Financing of Crimes (Ley Orgánica de Prevención, Detección y Erradicación del Delito de Lavado de Activos y del Financiamiento de Delitos)*, its stipulations and other regulations issued by the Superintendency of Banks.

Under this line, an automatic control was maintained that keeps a record of the description of the source of income in the system, of cash deposits that equal or exceed USD 5,000, or that in their monthly accrual, equal or exceed USD 10,000. This 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 386 clients who, due to the characteristics of their business or industry, handle a high volume of cash. As a result of the analysis carried out, said clients signed an *Annual Legal Funds Form*, thanks to which the daily operating process could be more agile.

They actively participated in meetings with the UAFE and with the Technical Committee of Compliance Officers of the Ecuadorian Association of Banks (Asobanca), in which recommendations and proposals for improvement of regulations, instructions and training, among others, were discussed.

### Internal and External Audits, Regulators and Others

The review of compliance with the control mechanisms designed and implemented in

the Compliance Unit within the framework of the ARLAFDT, was included within the internal and external audit processes as well as in that of various control agencies as part of a specific verification program, according to the following detail:

- **Internal Audit:** Know Your Customer Policy - Customer Transactional Monitoring; Report of Unusual and Unjustified Economic Transactions or Operations; Know Your Employee Policy - Extra Role Transaction Monitoring; Structure, Obligations, and Functions of the Board of Directors, Compliance Committee, Unit and Compliance Officer; Foreign Account Tax Compliance Act - FATCA, Standard Common Reporting driven by the Organization for Economic Co-operation and Development - OECD (Common Reporting Standard - CRS), and advancement of the Annual Work Plan of the Compliance officer.
- **External Audit:** The firm KPMG will present in the year 2021, the results of its review as of December 31, 2020. Presently, the legal provisions related to money laundering and financing of crimes such as terrorism are in the process of evaluation and compliance.

### Conclusions

The activities carried out in 2020 by the Compliance Unit were carried out in accordance with the Annual Work Plan known and approved by the Compliance Committee and the Board of Directors through the monthly reports presented by

the Compliance Officer subject to legal provisions that protect their administration.

Similarly, during the year, improvements were established in the processes for the

prevention of money laundering and the financing of crimes such as terrorism, which reinforced the internal control structure of Banco de la Producción S.A. Produbanco.



Diego Mosquera Pesantes  
Chairman of the Compliance Committee



Aníbal Eduardo Salazar Buenaño  
Compliance Officer

## Report of the Financial User Service Unit

### Service Quality Program

*Our essence is the Customer:* it is the corporate value that leverages our Service Quality Program.

The objective of developing the *Customer Experience* program at Produbanco is to understand the client's perspective regarding their experience with the Bank, to identify the key levers to act, transform, and improve their interaction at the various points of contact.

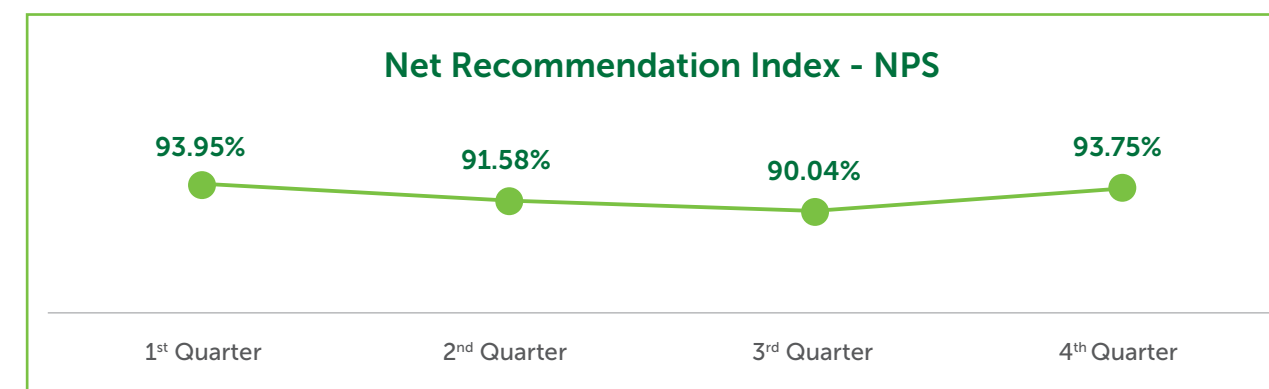
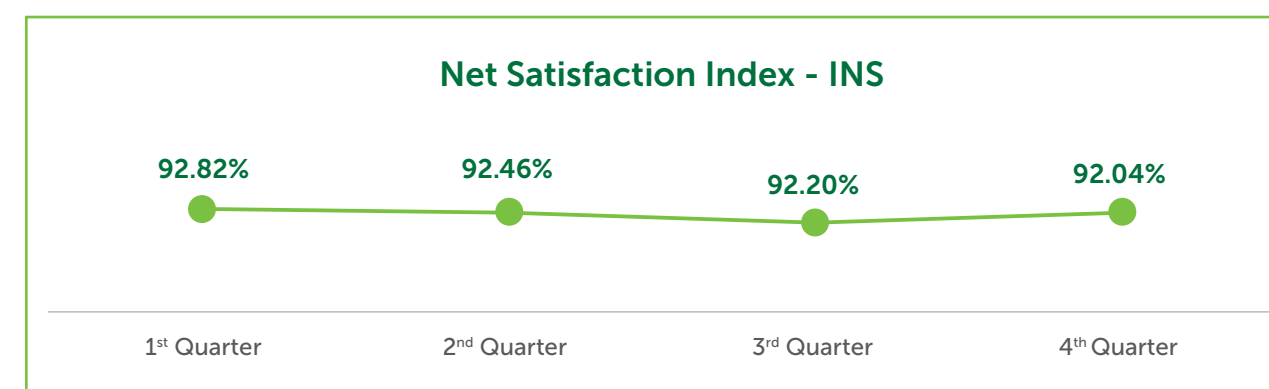
As part of the client-centered strategy,

the program includes the management of the *Voice of the Client and the Employee*, which has allowed us to know their opinion through various tools such as welcome surveys, loyalty surveys, and the quality measurement of service at the various points of service.

El desarrollo de acciones continuas enfocadas en transformar la experiencia del cliente ha contribuido a generar un desempeño positivo de los indicadores y alcanzar los resultados esperados.

El indicador anual fue del 93.8%

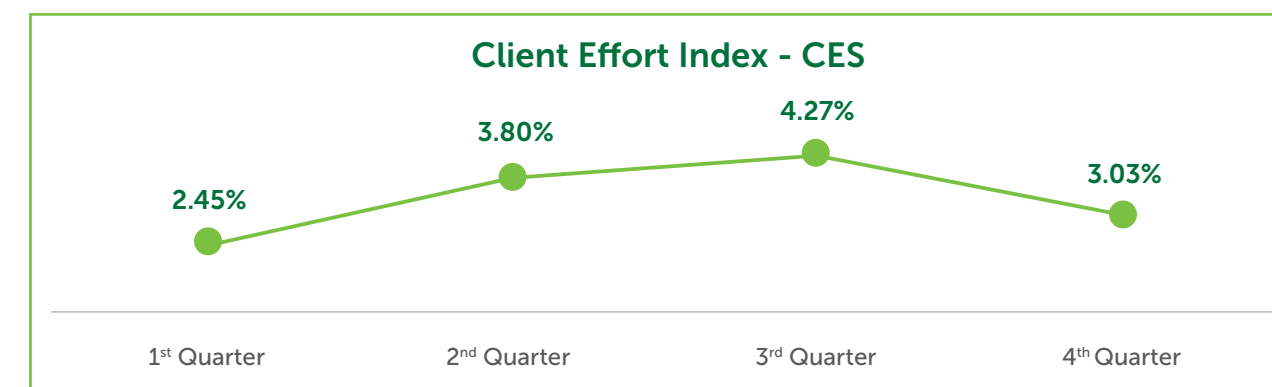
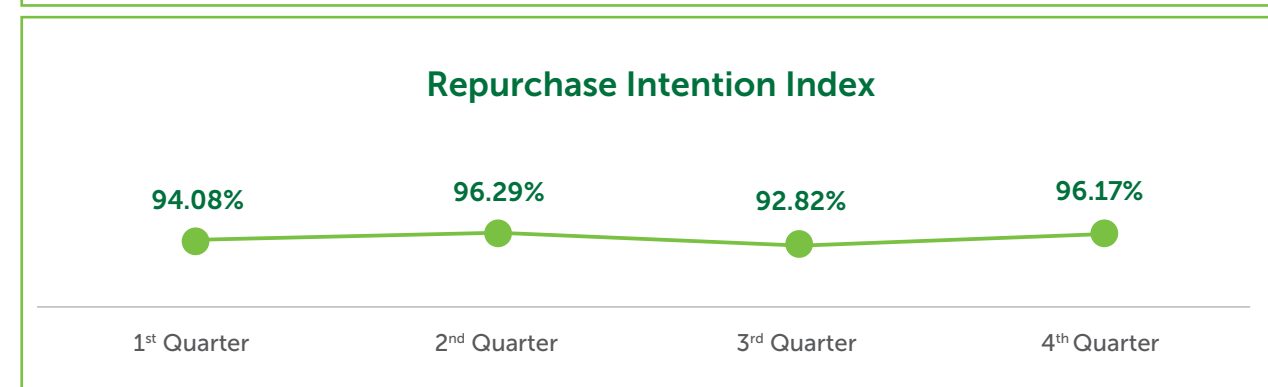
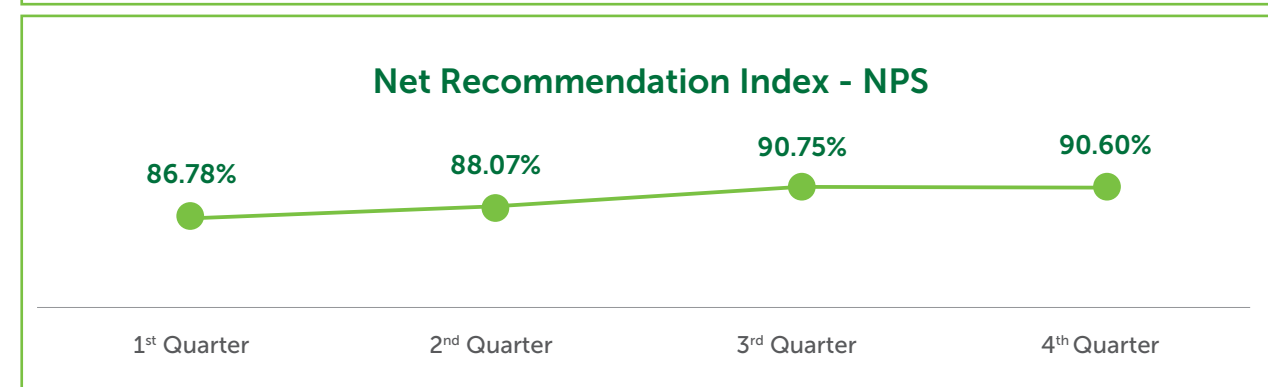
### Welcome Survey



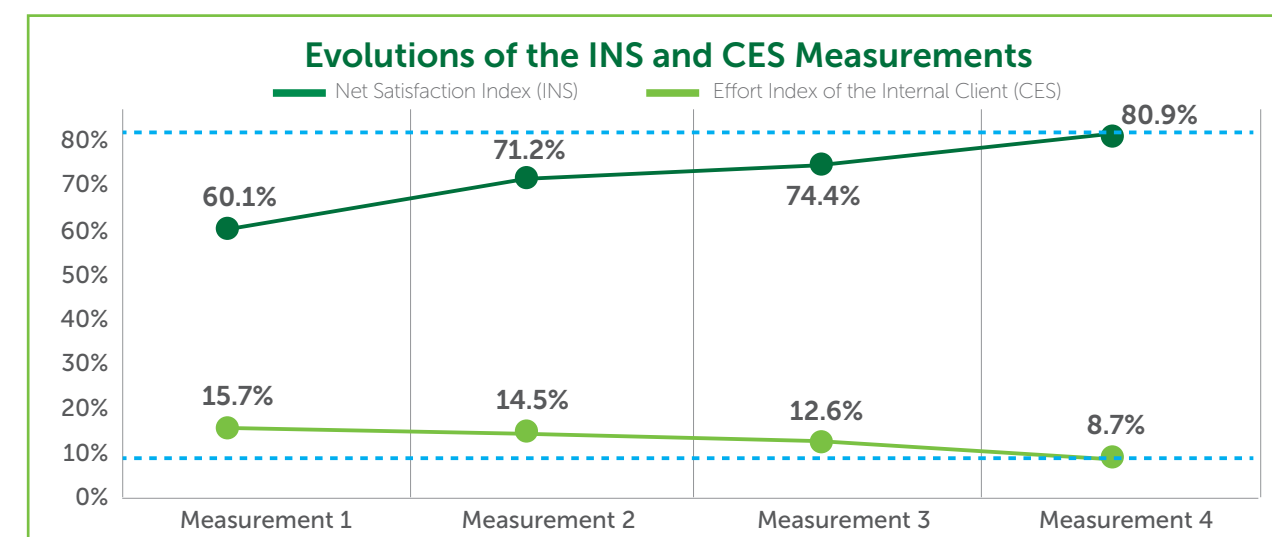
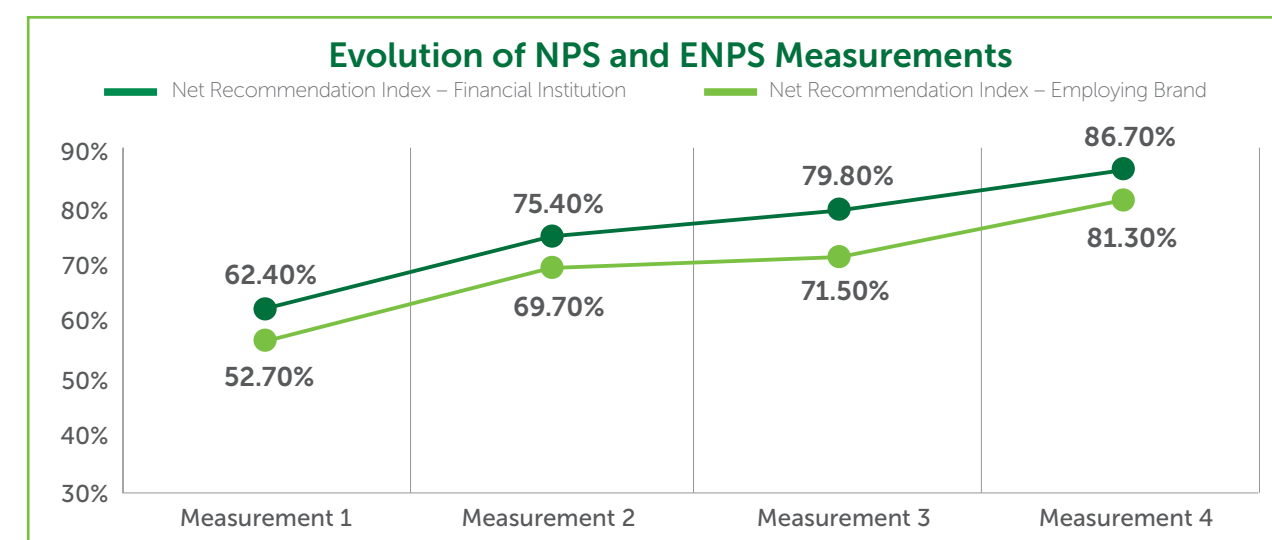




## Loyalty Survey



## Internal Client



Ekos Customer Satisfaction Index

IESC Produbanco 88.70%		IESC Sector 81.30%	
Indicators	Results		
	Produbanco	Sector Average	
Overall satisfaction	90.90%	85.00%	
Value perception (satisfaction / price ratio)	84.20%	77.80%	
Intention of recommendation	85.90%	75.10%	
Intent to repurchase	90,30%	79.60%	
Loyalty	57.70%	42.30%	
Problem rate (% without problems)	91.90%	89.30%	
Problem communication rate (%)	95.80%	74.9%	
Problem solving rate (%)	60.90%	61.20%	

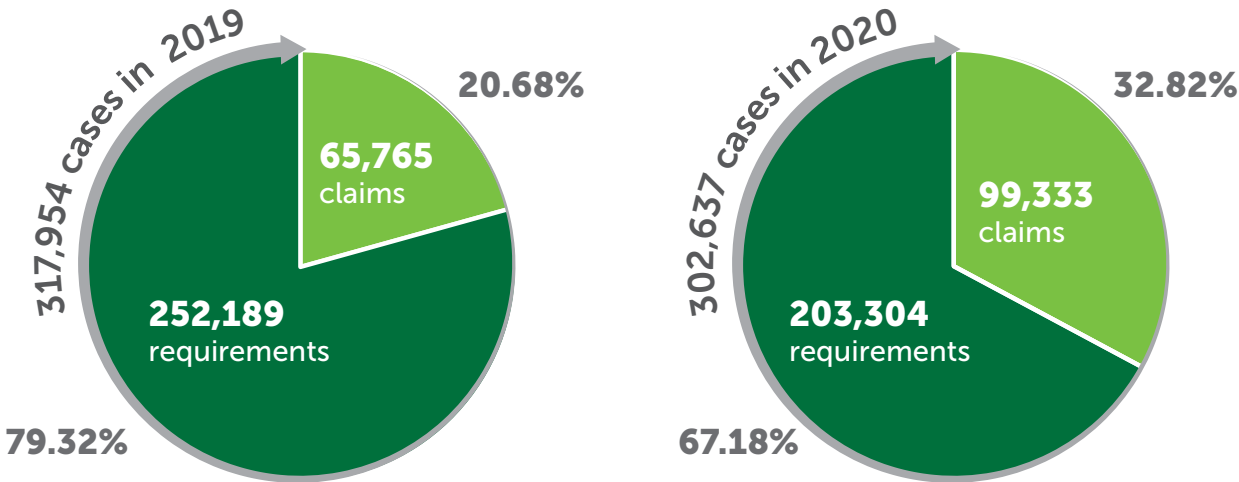
As a relevant 2020 milestone, we can mention that, for the fourth consecutive year, Produbanco is ranked first in the measurement of the Ekos Customer Satisfaction Index, Best Bank in Service Quality, Large Banks Category, carried out by the Ekos Corporation.

Transforming the relationship models with our clients through the strengthening of the organizational culture with a clear orientation to generate memorable experiences for clients is one of the main objectives of Produbanco.

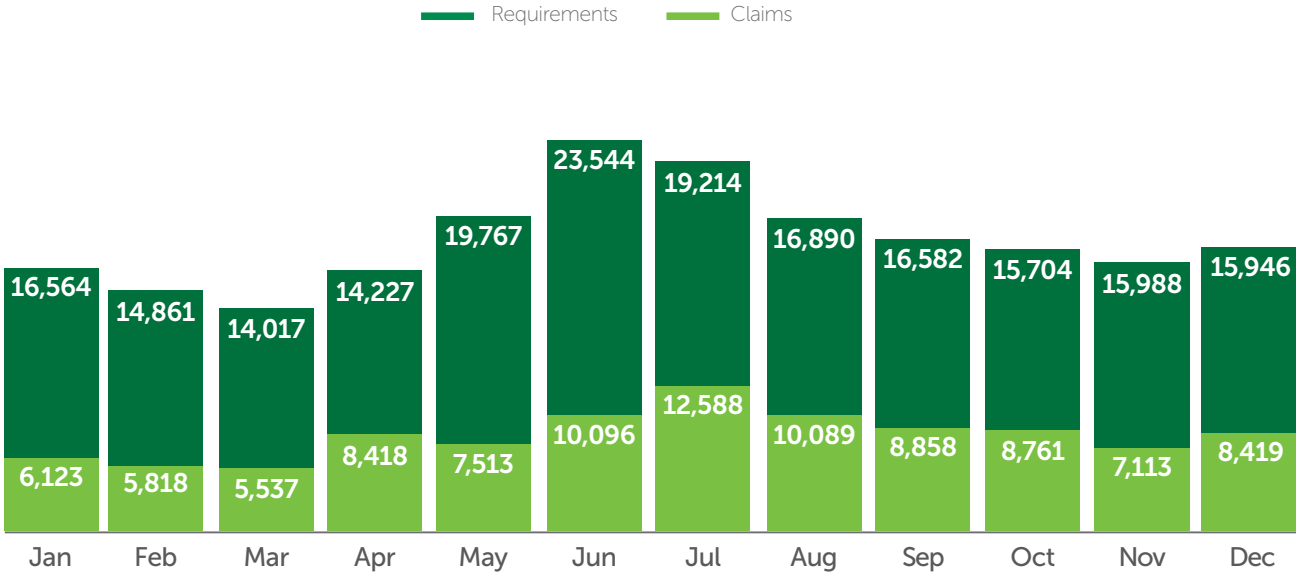
Service to the Financial User: Requirements and Claims

In 2020, we processed 302,637 cases, 4.82% less than in 2019, in which we registered 317,954.

Of the total number of cases received in the year, 203,304 (67.18%) were requests, and 99,333 (32.82%) were claims.



Number of Requirements and Claims - 2020





Of the 302,637 requirements and claims processed in 2020, 97.37% (294,679 cases) received a solution. Of these, 91.71% were resolved within the maximum time established by legal regulations.

Operability

The *Requirements and Claims* tool processes *incoming* cases at three levels:

Level 1

The client's first contact with the Bank. Cases are resolved directly by ProContacto managers, during the same phone call, before going to the Contact Center.

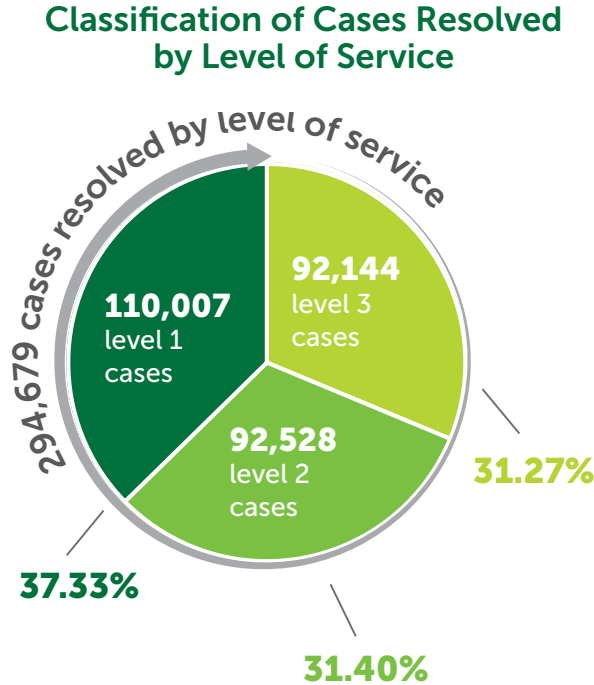
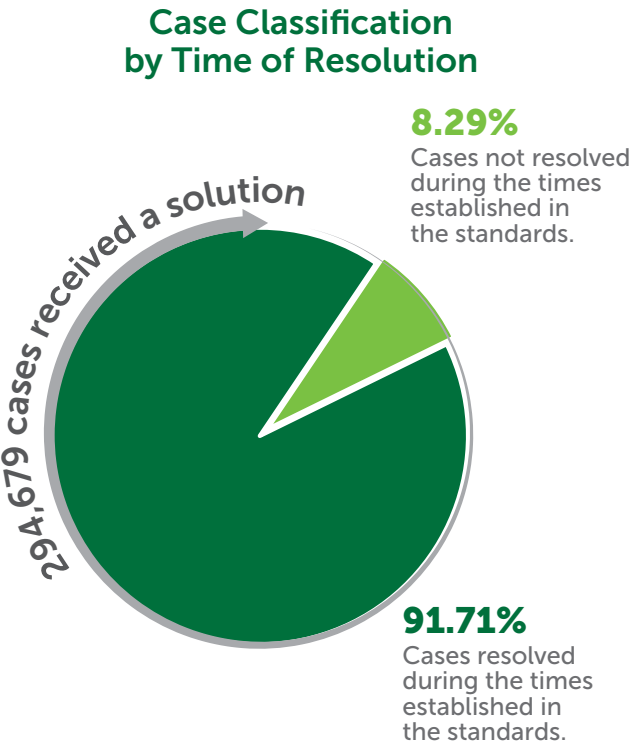
Level 2

The cases are transferred to the Financial User Service area to be managed and solved.

Level 3

Within this level are the cases that, due to their characteristics, require for their solution the contribution of more specialized personnel, such as those from the operational areas and Technology.

The 294,679 cases resolved in 2020 were treated according to the following levels of care:



2020 Claims with Economic Impact

Consumptions not recognized with credit cards	28.70%
Cost reversals	9.11%
Consumptions not recognized with Visa Debit	8.14%
Consumptions not processed with Visa Debit	5.89%
Debit and local / foreign non-payment	4.92%

2020 Claims with no Economic Impact

Non-processed online Produbanco transactions	6.47%
Credit card duplicated and non-processed payments	4.72%
Visa Debit not accepted in establishments	4.12%
Non-conformity with information provided	3.81%
Non-registered, incorrectly performed deposits	3.23%

2020 Requirements with Greater Incidence

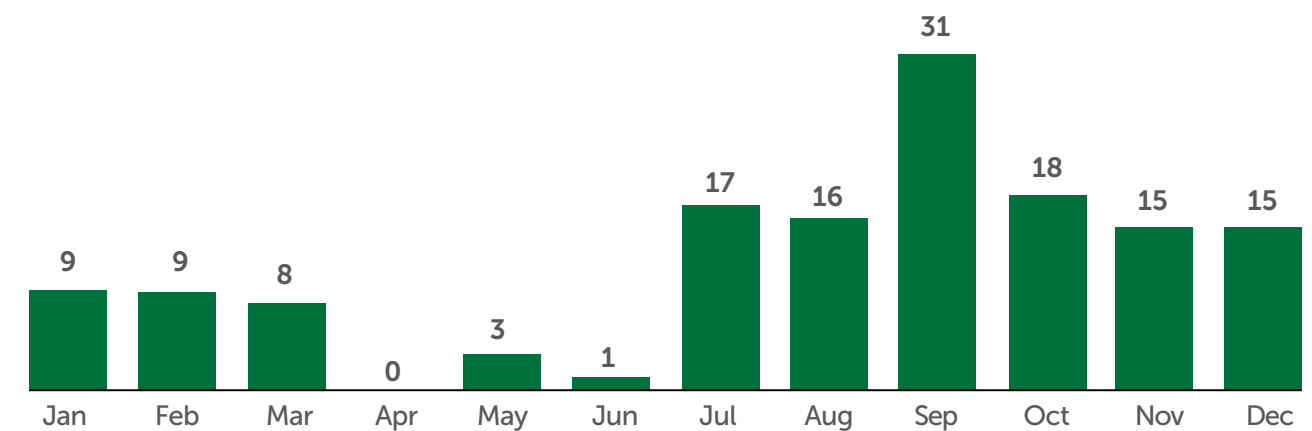
Unblocking of user and resetting of web password	19.14%
Insurance	12.91%
Credit card debt renewal	6.97%
Credit card replacement	6.59%
Credit card activation	6.55%
Debit and credit note backup	6.09%
Account activation	5.12%
be debit card replacement	2.72%
Visa Debit replacement, delivery, activation	2.61%
Certification of payments performed	2.11%

### Breakdown of Unprocessed Produbanco enlínea Transactions

Transaction	Cases	% Participation
Error when making payments	1,195	18.58%
Error when making transfers	957	14.88%
Notifications not sent	673	10.47%
Access to produbanco.com	651	10.12%
Mobile application	573	8.91%
Error upon enrolling	460	7.15%
Transaction could not be processed	456	7.09%
Error creating beneficiary	329	5.12%
Failed entries	256	3.98%
Error displaying movements	232	3.61%
Token via SMS not received	124	1.93%
Error when parameterizing quotas	95	1.48%
Scheduled payments not processed	89	1.38%
Account statement not available	58	0.90%
Error updating data	57	0.89%
Error on making cash advances	46	0.72%
Error getting Produbanco enlínea	45	0.70%
Error entering additional user	43	0.67%
Error on redemption of miles	36	0.56%
Error generating images	30	0.47%
Image does not belong to user	23	0.36%
Error prepaying / refinancing web	2	0.03%

### Number of Notifications from the Superintendency of Banks Regarding Customer Claims

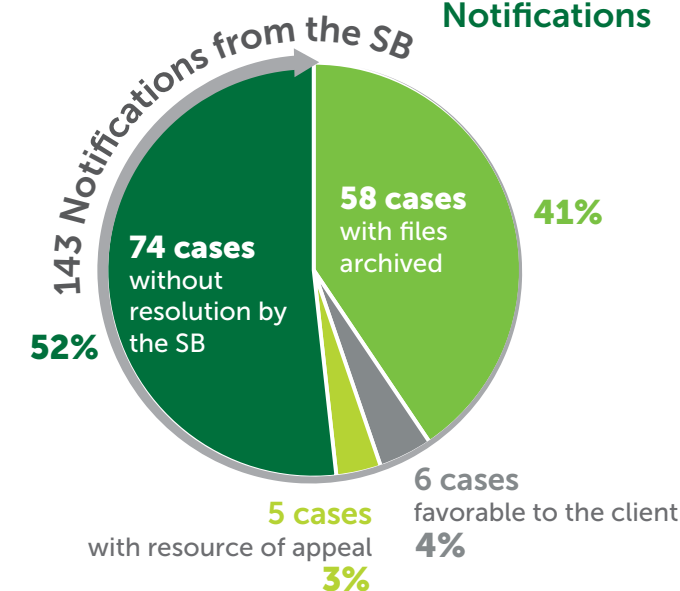
143 notifications



### Resolution of Notifications

During 2020, Produbanco received a total of 143 notifications related to customer claims from the control body.

The chart located above shows the monthly number of notifications. In the image on the left, we can see the classification of notifications by type of resolution obtained.



*[Signature]*

María Dolores Prócel  
Financial User Service Unit



## Report of the Ethics Committee and Corporate Social Responsibility

Next, the 2020 Annual Activities Report is presented, in which the following is detailed: the Sustainability and Social Responsibility Approach of the various projects, objectives, and actions, as well as the management of the Ethics Line and the actions implemented in response to the health emergency caused by COVID-19.

### Development of the Sustainable Banking Program

At Produbanco, our sustainability plan places us today as an agent of change in Sustainable Development, a pillar that goes beyond a statement, since we seek to incorporate ourselves naturally in the operations of all areas as part of our business model with a crosscutting strategy in everything we do. We have consolidated several initiatives that contribute to society in the economic, social, and environmental fields as part of the “Commitment to sustainability and social responsibility” pillar of our 2019-2023 Strategic Plan..

To accompany Produbanco in its sustainable management, the *Sustainable Banking* program was developed with the support of *System B Ecuador* and *Sitawi*, principal consultant in sustainable finance in the region. In this manner, opportunities were identified in the social, environmental, and governance areas to design concrete actions that improve management, thus integrating sustainability across the board.

Based on the *Principles for Responsible Banking* and other best practices in the Environmental and Social Risk

Management System (SARAS – Sistema de Administración de Riesgos Ambientales y Sociales), operational eco-efficiency and green products, as well as international standards such as the *B Impact Assessment* and the *Dow Jones Sustainability Index*, we consolidated a unified action plan, which involves responsible areas and prioritized actions per year, as well as international initiatives or standards and estimated times to implement them.

### Sustainable Culture

En el ámbito sostenible, Produbanco mantiene prácticas internas a favor de la construcción de una sociedad más responsable y amigable con el planeta. También altos estándares en la consolidación del mejor Gobierno Corporativo y Estándares internacionales de bienestar para nuestros colaboradores, así como una cultura de ecoeficiencia.

### Carbon Footprint

The corporate Carbon Footprint was measured in order to quantify and offset its emissions by using methodologies that allow external validation and verification. This allowed Produbanco to obtain the *Carbon Neutrality* certification, internationally recognized and verified by SGS (Société Générale de Surveillance), since it complies with the GHG Protocol and ISO 14064-1: 2006. These references accredit us as the first Ecuadorian banking institution to obtain them.

### Corporate Eco-efficiency and Use of Resources Program

From results obtained from the corporate Carbon Footprint, it was possible to determine the potential for reducing carbon emissions. This allowed Produbanco to prioritize environmental efficiency in different areas and incorporate actions in its corporate eco-efficiency and use of resources Program.

### Sustainable Clients

During 2020, we deepened and consolidated our ARAS System. We made progress with the environmental and social analysis (A&S – Análisis Ambiental y Social) of commercial portfolio clients, and we implemented improvements in our processes and policies.

In this first year, and as a signatory of the *Principles for Responsible Banking*, Produbanco introduced the application of the UNEP FI tool, which allows determining positive and negative impacts of the portfolio with a social, environmental, and economic focus. It is also complemented by methodologies used internationally to support clients, aligning them with the Sustainable Development Goals and the Paris Climate Accord.

Due to our active participation and leadership on the topic of the Impact Analysis Tool, we were invited by UNEP FI to participate in several international webinars and comment on our experience and progress. We are

currently part of the *Core Group, Partnership for Carbon Accounting Financial (PCAF)*, a program that develops methodologies to measure the carbon footprint of different types of Assets in financial institutions (IFI), thus collaborating in this way in the construction of methodologies that will be used worldwide.

### Green Lines Program

With this reference, Produbanco generated a unique offer of financial products and services that after four years from the beginning of the program, the portfolio of *Green Credit* (Crédito Verde) and its projects, distributed among the Amazonian, Highlands, and Coastal regions, reached disbursements of USD 219 million.

The program operates with each client identifying and measuring environmental and social risks shared through a technical report, which details opportunities for improvement. In addition, training and support programs were generated for SMEs and large companies in various sectors. In the coming months, programs will be developed to accompany clients on their path towards more sustainable management.

During the year 2020, the *Green Account* has had an important growth, especially due to its ease of use in the *Digital Account*. There are 17,542 accounts and a balance of USD 9,130,649 million.

## Social Management and Financial User

To generate an impact on various users and segments of the population, Produbanco promotes, in an agile manner, access to the financial system through its channels. This is closely linked to a fundamental value such as our ethical and responsible behavior, accompanied by a robust financial education program. During 2020, the *Financial Education Program, Learn from Produbanco* (Programa de Educación Financiera Aprende de Produbanco), continues to grow, and now registers more than 7,353 beneficiaries that bring together children, youth, adults, and older adults, both in urban and rural areas of Ecuador.

## Principles for Responsible Banking

Within an action and implementation plan for the next 4 years, and by identifying Produbanco as a leader in sustainable financing in Ecuador, we are committed to supporting the implementation of the *Principles for Responsible Banking*; this initiative brings together 40% of the banking industry worldwide.

Finally, during this last year, Produbanco was selected with three other banks to co-lead Principle 3, related to clients and stakeholders, a space in which we have shared best practices and actions taken. At the regional level, and in order to support banks in Latin America and the Caribbean with experiences that allow them to advance in their implementation, Produbanco

participated in the forum *"Impact and goal-setting"* (Impacto y fijación de objetivos), as part of a series of dialogues organized by UNEP FI. Produbanco was selected and presented as a relevant case from the region.

## Representation of South America on the Banking Board

In August 2020, through an election process, the UNEP FI Board of Directors was established as the governing body in charge of ensuring and promoting compliance with the Principles for Responsible Banking, as well as monitoring their progress and ensuring their effective implementation. In this sense, and out of a total of 21 nominations, our Executive President Ricardo Cuesta D. obtained one of the executive positions representing South America. The foregoing represents an important international recognition for the Organization and especially Ricardo Cuesta D. for his commitment to sustainability, his career, and experience in these matters.

## Board of Directors of the Ecuadorian Consortium for Social Responsibility and Sustainability (CERES –Consorcio Ecuatoriano para la Responsabilidad Social y Sostenibilidad)

At the General Assembly of Members, held on March 5, 2020, the CERES Board of Directors was formed for the next two years. Produbanco was selected as one of the members of this Board of Directors.

## Global Compact Directory-Ecuador Network (Red Ecuador)

Produbanco was elected as a member of the Board of this organization for the next two years, thus consolidating its commitment to promote a more sustainable environment with various stakeholders in society.

## Sustainability Activations

As part of the sustainability activations, during 2020, Produbanco developed the following:

**Active participation in forums and programs** organized by CERES, Global Pact, Ecuadorian American Chamber, and Academia.

**Global Environment Day.** On June 5th, several activities were held to commemorate it. It promoted awareness: the importance of biodiversity conservation, the rescue of planet habitats, and the changes in habits at the personal level.

**Initiative "Leaders for the SDGs".** The Ecuador Global Compact network promoted the Leaders for the SDGs initiative, which "proposes that adhered organizations lead a Sustainable Development Goal under working groups that promote dialogue, knowledge management, the exchange of good practices, and the creation of projects correlated with the SDGs". In this framework, we participated in four tables of SDG 5, SDG 7, SDG 9, and SDG 13, leading one of them.

**SDG Table 17.** In order to support a reactivation, based on a model that addresses social challenges, stimulates economic activity, and accelerates the transition towards a more resilient and sustainable society, in conjunction with the Ecuador Global Compact and other business members of the network, Produbanco leads this roundtable and has promoted a program to generate alliances for the sustainable reactivation of SMEs.

**Climate Business Roundtables.** Within the framework of the commitments and contributions determined at the National Level and the Paris Climate Accord, Produbanco participated with its Green Lines Program in the First Climate Business Roundtable organized by UNDP - Ecuador (United Nations Development Program - Ecuador).

**Sustainable Ecuador.** During the second edition of the *Sustainable Ecuador Leaders Summit* event, organized by the United Nations - Ecuador and the Global Pact Red Ecuador, the main stakeholders in the country signed their commitment to the United Nations 2030 Agenda. Produbanco was represented by its Executive President at the official opening of the event as well as on different panels. Produbanco participated in the symbolic signing of the Pact for Business Integrity (Pacto por la Integridad Empresarial) as well as in adhering to the *Principles for the Empowerment of Women* (Principios para el Empoderamiento de las Mujeres).

**Green Account Recognition.** Produbanco received the *"Recognition of Good Practices"* (Reconocimiento a las Buenas



Prácticas) from Pacto Global Ecuador for its Green Account, as this is the first account offered in Ecuador with this approach.

## Corporate Social Responsibility

In line with the commitment to contribute to the sustainable progress of society, our Social Responsibility approach is centered on two components: *"Community Development"*, for which we maintain financial and volunteer support for the *Fundación Su Cambio por el Cambio* (Your Change for Change Foundation). In the second component, *"Caring for Our Planet"* (Cuidando Nuestro Planeta), we focus on the Initiative *"Conserving our water sources - Moorlands of Ecuador"* (Conservando nuestras fuentes de agua – Páramos de Ecuador).

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

In Quito and Guaranda, we maintain our commitment to financial sponsorship, administrative support, and volunteering for this Foundation. Produbanco considers this activity a fundamental contribution to the development and continuity of its projects.

Among other support activities, we continued with the delivery of recycled material to authorized recyclers as a result of the internal waste separation campaign. The economic amount generated by this activity is delivered to the Foundation so that it can be managed according to its needs. During the months of March through June, the priority actions to support the Foundation

focused on an emerging program for the management of food kits for the beneficiary and his/her family, as well as equipment and technology resources that made it possible to structure the virtual remote educational model of the *Su Cambio por el Cambio* Educational Institution, through which children and adolescents have been able to continue their education.

Since the beginning of the pandemic, the Produbanco medical team has provided assistance to beneficiaries and their families in cases of alert, with tests to detect the coronavirus and with the delivery of protective equipment, such as: masks, gloves, and visors.

For the sixth consecutive year, Produbanco carried out the *"Sponsor 2020"* campaign, motivating Bank employees and its Subsidiaries to sponsor a child or older adult from the Quito and Guaranda programs through a gift that was delivered at Christmas. In addition, 140 food baskets were delivered to the families of the projects mainly with products from the project's own production.

Thanks to the fact that Produbanco exceeded the goal in the blood donation drive "500 pints for change" (500 pintas por el cambio), the Foundation was awarded USD 5,000 for the acquisition of two ovens that will operate in the renovated Bakery workshop of the Southern Project in Quito. Additional resources were also managed for the purchase of a new truck for the Community Development Project at San Simón, Guaranda.

### Páramos (Moorlands) Initiative

Produbanco, in alliance with Conservation International Ecuador (CI Ecuador), signed

an agreement with the Ministry of the Environment and Water and the Sustainable Environmental Investment Fund (FIAS – Fondo de Inversión Ambiental Sostenible) for the conservation of the country's páramos (moorlands). The agreement was signed within the framework of the alliance between Produbanco and CI - Ecuador to promote the program called *"Conservando nuestras fuentes de agua: los páramos de Ecuador"* (Conserving our water sources: the moorlands of Ecuador). This innovative alliance between the State, the private sector, and Civil Society, seeks to protect the moorlands and water sources for the sustainable development of local communities. As part of the Initiative, CI - Ecuador has provided technical advice, monitoring, and reporting on the management of incentives in moorland areas.

### Responsible Management During the Health Emergency

Considering itself as a Responsible Institution, Produbanco, during this pandemic, took measures for the wellbeing of its employees and clients. These actions, products, and digital channels, provide important support to the economy and the population in general. Working capital and commercial loans will be earmarked in due course for micro, small, and medium-sized enterprises, as well as women-owned MSMEs. In addition, noteworthy is the use of the *Payphone* service, which allows, in small commercial transactions, collecting and/or paying digitally.

Regarding the actions taken, in terms of social responsibility, and mainly focused on the current health emergency, Produbanco

joined the *For All* (Por Todos) initiative, which generated effective and timely solutions to support the most vulnerable subjects and thus overcome the COVID-19 crisis in the country. The initiative operates through a trust administered by FIDEVAL and audited by PricewaterhouseCoopers. It allocated 100% of its funds to food and basic necessities for the most vulnerable, such as with equipment, medical tests, respiratory assistance support equipment, protection measures, and support for health workers. Concurrently, support was provided to the Ecuadorian Red Cross to enable channels through which both, companies and individuals, could contribute resources that reinforce the humanitarian management of said institution.

### Other Contributions

Within the social sphere, Produbanco's 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 made as appropriate as possible. In the Atucucho community, through the medical dispensary that we sponsor, it is possible to continue providing general medical services to the population of children, adolescents, and adults in that sector. Every month we deliver a supply of food produced by the *Fundación Su Cambio por el Cambio* to the *San Juan de Dios Shelter* (Albergue San Juan de Dios); and in the gerontological field, we also provide financial support to the *San José Foundation*. Through the *El Apuntador* organization, we support the promotion of Ecuadorian art, thus promoting the creativity and projection of artists.

## Investment

Below, we detail the investments performed:

During 2020, we invested USD 2,354,567, of which 64% was allocated to support the health emergency; 18% to the social, educational, and health sectors; 9% to the conservation of moorlands; 4% to the Financial Education Program, and 5% to other projects and sectors.

<b>Your Change for Change Foundation</b>	<b>350,024</b>	<b>14.9%</b>
Sponsorship	328,752	
Christmas Program Support	5,099	
Support Activities	6,283	
Enseña Ecuador (Teach Ecuador)	9,890	
<b>Moorlands Initiative</b>	<b>217,500</b>	<b>9.2%</b>
Moorlands Conservation Program	200,000	
Conservation International	17,500	
<b>Environment and Sustainability</b>	<b>92,109</b>	<b>3.9%</b>
Carbon and Water Footprint Measurement / Certification	23,209	
Alliances (Global Compact, UNEP FI, CERES)	10,900	
SDG Leadership Table 17	6,000	
Water Contest	5,500	
Sustainable Banking Program	44,500	
Women in STEM Entrepreneurship Program - USFQ	2,000	
<b>Other Social Sponsors</b>	<b>82,055</b>	<b>3.5%</b>
Telethons	-	
El Apuntador Foundation	18,000	
Fudrine (cerebral palsy)	24,000	
Atucucho (medical dispensary)	14,400	
San José Foundation (gerontological care)	4,800	
Resurgere Foundation	3,500	
San Juan de Dios Shelter	3,555	
Christmas 2020 (SOLCA Cuenca, Ambato, Atucucho, among others)	4,163	
Other Sponsorships	9,637	
<b>'Aprende' (Learn) Financial Education Program</b>	<b>84,413</b>	<b>3.6%</b>
<b>Sustainability and Social Responsibility Report</b>	<b>28,466</b>	<b>1.2%</b>
<b>Health Emergency Support</b>	<b>1,502,050</b>	<b>63.7%</b>
Fideicomiso 'Por Todos' ('For All' Trust)	1,500,000	
Other Support	2,050	
<b>Total 2020 Investment</b>	<b>2,356,617</b>	<b>100.0%</b>

## Ethics Line

During 2020, important signals of trust were received in the *Ethics Line Channel*, which was evidenced by the greater amount of information received voluntarily on the anonymous intranet site. This allowed for the realization of a more direct and timely management in the solution of the cases, together with the gathering of basic statistics that contributed to decision-making and group solutions.

Forty cases resolved in the first instance were managed with the participation of the members of the Ethics Line Commission. The average time to resolution of the cases was 8.22 days. Among the relevant actions applied to resolve the cases, the following are cited:

- Meeting and follow-up with department leaders to reinforce leadership styles and feedback to the team.
- Feedback to department heads and definition of comprehensive development plans.
- Compliance with policies and procedures.
- Work environment studies, dissemination of results, and formulation of improvement plans.

In April 2020, the update to the Code of Ethics and Conduct, approved by the Shareholders' Meeting, was published.

## Response to the Health Crisis due to COVID-19

In accordance with the plans established for unforeseen and contingency situations, the Emergency Committee was activated to face the pandemic and comply with the government guidelines coming from the control bodies and those belonging to the Bank.

Emergency telecommuting, medical prevention, personal protection programs, and sanitation programs were implemented. Likewise, the plan for the return to a "new normal" with health protocols and basic guidelines for responsible behavior, and the definition of flexible work to combine productivity with the generation of other workspaces, were also instituted. The *Labor Disconnection Policy* was also prepared, which provides employees with rest and disconnection times during the emergency; this process was accompanied by the "I take care of myself" campaign.

Employees participated in a virtual technology and furnishings fair, aimed at creating suitable environments for teleworking and studying in their homes, along with preferential prices from the respective suppliers.



Diego Mosquera Pesantes  
Chairman of the Ethics Committee and Corporate Social Responsibility



## Report of the Remuneration Committee

In the city of Quito, on March 5 and December 9, 2020, the sessions of the Remuneration Committee were held, in which the following relevant topics were addressed:

1. Compliance with Salary Cap Regulations
2. Salary Increases for 2019 and 2020
3. Performance Management Process – 2019 Period
4. Agency Digitization Process
5. *Smart* Project, Migration of the Salary Scheme from Net to Gross at Produbanco

### Compliance with Salary Cap Regulations

The Committee is responsible for ensuring annual compliance with the regulations regarding current salary caps for the financial sector. The validation carried out in 2020 was performed in compliance with the following established premises:

- The first line can earn a maximum of 40 times the remuneration of the lowest salary position in the Organization (cashier).
- The second line can earn a maximum of 30 times the remuneration of the lowest salary position in the Organization (cashier).
- The first line cannot earn more than twice the level of the second line.

### 2019 and 2020 Salary Increases

The planning and review of salary increases are under the competence of the Compensation Committee as to guarantee their coherence with the country's situation and the main indicators that are related to this variable (inflation, SMV (minimum wage), sectoral, projections by D&T and PwC). The Committee is also in charge of ensuring that a competitive salary policy is maintained, which guarantees equality in our Organization.

The execution of this process was carried out considering the government guidelines regarding minimum and sectoral wages for the year 2019, the application of the methodology of salary increases by performance, such as the *Nine Box* tool, and the performance calibration process.

In 2020, no salary increases were authorized due to the situation generated by the health emergency caused by the pandemic.

### Performance Management Process – 2019 Period

The conclusion of the performance assessment process for the year 2019 was affected by the pandemic and the implementation of one new module of *SuccessFactor* (employee central), which left the tool disabled from June through November. For these reasons, the performance evaluation for 2019 closed with an overall compliance percentage of 72%. In the case of the strategic level, the process was 100% completed.

### Agency Digitization Process

In line with the digital transformation process and the needs of clients, Produbanco continued in 2020 with the digitization of eight agencies in the cities of Quito and Guayaquil.

As a result of the effects of the pandemic on the consumption habits of our clients, the transactionality in agencies registered a decrease, which is why optimizations were carried out in the operations of Produbanco and the subsidiary Externalización de Servicios S.A. Exsersa.

As a result of this process, around 137 positions were optimized: 77 from Produbanco and 60 corresponding to Exsersa. Forty-one employees were relocated to other jobs, and 67 employees were disbanded who, had an *outplacement* process aimed at guaranteeing a very dignified and respectful dismissal.

### *Smart* Project, Migration of the Salary Scheme from Net to Gross at Produbanco

After a detailed analysis of the salary market and review of the future remuneration strategy, the Administration's proposal for Produbanco to migrate from a net to gross salary compensation scheme was presented to the Committee, since it is the only company within the financial group that maintains the net salary compensation modality.

The action plan for migration will be implemented onward from January 1, 2021, with the guarantee that all employees will continue to receive the same monthly income. The new scheme will also provide greater wage competitiveness along with an adequate adjustment to market conditions.



Karla Icaza Meneses  
President Remunerations Committee

# Subsidiaries

## Externalización de Servicios S.A. Exsersa



This subsidiary continued in 2020 with its strategy to promote the complementary network of PagoÁgil services. Strategic alliances were created and strengthened with business clients whose connection to the ServiPagos transactional switch made it possible for the collection of the different services to spread throughout the Ecuadorian territory and to reduce dependence on the revenues of Externalización de Servicios S.A. Exsersa to those generated by ServiPagos agencies.

The PagoÁgil channel increased the number of service points from 7,238 at the end of 2019, to 12,026 at the end of 2020, which represents a 66% growth.

For its part, the ServiPagos branch network closed the year with 50 agencies nationwide. Of these, three agencies were inaugurated this year in Quito: Quitumbe, Puerta del Sol, and Multiplaza Los Chillos.

The restrictions on mobility as a result of the pandemic influenced the decrease in transactionality of the ServiPagos agencies, which had an impact on the profitability of 2020. On the other hand, we registered a significant increase in the PagoÁgil points, which thanks to being located in small businesses and stores in neighborhoods and remote points, contributed to the community during the health emergency

by putting banking services within the reach of homes.

At the end of the year, the total income of Externalización de Servicios S.A. Exsersa amounted to USD 13 million, an amount 23% lower than the USD 16.9 million reached in 2019.

Channel	% Participation for 2019	% Participation for 2020
ServiPagos Agencies	44.08%	35.00%
PagoÁgil Points	36.75%	47.90%
Teller Window Servicing	13.28%	9.00%
Automatic Teller Machines	4.63%	3.60%
Others	1.26%	4.50%



## Protramites Trámites Profesionales S.A.

The year 2020 was deeply marked by COVID-19, which seriously affected the Ecuadorian economy and society. Protramites Trámites Profesionales S.A., a subsidiary in charge of managing the overdue portfolio of the People and Virtual Segments and the recovery of the offset portfolio of all Produbanco segments, was not immune to the ravages caused by the pandemic and was a witness of one of its impacts, namely the large volumes of portfolio in arrears that it had to attend to.

The uncertainty in this environment collapsed plans and projections. Despite this, all efforts were made to achieve the best performance with the available means and thus meet the Bank's expectations. At the end of the year, an overdue portfolio ratio of 2.69% was registered, lower than the average of the four largest banks in the country.

On the other hand, the adoption of the new Collections by Credit Force collection system was scheduled for April 2020, an application aligned with Grupo Promerica standards. However, it could not be put into production on the date set until October due to the mandatory confinement imposed by the country's authorities between the months of March and June. Collections means a paradigm shift in collection management, moving from a specialized management by product and operation, to a global management of the client in default, in which a solution is offered that is perfectly adapted to each individual. In addition, the new tool takes us to the next level in the field of business intelligence and opens up numerous application paths,

which were hardly explored this year. At the end of 2020, the new system reached the stabilization phase and the learning curve for the collection team.

The Early Arrears (Mora Temprana) team played a very important role this year, as it was in charge of making the first contact with clients who were in default as a result of the pandemic, responsible for registering their situation and offering them light financial relief solutions. This area was the one that inaugurated the new collection system, which managed to fit in with the existing automatic dialer. For its part, Medium Arrears (Mora Media) was in charge of complying with the Organic Law of Humanitarian Support to combat the health crisis derived from COVID-19 (Ley Orgánica de Apoyo Humanitario para combatir la crisis sanitaria derivada del COVID-19), in force until November 12, 2020, which aimed to provide financial solutions to the clients affected by the pandemic, carrying out a case-by-case analysis and giving them all the facilities so that they could get ahead of such a complex situation. Advanced Arrears (Mora Avanzada) was able to successfully overcome the difficulties that the market and the country's situation imposed on them, which led to a recovery of the offset portfolio of close to USD 10 million.

The Legal Procedures team did not stop its work despite the pandemic: it forged ahead with the limitations imposed by the market and it established itself as a strong line of revenue for the subsidiary within an optimal work environment generating stability and opportunities.





## EcuaPayphone C.A.

The Ecuadorian venture *PayPhone*, founded as a company in Cuenca in 2014, was born as a mobile payment solution for making purchases through the application, dematerializing the VISA and Mastercard credit or debit cards registered in the smartphone of the user (without having to physically carry them). As of 2015, Produbanco formed an alliance with *PayPhone*, thanks to which it became the first financial institution in the country to have a mobile payment system for its cardholders through an application to make purchases with their smartphones in a completely secure manner. On August 19, 2020, Produbanco incorporated *PayPhone* as a subsidiary under the corporate name EcuaPayphone C.A.



In 2020, within the framework of the pandemic, EcuaPayphone C.A. launched the *PayPhone 3.0* version, a platform for both online payments and collections through the smartphone, aimed at individuals and commercial establishments to carry out transactions.

The new version incorporates a *digital wallet*, which allows receiving and making payments from smartphone to smartphone, without having to charge a card or bank account. In addition, the client can make payments or balance recharging to the

wallet with a VISA or Mastercard credit card from any issuing bank.

Another functionality of *PayPhone 3.0* is the generation of personal *collection links*, quickly and safely. This is a practical solution for entrepreneurs, independent professionals, or individuals who perform sales of some type of product or service online. The link is sent via WhatsApp or through social networks. Similarly, collection links can be used among individuals in order to collect funds or fees for the organization of events of all kinds, whether they are family or friends.

With *PayPhone Business*, businesses, for their part, have the possibility of integrating (at no cost) the *PayPhone* payment button to their businesses in a maximum time of two hours, also to receive payments through QR codes, and to use the *payment link* option as a perfect tool to receive them without the need of a webpage. The link can be sent to a phone in which the application has been downloaded and thus have under control, from the same account, all its branches or salespersons.

The main differentiator of *PayPhone* is the simplicity and speed of use, which seeks to digitize payments and reduce the use of cash, which contributes to our purpose of empowering businesses and people to join the global economy. *PayPhone* is revolutionizing e-commerce by providing its customers with ease to pay online in all kinds of places, even in small businesses. The business that wants to use it can do it quickly, without processing or paperwork. Both the *PayPhone* application and the

*PayPhone Business App* are available for download on a smartphone, through the *App Store* or through *Google Play*.

*PayPhone* closed 2020 with 163,000 users nationwide and 28,000 users abroad. It is important to highlight that this year the growth was around 120,000 new users, including individuals and large businesses.



The *PayPhone App* was in 14,527 establishments at the end of 2020 and is being increasingly accepted in the market, but the most important thing is that everyone who downloads *PayPhone* is automatically a merchant in his/herself, because he/she is capable of accepting payments with a card and a balance from a mobile phone number.

Throughout its trajectory, *PayPhone* has obtained recognitions domestically and abroad, such as: *Digital Bank* in Bogotá, *eCommerce Day* in Guayaquil, and second place in the *Eighth Version of the CLAB-FELABAN 2020 Financial Inclusion and Innovation Award in El Salvador*.

## ProContacto Soluciones Inteligentes S.A.

This subsidiary began its operations on September 1, 2020, after obtaining the approval of the Superintendency of Banks (on August 6 of the same year), which qualifies it as an auxiliary company of the public and private financial sector, in the activity of banking software.



The offices of ProContacto Soluciones Inteligentes S.A. are located in Quito and Guayaquil, in the Produbanco Buildings—Iñaquito and Orellana—respectively. Thirty percent of the subsidiary's employees work in-person, and 70% do so by teleworking from different cities in the country (Quito, Guayaquil, Ibarra, Santo Domingo, Playas, La Libertad, Salinas, Manta, and Cuenca).

The activity of ProContacto Soluciones Inteligentes S.A. covers the provision of auxiliary services for the national financial system related to telephone contact and messaging to customers and users through the integration of computer and telecommunications equipment, services, and systems, within which are included, but not limited to: welcome messages and satisfaction surveys on the service received for new clients, massive and selective campaigns (aimed at a target market) to promote the use of products or services,

marketing of new products or services (either massively or selectively), servicing customer calls that require a solution to certain requirements, customer service in digital interactions, management of claims and requirements, both for individuals and businesses, of all products and services provided by the financial institution through all of the channels it has enabled.

ProContacto Soluciones Inteligentes S.A.'s client is Produbanco, a financial system company legally incorporated under the laws of the Republic of Ecuador, with its main domicile in the city of Quito.

In the last quarter of 2020, the subsidiary carried out several relevant activities, including the following:

- Implementation of the *Speech Analytics* tool that allows greater efficiency in the monitoring and control of telephone calls for the Quality area of ProContacto, which results in optimizing the quality of service.
- Implementation of the WhatsApp channel for service provision of the Produbanco client in the banking emergency services and advice on access to the web channel.
- Implementation of frequently asked questions in the Teams tool for manager consultation processes.
- Redesign of the menu of the interactive voice response system (IVR), in order

to reduce the transfer of calls to the manager in order to unlock or reset the debit card password.



## Business Lines

### Produbanco Customer Care



Operational, consultative, and advisory transactions to clients on products and services of the Bank.  
Service quality management on operations in the various service channels.  
Notification of identified risk events.

- **Inbound Service**  
Assistance in telephone calls, video calls, emails, chats, WhatsApp, and the interactive voice response system (IVR).

### Marketing, Telemarketing, and Sales Management – Produbanco



Telephone management of telemarketing and sales campaigns.  
Delivery of management reports by base delivered.

- **Outbound service:**  
Management of telemarketing campaigns through the interaction of outgoing calls, SMS campaigns, interactive voice response system (IVR), and emails.
- **Product Sales:**  
Marketing of products or services offered by the Bank via telephone and messaging contact to customers and users.



# Management of Business Units

## Corporate Banking

### Corporate Segment

The business cycle of most corporate clients was severely affected during the second quarter of 2020 due to the pandemic. However, during the second half of the year, a gradual recovery began to take place, which marked the dynamics of the supply and business relationship.

Obligations with the public of the Corporate Segment closed at USD 745 million, 3.68% less than in 2019. This amount represented 16.82% of the Bank's total bank deposits. The situation was characterized by stability in demand deposits and a reduction in time deposits of certain clients who used their saved liquidity.

Towards the end of the first semester, the retraction of commerce generated decreases in inventory and suspensions of capital investments, which translated into a strong decrease in the portfolio. During the second semester, an improvement was evidenced that led us to close the year with a marginal increase of USD 1,265 million compared to 2019. The Segment portfolio represented 36.87% of the Bank's total portfolio, and the portfolio origination represented 62.82% of total placements.

Given the extraordinary circumstances of the pandemic, different solutions were generated that benefited 74 clients for a total of USD 258 million (20.42% of the Segment portfolio).

Despite the adverse economic scenario,

quotas increased by 19%, thanks to the greater dynamism registered by clients in the oil sector and certain contractors, which offset the significant drop in products aimed at importers.

This year, we successfully started the pilot tests for the *Confirming* product (*Confirmed Vendor Payment*), which strengthened the offer of products that support the productive chain of our clients with their suppliers, clients, and distributors.

### Business Segment

The Business Segment —composed of clients with annual turnovers of between USD 5 million and USD 25 million— had different degrees of affectation due to the health crisis. Obligations with the public reached USD 250 million (12.30% growth), a performance that benefited from the significant increase in monetary deposits. In relation to the Bank's total deposits, the obligations with the public had a participation of 5.66%.

For its part, the Segment's portfolio closed the year with USD 337 million (0.44% more than in 2019), a figure that represented 11.61% of Produbanco's total placements. The behavior throughout 2020 was essentially one of contraction until the fourth quarter, in which this trend was reversed and there was a notable recovery.

The Business Segment provided support to clients who required it to face the financial impact caused by the coronavirus emergency. Specifically, 56 clients benefited

for an amount of USD 53 million (15.73% of the Segment portfolio).

Finally, committed to the development of our clients, we provided energy efficiency talks in Quito and Guayaquil, whose main theme was *Sustainability as a profitable strategy for your business* (La sostenibilidad como estrategia rentable para tu negocio).

### Institutional Segment

This Segment closed 2020 with a total volume of managed liabilities amounting to USD 631.8 million and with a loan portfolio, mainly focused on insurance companies and financial institutions, which amounted to USD 53.8 million.

The Institutional Segment has 397 institutional clients, among which are: banks; Segment 1 savings and loans cooperatives, insurance companies, public agencies and institutions, securities firms, fund and trust administrators, international organizations, NGOs, and religious congregations.

The nature and size of the positions of this type of client require permanent monitoring of the deposit cycles, rate levels, generation of opportunities, and the participation of Produbanco in comparison with other financial institutions. For this reason, the team of responsible executives is in continuous contact with each one in order to serve them and make available the portfolio of products and solutions to them as developed in accordance with their needs for handling liabilities, transactional solutions, and collection alternatives.

### Correspondents and Multilaterals

During 2020, we received facilities from major foreign entities, including: International Finance Corporation (IFC) of the World Bank group, Interamerican Development Bank Group (IDB), Corporación Andina de Fomento (CAF), and BICSA. In addition to financial resources, these strategic alliances generated advice on various sustainability issues, which were shared with clients.

In total, Produbanco received USD 184.5 million, of which USD 55.5 million came from a syndicated structure led by IDB Invest, in which global and regional banks participated, USD 50 million from IFC, USD 50 million from CAF, and USD 21 million from IDB and IDB Invest.

These resources contributed to the growth of green businesses, to the development of small and medium enterprises, to businesses run by women, and to the strengthening of our clients' foreign trade operations.

In addition, through this team, Produbanco maintains relationships with global and regional banks that allow us to support the business of our exporting and importing clients with letters of credit, guarantees, collaterals, and collections.

### Patrimonial Segment

Clients in this Segment require personalized advice and professional support, which complies with the strictest confidentiality standards, so that both they and their family group are assured the security and



profitability of their assets over time and at the various stages and transitions of their companies and families.

In 2020, we had 1,961 clients in the Patrimonial Segment, distributed in Quito, Guayaquil, Cuenca, and Ambato.

The professionals who service this Segment, in addition to making our portfolio of custom-designed products and services available to clients through a *premium service*, are in charge of providing updated and relevant information on local and international financial markets as an instrument for decision-making. The sum of all these factors has allowed us to maintain the trust of our clients and to build solid and lasting relationships.

## Retail Banking

### People Segment

The focus on attracting new business that we maintained in this Segment, led us to reach more than one million clients, thanks to whose trust we closed 2020 with USD 959 million in savings and USD 825 million in fixed-term certificates of deposit, 14.88% and 8.87% respectively, more than the previous year.

Total portfolio amounted to USD 1,201 million, of which USD 594 million corresponded to credit cards. In addition, loans for USD 204 million were granted (76.37% consumer, 18.44% real estate, 4.61% commercial, and 0.58% corresponding to other types of segments).

During the pandemic, 63,813 clients were benefited with financial credit relief along with 106,927 cardholders. The situation of the health emergency represented an opportunity to promote customer interaction with the Produbanco online channels and especially with the *mobile App*; this generated a considerable increase in the use of our technology channels throughout the year. From January to December, monetary transactions processed through the *mobile App* increased by 157%, and those made in *produbanco.com* by 53%.

During this year, the *Mini Account* and the *Ideal Account* were launched, both products aimed at the underage segment, in order for them to learn about the value of family savings. At the end of 2020, we had 5,200 accounts, with an aggregate balance of USD 764 thousand.

The *Mini Account* is aimed at children up to 12 years of age; it has a didactic, and at the same time, fun digital platform through which they can create savings goals, complete missions to be rewarded, entertain themselves with animations, and also be notified about the movement of their account, all this in order to encourage in a pleasant way, the promotion of a culture of savings.

The *Ideal Account* focuses on the segment of young people between 13 and 17 years of age. They have a debit card and a platform specially designed within the Produbanco App, through which they manage their finances using various features such as creating savings goals, checking account

movements, and money requests, among others.

As part of the savings growth objective, several products were implemented for this purpose. One of them was the so-called *Save at Your Own Pace* (Ahorra a Tu Gusto), which offers the possibility of creating a programmed savings plan, flexible in terms of the destination, term, amount, and frequency of contributions: all characteristics that make the product adapt to different needs. During the year, 14,600 savings plans were opened, and a balance of USD 2.48 million was reached.

Another important solution was to provide customers who only had a credit card, the option to quickly open a savings account from our digital platforms; this was intended to provide more alternatives to increase the customer relationship with the Bank.

Likewise, we maintained service processes to prevent clients from having to physically go to the agencies, including the issuance and renewal of policies by telephone, with which 5,600 investments were managed.

In 2020, the Bank launched the *certificate of deposit with advance interest payment*, a new alternative for investors who need to receive their interest upfront when opening the CD. This product, which can be opened from virtual channels and agencies, reached USD 1.62 million at the end of the year.

A notable project that we carried out was the creation of commercial agreements

with several universities; this resulted in the generation of new businesses focused on the fulfillment of bilateral goals that promote the development of academia. In conjunction with the University of the Americas, 100 students were supported in financing part of their studies; with this, Produbanco ventured into *Educational Loans*, a segment in which it had no presence. Similarly, with the San Francisco de Quito University, special financing plans were designed for the payment of tuition through credit cards, and the *People Who Inspire* (Gente Que Inspira) program was inaugurated, through which scholarships will be awarded every semester to various undergraduate students.

In the automotive field, Produbanco strengthened its strategic alliance with General Motors, which allowed the launching of financing solutions for both light and heavy vehicles.

Produbanco adjusted the auto loan facilities to the new market conditions, thus extending the financing term and increasing the coverage of unemployment insurance in such a way that the end customer has greater security and confidence in making the decision to borrow. Another relevant event was the change in regulations, which reduced the minimum coverage percentage from 150% to 120% for common consumer loans.

Regarding Insurance initiatives, this year the re-launching of campaigns through ATMs stood out, in which different coverage was offered with very low-cost products and at excellent conditions. In February, 17

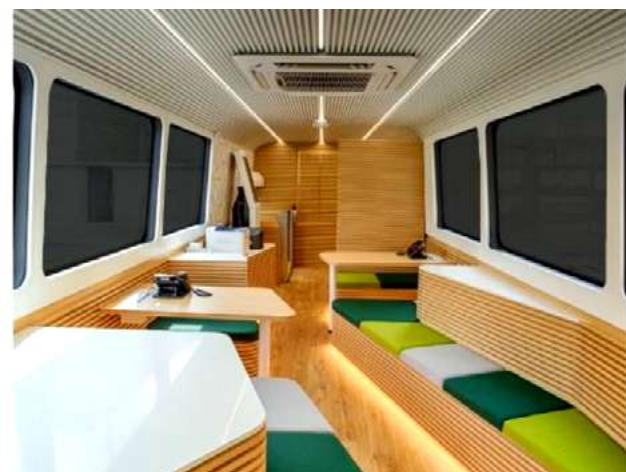
thousand clients contracted for the staple food basket, and in August, approximately 14 thousand clients accepted the unemployment coverage offer. Through [produbanco.com](http://produbanco.com), coverage for online medical consultations was offered, which was acquired by more than 2,000 clients.

The *Mobile Office* for its part, just one month after starting its activities in February 2020, had to temporarily close its doors due to the pandemic; however, in September it resumed its activities and continued to move its services through the streets of the country while offering its various products to companies that make their facilities available so that their employees and customers can be served. One year after its inauguration, the *Mobile Office* has been present in 32 companies and has made 84 visits among the cities of Santo Domingo, General Villamil, and Guayaquil.

As of the date of publication of this Report, the *Mobile Office* continues to be a novelty valued by customers as it allows them to be served within their premises without having to leave their company. We are pleased to say that we have received their congratulations on this initiative.

### be Produbanco

In December 2016, *be Produbanco* was launched, the first 100% digital account in the country designed with the preferences of the *millennial* generation in mind for managing money from smartphones without having to go to an agency in person. After four years, *be Produbanco*



has 149,733 accounts, 66,000 of them active, with an average balance of USD 140 and a concentration of 47.20% in Quito, 31% in Guayaquil, and 3.50% in Ambato.

The *be* customer is different from the traditional one because it is characterized by its frequent use of technological channels, less use of cash, and the realization of 70% of its consumption through online purchases. For this reason, communication is exclusively performed online and consequently, all publications are made on social networks.

Towards the end of the year, we ventured into something new, the sale of insurance for mobile devices through the *App*. The campaign managed to capture the interest of customers, who have requested visits and product quotes.

In order to evaluate the points that require improvement in the *be Produbanco App* and its services, studies were carried out with a foreign consultancy. At the same time, we executed several improvements to the *App*, including the option to update personal data and to export details of account movements.



### Virtual Segment

Considering the globalization of information and the rise of omni-channel access, the latter being one of the institutional strategic guidelines, Virtual Banking was created in 2014 to offer a non-face-to-face customer service model with a preference for the use of digital and technological channels.

The mission of the Virtual Segment is to offer quality products, services, and specialized attention, while marching at the forefront of the financial system in a digital age.

The number of clients reached 437 thousand this year. The strategy was maintained through telephone servicing applied by a team of 26 executives in charge of capturing business through technological channels. As a result of the digital transformation that several agencies had at the national level in 2020, there was significant growth in clients and executives.

During the most critical months of the health crisis, support was provided to clients in their requirements related to accounts and investments under the digital methodology with which this Segment operates.

### Business Center Agency

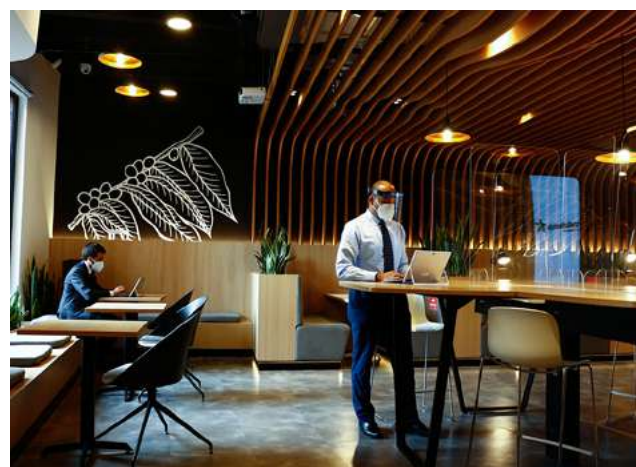
The *Business Center Agency* —managed from the Virtual Segment— completed one year of existence in November. The idea behind this innovative concept is to differentiate us from other financial



institutions, both in terms of service and customer experience. The *Produbanco Business Center* is the first space in Ecuador that brings together co-working, the experience of a good cup of coffee, and the financial advice that the Bank can provide to promote and develop business. In this environment, community members, clients and non-clients alike, can work with the security and support provided by the financial institution. *Produbanco Business Center* is committed to teamwork in a place created to promote commercial activities.

The visitor profile of this Agency is that of individuals in the process of consolidating their undertakings with the support of the Bank. In its first year, the *Business Center Agency* received an average of 150 clients per month; deposits totaled USD 1.80 million, of which 75% were term deposits; the portfolio amounted to USD 3.70 million, mainly made up of loans for employees and self-employed persons.

In the same manner as the rest of our agencies, it also adhered to the restrictions and recommendations to preserve the health of its visitors and employees, by controlling the allowed capacity and modifying the meeting rooms. A secure space was created that, since the post-lockdown reopening, has received customers who see the *Business Center* as a formal place to telecommute and access the financial advice they are looking for.



## SME Segment

In this unusual year, Produbanco sought to consolidate the geographic positioning of the SME Segment at the national level. It maintained an active presence both in commercial areas and in highly productive areas (agricultural, manufacturing), in order to understand and in this way meet the multiple requirements that as a result of the pandemic arose among customers.

As of December, the Segment managed 27,660 active clients, with obligations to the public for USD 478.47 million, an amount that is 7.51% higher than in 2019, and which came primarily from the 3.62% increase in demand deposits throughout the country, which amounted to USD 13.78 million.

The main challenge for 2020 was tied to the management of the loan portfolio, with the priority of mitigating the financial effects of the crisis on clients. By the end of the year, the SME Segment had a portfolio of USD 444.94 million and a relative participation of 12.97% as compared to Produbanco's total portfolio.

After the declaration of a health emergency, from April to June, 4,942 clients were contacted individually (through their respective account executives) in order to carry out an analysis of their financial situation.

As a result of this effort, information was obtained on the operational levels of the clients (sales, vendor management, workers, among others), and the re-profiling of around 30% of the SME Segment portfolio was generated (548

credit operations) for a total of USD 139 million. The remaining 70% of clients were served with specific deferral programs.

In 2020, a total of 2,891 credit operations were originated, of which 951 (32.90%) were granted in cities other than Quito and Guayaquil. Of total operations, 2,222 (over 75%) were for amounts less than USD 100,000.

Forty-three point twenty-five percent of the amount disbursed in the year had a term of more than 36 months, i.e. more than 15 percentage points than in 2019. In this regard, Produbanco has focused on offering flexible loans that facilitate the reactivation of SMEs or that help them in adapting their business models to the new market reality.

As part of the process of digitalization of the Segment, the program strengthened *Signature Click* (Firma Click), which since its launch in 2019 has disbursed a total of USD 12.31 million in 191 operations of digital credit. The product was enabled only for the cities of Quito and Guayaquil in 2019, but by 2020, the cities of Manta, Ambato, and Cuenca were incorporated, representing 5% of the total. Following the strategic planning of geographic de-concentration and digitization, by 2021, it is expected it will add other cities and increase the portfolio of solutions for customer use.

The *Visa SME* (Visa Pyme) card registered a decrease of 9.86% in its balance at the end of 2020, with which it reached a nominal value of USD 13.87 million. The product suffered



a generalized fall due to the disruption that the pandemic caused in the payment chains of various economic sectors.

As part of the customer support strategy, the *SME Talks* (Charlas Pyme) continued, this time through virtual tools. We reached over 300 clients throughout the country with workshops on the application of strategies aimed at enhancing digital capabilities and financial and sales management, topics of great relevance to the complex economic environment resulting from COVID-19.

### Green Lines (Líneas Verdes)

The *Green Lines* (Líneas Verdes) program, aimed at financing businesses and/or projects that generate positive environmental and social impacts, completed four years in the market, in which it has granted 295 credit operations for an amount of USD 218.83 million.

At the end of 2020, its portfolio balance reached USD 60.20 million, 1.75% of Produbanco's total portfolio, and 2.94% of the institutional commercial portfolio.

Since the program began, USD 116.45 million in Green Lines have been awarded to clients with agricultural activities. The use of these funds has helped them to develop certified production processes with significant savings in water consumption and waste generation, adequate management of human talent, and reduction in the use of chemicals.

As part of a joint technical assistance program, Produbanco and IDB Invest

continued with the development of the efficient resource management project (energy and water). This year, the analysis and presentation of results of 20 projects were carried out at the national level. Deliveries took place between April and October through digital platforms. The monitoring and control of the implementations will be executed during the first half of 2021.

The impact of the *Green Lines* program was recognized internationally with the appointment of Produbanco as co-leader of the Responsible Finance Principles initiative, together with the United Nations Secretariat. This designation helps Produbanco promote sustainability principles in its client portfolio.

Finally, Produbanco developed an article for the World Water Association (Asociación Mundial del Agua), with a focus on the efficient use of the vital liquid and on the interaction of the banking system in the market as an articulating liaison among the various market stakeholders. The article will be published during the first quarter of 2021, in the book *Sustainable use of water by industry* (Uso sostenible del agua por industria).



## Payment Methods

### Credit Card

While the health crisis brought a direct impact in consumption volumes in the various means of payment offered by the Bank, in the same manner, it stimulated the use of digital channels for such an effect, a process that would have taken much longer in reaching their optimal transactional levels. This fact has reconfigured the competitive scenario of the following years as the needs of credit card customers have changed. The ability to structure a value

offering in keeping with such demand in the short term will be the key to being successful in the medium and long terms.

Regarding the performance of the business during this year, commercial actions were generated that counteracted the impact on the behavior of the portfolio. The customer acquisition strategy, which was leveraged on the use of social networks and produbanco.com, continued to focus on the Medium and High Value segments. Throughout 2020, they incorporated 24,436 new cards.

### Number of Credit Cards Placed by Type

Type	2019 Cards	% Part.	2020 Cards	% Part.
Gold and Platinum	38,182	63.60%	13,019	53.28%
Black Signature and Infinite	11,436	19.05%	6,633	27.14%
Classic	9,400	15.66%	4,414	18.06%
Corporate	1,012	1.69%	370	1.52%
<b>Total</b>	<b>60,030</b>	<b>100.00%</b>	<b>24,436</b>	<b>100.00%</b>

This year, there was a 1% growth in the number of cards placed as compared to 2019. The total number of credit card accounts amounted to 218,887 (119,641

Mastercard and 99,246 Visa); of this amount, 82% had balances for their consumption at the end of 2020.

### Evolution of the Number of Credit Cards by Card Type

Type	2018 Cards	% Part.	2019 Cards	% Part.	2020 Cards	% Part.
Gold and Platinum	96,955	55.60%	123,977	57.40%	124,826	57.03%
Black Signature and Infinite	33,151	19.01%	44,153	20.44%	48,520	22.17%
Classic	40,330	23.13%	43,185	19.99%	40,776	18.63%
Corporate	3,934	2.26%	4,690	2.17%	4,765	2.17%
<b>Total</b>	<b>174,370</b>	<b>100.00%</b>	<b>216,005</b>	<b>100.00%</b>	<b>218,887</b>	<b>100.00%</b>

The change in consumer habits of cardholders due to COVID-19 affected the amount of expenditure in several categories, among which are places to eat, transportation, and tourism. The business area focused primarily on promoting the lines of supermarkets, health, services, insurance, and education. Following the

new digital trends, long-term partnerships formed with the delivery platforms operating in the market such as Uber, Rappi, Tipti, and Glovo, among others, with benefits for our customers. The turnover in this segment grew 107% in relation to the previous year.

### Share of Consumption by Business Line of Establishments

Business Line	2019	2020	Variation
Supermarkets	11.0%	15.1%	4.1%
Health	6.1%	8.3%	2.2%
Services	5.3%	7.5%	2.2%
Boutique	8.1%	6.3%	-1.7%
Education	5.2%	5.5%	0.3%
Transport	8.7%	4.3%	-4.3%
Places to eat	4.8%	4.2%	-0.6%
Tourism	5.3%	2.8%	-2.5%
Others	45.6%	45.9%	0.3%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>0.0%</b>

All the initiatives implemented contributed so that the accumulated billing of the cardholders reached USD 832.76 million. The actions carried out in 2020 will give a significant boost to the development of consumption during 2021.

### Billing Evolution by Card Type

Tipo	2019 Billing	% Part.	2020 Billing	% Part.
Gold and Platinum	560,700,411	45%	368,790,147	44%
Black Signature and Infinite	500,172,085	40%	340,694,381	41%
Classic	102,966,012	8%	68,599,026	8%
Corporate	76,594,605	6%	54,678,157	7%
<b>Total</b>	<b>1,240,433,113</b>	<b>100%</b>	<b>832,761,711</b>	<b>100%</b>

The credit card portfolio reached a balance of USD 607.8 million, USD 2.8 million more than the previous year, a figure that led us to maintain our position as one of the main banks in means of payment in the country. The good results were possible thanks to the reaction capacity to refocus

the commercial management towards establishments with business lines of goods or services of 'first necessity', with which we managed solid commercial relationships through the Businesses Segment.

### Evolution of the Portfolio Balance by Card Type

Tipo	2019 Portfolio	% Part.	2020 Portfolio	% Part.
Gold and Platinum	273.9	45%	265.9	44%
Black Signature and Infinite	265.3	44%	284.6	47%
Classic	42.6	7%	36.5	6%
Corporate	23.2	4%	20.9	3%
<b>Total</b>	<b>605.0</b>	<b>100%</b>	<b>607.8</b>	<b>100%</b>

The reality brought about by the pandemic also influenced the remarkable growth of our client portfolio with digital payment solutions. We currently have over 1,100 businesses operating with platforms adjusted to different preferences: this environment forces payment transaction processing to accommodate various service expectations. For this reason,

Produbanco certified the routing of all its credit, debit, and prepaid card transactions through the cloud of global franchises, with multiple benefits for the Bank, such as the improvement in security standards in digital purchases, access to innovative functionalities and tools, new dimensions in reports, control, monitoring, and much more.

### Number of Merchants per Platform

Type	2020
Payphone	984
Paymentez	87
Alignet	35
Cybersource	3
<b>Total</b>	<b>1,109</b>



It should be noted that *Cybersource*, one of the most relevant global platforms in the region, operates in Ecuador through Produbanco, delivering advanced technological solutions to the market. Primarily large multinational corporations that wish to standardize their payment operation in the countries where they are located use it.

On the other hand, in 2020 products were added to Produbanco's comprehensive offering, each with a solid promise of value:

- **Visa AUREA**, the first metallic VISA credit card in Ecuador, focused on the Patrimonial and Plus segments. The objective of this product is to retain our cardholders with an exclusive proposal, differentiated by its unique benefits and personalized service, which generate a memorable and unbeatable experience.
- **Mastercard Black Supermaxi**, which is established as the highest-end card in the MaxiDólar loyalty program.
- **Mastercard Black Whiskys**, addressed to the private Facebook group of the same name, which brings together 6,000 important businessmen from the city of Quito.
- **Mastercard Black Entrepreneur Organization**, for Ecuadorian entrepreneurs linked to the promotion of entrepreneurship in the country.

Taking advantage of the incentive agreements that were signed this year with the Visa and Mastercard franchises,

and considering the experience that these business partners have in the payment method market, several consultancies were carried out to optimize the Bank's credit and debit portfolio. Among the main ones worth mentioning: cash conversion, digital onboarding, payment solutions in massive retail networks, fraud analysis, portfolio revitalization, card-present and card-not-present campaigns, and development of new commercial products.

### Debit Card

As with other means, within the framework of the pandemic and the circumstances on which we have already commented previously, the debit card also gained a greater number of followers in the need for cash, which is still the most widely used payment instrument in our economy.

In this context, the increase in the use of debit cards has shown us that its market penetration potential is immense. The volume of purchases with this mechanism grew by 5% compared to 2019 and reached an accumulated turnover of USD 403 million, despite restrictions on consumption.

The Bank ended 2020 with 862 thousand debit cards, 12% more than in 2019.

### Cash Management

The Cash Management tool played a fundamental role this year so that the main Treasury operations of companies

(payments to suppliers, employees, shareholders, and collections from creditors) could be carried out without interruption throughout the pandemic.

In response to customer needs, the platform and its respective operational processes were adjusted to the demands of social distancing arising from the health emergency that began in March 2020. The secure sending of user and password to the client's email was implemented along with the autonomous generation of electronic certificates, the receipt of digitally signed forms and contracts in order to avoid physical contact for handling documentation, and in the cases of clients who did not have an electronic signature, we worked with scanned documents whose veracity was validated by telephone and then regularized with the documentation originals, which could be delivered to any agency nationwide.

With the same purpose of minimizing the face-to-face collection scheme for our public and private clients, a transactional switch was developed that made possible

the connection with the corresponding company's system to enable payments through the Bank's electronic channels (website or different *apps*), and through the more than 10,000 PagoÁgil points that we have throughout the country. The latter also gave the customers of companies the option to pay the amounts of their invoices in stores, supermarkets, or pharmacies near their homes.

Finally, aligned with the advances that the SWIFT system develops worldwide, and in accordance with the largest and most important international banks in the world, we adopted the process of receiving payments through MT101 messages with .xml files. In the same manner, this year we became part of the *GPI - Global Payment Initiative* community that allows us to carry out the tracking of a transfer abroad with updated online statuses in order to keep the user of the service informed in the least possible time.

The evolution of the main Cash Management figures between 2019 and 2020 is summarized below:

### 2019-2020 evolution of the number of transactions processed through Cash Management

Type	2019 Transactions	2020 Transactions	Variation
Produbanco	16,707,096	15,674,400	(1,032,696)

### 2019-2020 evolution of the number of Cash Management clients

Type	2019	2020	Variation
Produbanco	4,418	4,796	378 (8.56%)

**2019-2020 evolution of revenue volume in dollars  
processed through Cash Management**

Type	2019	2020	Variation
Produbanco	9,253,058	8,375,249.22	
ServiPagos	1,997,142.66	2,130,351.93	
Total	11,250,200.66	10,505,601.15	(744,599.51)

**Digital Channels  
Produbanco Online**

The total number of transactions (money movement and consultative) carried out through the Bank's channels grew by 23% in relation to that registered in 2019.

The mobile App and produbanco.com channels grew significantly thanks to the accelerated digital adoption that had its origin in the mobility restriction applied to face the COVID-19 pandemic. On the other hand, face-to-face channels were particularly affected during the first semester due to confinement.

**Evolution of Transactions in Technological Channels  
of Produbanco Online**

Channel	2019	2020	% Variation
Mobile app	25,270,127	46,636,024	85%
produbanco.com	93,434,218	105,999,531	13%
1700 123 123	4,310,149	3,876,934	-10%
ATMs	16,935,691	12,666,537	-25%
Customer service Kiosks	529,454	110,939	-79%
Total Channels Produbanco en línea	140,479,639	169,289,965	21%

# Recognitions



Best Bank Ecuador  
2020, 2019, 2018, 2017  
Outstanding Crisis Leadership  
(Overall Excellence Bank)  
2020  
Best Consumer Digital Bank  
2020, 2019, 2018, 2017  
Best Foreign  
Exchange Provider  
2018



Customer Service  
Provider of the Year  
2020, 2019  
Best Innovation  
in Retail Banking  
2020, 2018, 2017  
Best Commercial Bank  
2017



Best Bank Governance  
2020, 2019, 2018, 2017



Bank of the Year  
2020, 2019, 2017  
2015 a 2009, 2007, 2002



Innovate Digital  
Retail Bank of the Year  
2019  
Bank of the Year  
2018, 2017  
Best Corporate  
Governance  
2018



First place in  
Quality of service  
2019, 2018, 2017



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



Latin Finance  
Bank of the Year  
2017, 2003





# Financial Statements 2020

## General Consolidated Balance

### Banco de la Producción S.A. and Subsidiaries

Thousands of USD dollars

	2019	2020	% Growth
<b>Assets</b>			
Available funds and investments	1,537,409	1,893,032	23.13%
Loan Portfolio	3,296,575	3,269,516	-0.82%
Debtors by acceptances			
Accounts receivable	44,991	71,357	58.60%
Realizable assets, awarded for payment	15,094	12,959	-14.14%
Property and equipment	73,614	69,298	-5.86%
Other assets	210,621	200,981	-4.58%
<b>Total Assets</b>	<b>5,178,305</b>	<b>5,517,144</b>	<b>6.54%</b>
<b>Liabilities</b>			
Obligations to the public	4,020,869	4,448,058	10.62%
Interbank operations			
Immediate obligations	21,581	35,562	64.79%
Acceptances in circulation			
Accounts payable	164,099	139,124	-15.22%
Financial obligations	372,429	313,752	-15.76%
Subordinated debt	118,500	118,500	0.00%
Other liabilities	19,429	20,422	5.11%
<b>Total Liabilities</b>	<b>4,716,907</b>	<b>5,075,419</b>	<b>7.60%</b>
<b>Total Equity</b>	<b>461,398</b>	<b>441,725</b>	<b>-4.26%</b>
<b>Total Liabilities and Equity</b>	<b>5,178,305</b>	<b>5,517,144</b>	<b>6.54%</b>
<b>Contingents</b>	<b>1,162,621</b>	<b>1,196,005</b>	<b>2.87%</b>

## Profit and Loss Statement

### Banco de la Producción S.A. and Subsidiaries

Thousands of USD dollars

	2019	2020	% Growth
<b>Income</b>			
Interest and discounts earned	354,714	366,232	3.25%
Commissions Earned	22,311	18,763	-15.90%
Financial profit	17,502	9,767	-44.19%
Income from services	90,110	74,509	-17.31%
Other operating income	9,289	8,592	-7.51%
Other income	29,728	24,059	-19.07%
<b>Total Income</b>	<b>523,654</b>	<b>501,923</b>	<b>-4.15%</b>
<b>Expenses</b>			
Interest accrued	119,800	124,925	4.28%
Commissions incurred	2,227	2,179	-2.14%
Financial losses	1,841	1,567	-14.91%
Provisions	65,555	119,245	81.90%
Operating expenses	231,184	214,188	-7.35%
Other operating losses	2,345	2,994	27.68%
Other expenses and losses	282	266	-5.58%
<b>Total Expenses</b>	<b>423,233</b>	<b>465,364</b>	<b>9.95%</b>
Profit before provision for employee profit sharing and income tax	100,421	36,559	-63.59%
Provision for employee profit sharing	15,325	5,689	-62.88%
Profit before provision for income tax	85,096	30,870	-63.72%
Provision for Income tax	24,381	11,837	-51.45%
<b>Net profit</b>	<b>60,715</b>	<b>19,032</b>	<b>-68.65%</b>



## Taxes, Payments and Contributions Paid

### Banco de la Producción S.A. and Subsidiaries

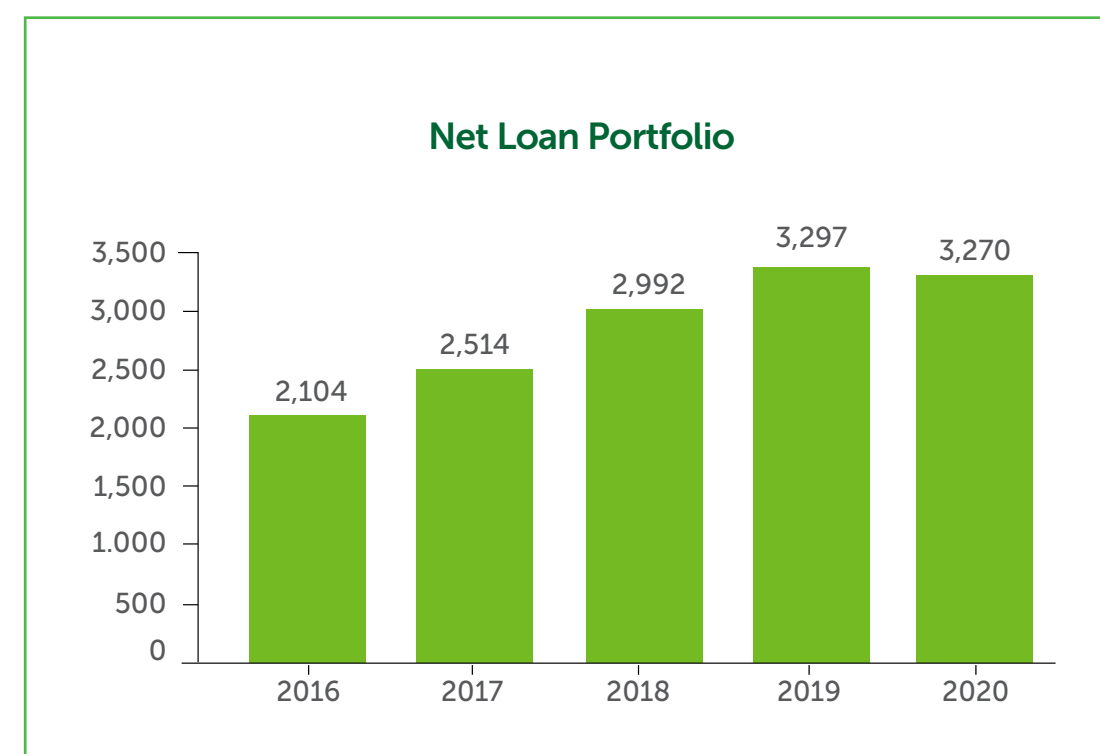
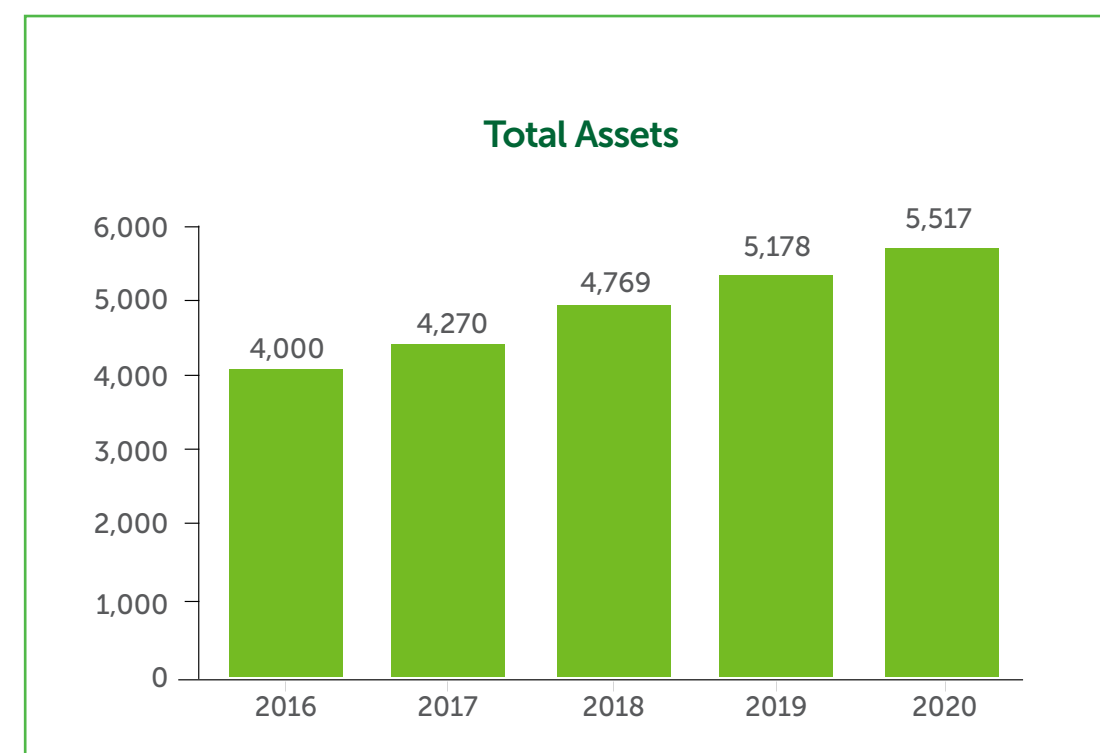
Thousands of USD dollars

	Dec 2019	Dec 2020	Variation
Income Tax	24,381	11,837	-12,544
COSEDE contributions	22,660	24,387	1,727
Contributions Superintendency of Banks	5,600	6,033	433
Municipal taxes	1,851	2,011	160
Other taxes and contributions	2,617	2,164	-453
VAT on purchases	14,681	12,534	-2,148
<b>Total Direct Taxes</b>	<b>71,790</b>	<b>58,966</b>	<b>-12,825</b>
Payment of employee income taxes	2,536	2,021	-515
Payment of IESS employee contributions	9,165	8,555	-610
<b>Total Indirect Taxes and Contributions</b>	<b>11,701</b>	<b>10,575</b>	<b>-1,125</b>
Direct Tax Burden / Group's Profit	118.24%	309.82%	191.58
Direct and Indirect Tax Burden and Contributions / Group's Profit	137.51%	365.39%	227.87
<b>Net profit</b>	<b>60,715</b>	<b>19,032</b>	<b>-41,682</b>

## Total Assets and Net Loan Portfolio

### Banco de la Producción S.A. and Subsidiaries

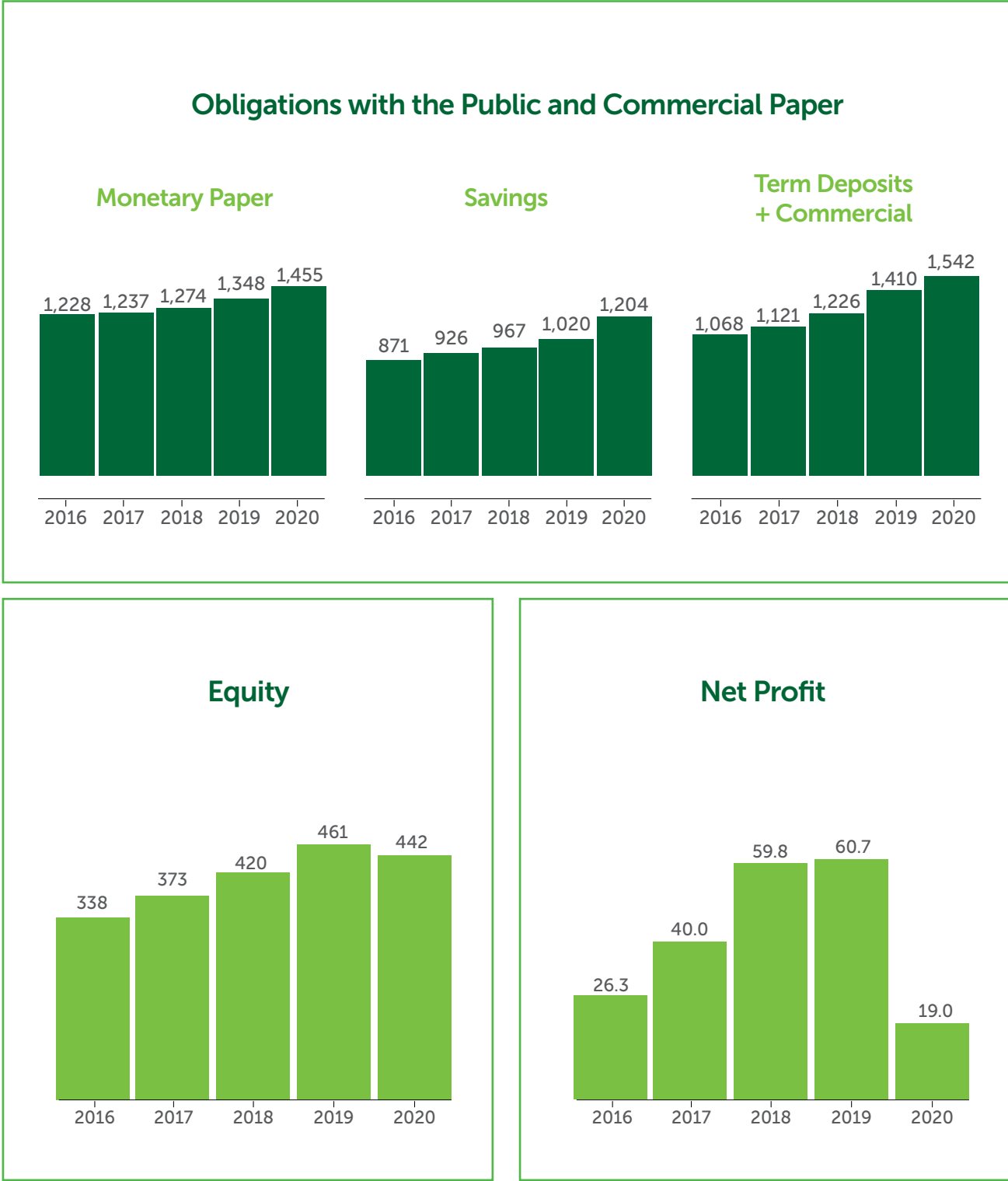
Millions of USD dollars



# Obligations with the Public and Commercial Paper, Equity and Net Profit

Banco de la Producción S.A. and Subsidiaries

Thousands of USD dollars





## General Consolidated Balance

### Banco de la Producción S.A.

Thousands of USD dollars

	2019	2020	% Growth
<b>Assets</b>			
Available funds and investments	1,536,014	1,892,038	23.18%
Loan Portfolio	3,296,575	3,269,838	-0.81%
Debtors by acceptances	0	0	0.00%
Accounts receivable	44,174	72,356	63.80%
Realizable assets, awarded for payment	15,094	12,959	-14.14%
Property and equipment	66,306	64,043	-3.41%
Other assets	213,764	202,162	-5.43%
<b>Total Assets</b>	<b>5,171,927</b>	<b>5,513,396</b>	<b>6.60%</b>
<b>Liabilities</b>			
Obligations to the public	4,023,489	4,451,118	10.63%
Interbank operations	0	0	0.00%
Immediate obligations	21,581	35,562	64.79%
Acceptances in circulation	0	0	0.00%
Accounts payable	154,754	130,089	-15.94%
Financial obligations	372,429	313,752	-15.76%
Subordinated debt	118,500	118,500	0.00%
Other liabilities	19,234	20,314	5.62%
<b>Total Liabilities</b>	<b>4,709,986</b>	<b>5,069,335</b>	<b>7.63%</b>
<b>Equity</b>			
Paid-up Capital	341,470	380,120	11.32%
Premium on placement of shares	1,105	1,105	0.00%
Legal reserve	49,971	56,086	12.24%
Surplus by valuations	8,115	-13,539	-266.85%
Accumulated profit	136	136	-0.02%
Profit for the year	61,144	20,154	-67.04%
<b>Total Equity</b>	<b>461,941</b>	<b>444,061</b>	<b>-3.87%</b>
<b>Total Liabilities and Equity</b>	<b>5,171,927</b>	<b>5,513,396</b>	<b>6.60%</b>
<b>Contingents</b>	<b>1,162,621</b>	<b>1,196,005</b>	<b>2.87%</b>

## Profit and Loss Statement

### Banco de la Producción S.A.

Thousands of USD dollars

	2019	2020	% Growth
<b>Income</b>			
Interest and discounts earned	354,550	366,104	3.26%
Commissions Earned	22,311	18,763	-15.90%
Financial profit	17,380	9,767	-43.80%
Income from services	78,299	65,055	-16.91%
Other operating income	10,355	8,900	-14.05%
Other income	30,386	24,451	-19.53%
<b>Total Income</b>	<b>513,281</b>	<b>493,041</b>	<b>-3.94%</b>
<b>Expenses</b>			
Interest accrued	119,190	124,411	4.38%
Commissions incurred	2,227	2,179	-2.14%
Financial losses	1,841	1,567	-14.91%
Provisions	65,555	119,245	81.90%
Costs of operation	221,917	203,267	-8.40%
Other operating losses	2,345	4,607	96.47%
Other expenses and losses	282	266	-5.58%
<b>Total Expenses</b>	<b>413,356</b>	<b>455,542</b>	<b>10.21%</b>
Profit before provision for employee profit sharing and income tax	99,925	37,499	-62.47%
Provision for employee profit sharing	14,982	5,625	-62.45%
Profit before provision for income tax	84,943	31,874	-62.48%
Provision for Income tax	23,799	11,721	-50.75%
<b>Net profit</b>	<b>61,144</b>	<b>20,154</b>	<b>-67.04%</b>

## Equity Movement January to December 2020

Banco de la Producción S.A.

Thousands of USD dollars

	<i>Capital</i>	<i>Legal Reserve</i>	<i>Special Reserve</i>
<b>Balances as of December 31, 2019</b>	<b>341,470,000</b>	<b>49,971,217</b>	<b>-</b>
Valuation of shares and participations			
Valuation of investments in financial instruments			
Capital, legal reserve, reserve for equity revaluation			
Contributions for future capitalizations			38,520,729
Dividend payments			
Transfer to retained earnings			
Appropriation legal reserve		6,114,401	
Depreciation year 2020 - valued portion of assets			
Assets valuation			
Capital increase	38,650,000		-38,520,729
Profit for the year			
<b>Balances as of December 31, 2020</b>	<b>380,120,000</b>	<b>56,085,619</b>	<b>-</b>

<i>Premium or discount on placement of shares</i>	<i>Surplus for valuation</i>	<i>Accrued Profit</i>	<i>Profit for the year</i>	<i>Total</i>
<b>1,104,774</b>	<b>8,114,566</b>	<b>136,475</b>	<b>61,144,015</b>	<b>461,941,047</b>
	164,378			164,378
	-21,689,094			-21,689,094
				0
		-38,520,729		0
		-16,508,884		-16,508,884
		61,144,015	-61,144,015	0
		-6,114,401		0
	-129,248	129,248		0
				0
		-129,271		0
			20,153,767	20,153,767
<b>1,104,774</b>	<b>-13,539,399</b>	<b>136,452</b>	<b>20,153,767</b>	<b>444,061,214</b>

# Relationship between Total Technical Equity and Risk-Weighted Assets and Contingents December 2019 - 2020

Banco de la Producción S.A.

Units of USD dollars

	Dec 2019	Dec 2020
Total Primary Technical Equity	384,344,222	430,833,755
Total Secondary Technical Equity	194,469,671	136,597,224
<b>Total Technical Equity</b>	<b>578,813,893</b>	<b>567,430,979</b>
Deductions to Total Technical Equity	6,649,262	9,071,697
<b>Technical Assets Constituted</b>	<b>572,164,632</b>	<b>558,359,282</b>
Total Assets and Contingents Weighed by Risk	4,219,830,530	4,149,135,519
<b>Required Technical Equity (9%)</b>	<b>379,784,748</b>	<b>373,422,197</b>
Surplus or Deficiency of Required Technical Equity	192,379,884	184,937,085
Total Assets and Contingent x 4%	253,381,920	268,376,024
<b>Solvency Index (Technical Assets / Risk Weighed Assets and Contingents)</b>	<b>13.56%</b>	<b>13.46%</b>

# Summary of the Credit and Contingent Rating Portfolio and Provisions Constitution as of December 31, 2020

Banco de la Producción S.A.

Information in USD dollars

231 A.1 Priority Commercial Credit											
		Total	Loans covered by self-liquidating guarantees	Balance subject to qualification	% Part.	% Provision	Required Provisions	Constituted Provisions	Difference between required and constituted	Provisions mitigated by mortgage guarantees	Provisions excess or deficit
A1	Normal risk	131,077,713	54,955,779	76,121,935	7.51%	0.42%	1,309,014	555,478	753,536	753,536	0
A2		423,649,240	17,677,515	405,971,726	24.28%	0.92%	5,535,469	3,877,720	1,657,749	1,657,749	0
A3		961,705,090	18,147,473	943,557,618	55.12%	1.60%	24,837,942	15,368,933	9,469,009	9,469,009	0
B1	Potential risk	7,401,700	11,823	7,389,877	0.42%	3.38%	414,559	249,896	164,663	164,663	0
B2		8,388,842	0	8,388,842	0.48%	5.16%	858,678	433,017	425,661	425,661	0
C1	Deficient	9,260,457	0	9,260,457	0.53%	16.53%	2,965,815	1,530,734	1,435,081	1,435,081	0
C2		4,376,027	0	4,376,027	0.25%	45.41%	1,987,213	1,987,213	0	0	0
D	Doubtful collection	4,131,279	0	4,131,279	0.24%	76.65%	3,166,561	3,166,561	0	0	0
E	Loss	9,495,947	0	9,495,947	0.54%	100.00%	9,495,947	9,495,947	0	0	0
AL	100% Self-liquidating guarantees	185,173,405	185,173,405	0	10.61%	0.00%	0	0	0	0	0
	Total	1,744,659,699	275,965,994	1,468,693,705	100.00%	2.10%	50,571,197	36,665,498	13,905,699	13,905,699	0

continues on the next page



Summary of the Credit and Contingent Rating Portfolio and Provisions Constitution as of December 31, 2020 - continued 2 of 9

Banco de la Producción S.A.

Information in USD dollars

231 A.1 Ordinary Commercial Credit											
		Total	Loans covered by self-liquidating guarantees	Balance subject to qualification	% Part.	% Provision	Required Provisions	Constituted Provisions	Difference between required and constituted	Provisions mitigated by mortgage guarantees	Provisions excess or deficit
A1		4,035,606	0	4,035,606	5.81%	0.96%	40,356	38,754	1,602	1,602	0
A2	Normal risk	44,477,009	0	44,477,009	64.03%	0.73%	535,568	322,661	212,907	212,907	0
A3		18,335,409	0	18,335,409	26.40%	1.57%	461,083	287,670	173,413	173,413	0
B1	Potential risk	181,929	0	181,929	0.26%	4.81%	9,424	8,744	680	680	0
B2		2,172,684	0	2,172,684	3.13%	8.00%	347,629	173,815	173,815	173,815	0
C1	Deficient	26,129	0	26,129	0.04%	17.03%	4,889	4,450	440	440	0
C2		50,732	0	50,732	0.07%	43.77%	22,204	22,204	0	0	0
D	Doubtful collection	41,545	0	41,545	0.06%	0.00%	32,441	32,441	0	0	0
E	Loss	36,362	0	36,362	0.05%	100.00%	36,362	36,362	0	0	0
AL	100% Self-liquidating guarantees	100,440	100,440	0	0.14%	0.00%	0	0	0	0	0
Total		69,457,845	100,440	69,357,406	100.00%	1.33%	1,489,957	927,101	562,857	562,857	0

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Summary of the Credit and Contingent Rating Portfolio and Provisions Constitution as of December 31, 2020 - continued 3 of 9

Banco de la Producción S.A.

Information in USD dollars

231 A.5 Productive Credit											
		Total	Loans covered by self-liquidating guarantees	Balance subject to qualification	% Part.	% Provision	Required Provisions	Constituted Provisions	Difference between required and constituted	Provisions mitigated by mortgage guarantees	Provisions excess or deficit
A1		4,146,725	0	4,146,725	0.74%	0.56%	41,467	23,143	18,324	18,324	0
A2	Normal risk	140,688,092	376,948	140,311,143	25.10%	1.08%	2,098,624	1,517,911	580,712	580,712	0
A3		413,875,662	42,811,925	371,063,737	73.85%	1.41%	10,183,415	5,824,324	4,359,092	4,359,092	0
B1	Potential risk	1,089,754	0	1,089,754	0.19%	3.33%	49,567	36,319	13,248	13,248	0
B2		0	0	0	0.00%	0.00%	0	0	0	0	0
C1	Deficient	0	0	0	0.00%	0.00%	0	0	0	0	0
C2		0	0	0	0.00%	0.00%	0	0	0	0	0
D	Doubtful collection	0	0	0	0.00%	0.00%	0	0	0	0	0
E	Loss	192,612	0	192,612	0.03%	100.00%	192,612	192,612	0	0	0
AL	100% Self-liquidating guarantees	411,130	411,130	0	0.07%	0.00%	0	0	0	0	0
Total		560,403,975	43,600,004	516,803,972	100.00%	1.36%	12,565,685	7,594,309	4,971,376	4,971,376	0

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## Summary of the Credit and Contingent Rating Portfolio and Provisions Constitution as of December 31, 2020 - continued 4 of 9

Banco de la Producción S.A.

Information in USD dollars

231 A.2 Ordinary Consumption Credit									
		Total	Credits covered with self-liquidating guarantees	Balance subject to qualification	% Participation	% Provision	Provisions Required	Constituted Provisions	Provisions excess or deficit
A1		108,355,041	75,987	108,279,054	77.21%	1.00%	1,083,551	1,082,792	-760
A2	Normal risk	11,998,342	3,344	11,994,998	8.55%	1.01%	121,183	121,149	-34
A3		4,976,858	0	4,976,858	3.55%	2.01%	100,035	100,035	0
B1	Potential risk	1,829,829	0	1,829,829	1.30%	5.01%	91,674	91,674	0
B2		2,056,606	0	2,056,606	1.47%	15.01%	308,697	308,697	0
C1	Deficient	2,624,470	0	2,624,470	1.87%	25.01%	656,380	656,380	0
C2		2,630,425	0	2,630,425	1.87%	50.01%	1,315,476	1,315,476	0
D	Doubtful collection	2,628,017	0	2,628,017	1.87%	75.09%	1,973,446	1,973,446	0
E	Loss	3,234,448	4,884	3,229,564	2.30%	99.85%	3,234,448	3,229,564	-4,884
AL	100% Self-liquidating guarantees	4,321	4,321	0	0.00%	0.00%	0	0	0
	<b>Total</b>	<b>140,338,357</b>	<b>88,536</b>	<b>140,249,821</b>	<b>100.00%</b>	<b>6.33%</b>	<b>8,884,890</b>	<b>8,879,213</b>	<b>-5,677</b>

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## Summary of the Credit and Contingent Rating Portfolio and Provisions Constitution as of December 31, 2020 - continued 5 of 9

Banco de la Producción S.A.

Information in USD dollars

231 A.2 Priority Consumer Credit									
		Total	Credits covered with self-liquidating guarantees	Balance subject to qualification	% Participation	% Provision	Provisions Required	Constituted Provisions	Provisions excess or deficit
A1		740,110,879	876,863	739,234,016	80.41%	1.00%	7,401,119	7,392,351	-8,769
A2	Normal risk	32,690,672	13,441	32,677,231	3.55%	1.01%	330,176	330,040	-136
A3		14,903,575	0	14,903,575	1.62%	2.01%	299,562	299,562	0
B1	Potential risk	13,562,916	26,437	13,536,479	1.47%	5.00%	679,502	678,178	-1,325
B2		10,193,892	0	10,193,892	1.11%	15.01%	1,530,103	1,530,103	0
C1	Deficient	21,677,539	0	21,677,539	2.36%	25.01%	5,421,553	5,421,553	0
C2		16,673,296	0	16,673,296	1.81%	50.01%	8,338,316	8,338,316	0
D	Doubtful collection	26,106,022	2,575	26,103,447	2.84%	75.00%	19,582,128	19,580,196	-1,932
E	Loss	29,179,477		29,179,477	3.17%	100.00%	29,179,477	29,179,477	0
AL	100% Self-liquidating guarantees	15,338,004	15,335,481	2,523	1.67%	0.00%	0	0	0
	<b>Total</b>	<b>920,436,274</b>	<b>16,254,798</b>	<b>904,181,476</b>	<b>100.00%</b>	<b>7.90%</b>	<b>72,761,935</b>	<b>72,749,775</b>	<b>-12,160</b>

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# Summary of the Credit and Contingent Rating Portfolio and Provisions Constitution as of December 31, 2020 - continued 6 of 9

Banco de la Producción S.A.

Information in USD dollars

231 A.3 Real Estate Credit									
		Total	Credits covered with self-liquidating guarantees	Balance subject to qualification	% Participation	% Provision	Provisions Required	Constituted Provisions	Provisions excess or deficit
A1		206,615,956	44,397	206,571,559	79.41%	1.00%	2,066,160	2,065,716	-444
A2	Normal risk	19,822,569	0	19,822,569	7.62%	2.00%	396,452	396,452	0
A3		9,397,133	43,458	9,353,676	3.61%	2.99%	281,914	280,610	-1,304
B1		5,950,104	0	5,950,104	2.29%	6.00%	357,006	357,006	0
B2	Potential risk	3,449,309	0	3,449,309	1.33%	10.00%	344,931	344,931	0
C1		3,194,844	0	3,194,844	1.23%	20.03%	639,933	639,933	0
C2	Deficient	1,408,399	0	1,408,399	0.54%	40.00%	563,360	563,360	0
D		5,431,656	0	5,431,656	2.09%	62.28%	3,382,710	3,382,710	0
E	Doubtful collection	4,905,713	0	4,905,713	1.89%	100.00%	4,905,713	4,905,713	0
AL		8,690	8,690	0	0.00%	0.00%	0	0	0
	100% Self-liquidating guarantees								
	<b>Total</b>	<b>260,184,373</b>	<b>96,544</b>	<b>260,087,828</b>	<b>100.00%</b>	<b>4.97%</b>	<b>12,938,178</b>	<b>12,936,430</b>	<b>-1,748</b>

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# Summary of the Credit and Contingent Rating Portfolio and Provisions Constitution as of December 31, 2020 - continued 7 of 9

Banco de la Producción S.A.

Information in USD dollars

231 A.4 Microcredits									
		Total	Credits covered with self-liquidating guarantees	Balance subject to qualification	% Participation	% Provision	Provisions Required	Constituted Provisions	Provisions excess or deficit
A1		14,468,176	0	14,468,176	74.79%	1.00%	144,682	144,682	0
A2	Normal risk	976,965	0	976,965	5.05%	1.01%	9,867	9,867	0
A3		295,752	0	295,752	1.53%	2.01%	5,945	5,945	0
B1		560,649	0	560,649	2.90%	5.01%	28,088	28,088	0
B2	Potential risk	140,190	0	140,190	0.72%	15.01%	21,042	21,042	0
C1		352,945	0	352,945	1.82%	25.01%	88,272	88,272	0
C2	Deficient	290,295	0	290,295	1.50%	50.01%	145,177	145,177	0
D		527,153	0	527,153	2.73%	75.01%	395,417	395,417	0
E	Doubtful collection	765,319	0	765,319	3.96%	100.00%	765,319	765,319	0
AL		966,955	966,955	0	5.00%	0.00%	0	0	0
	100% Self-liquidating guarantees								
	<b>Total</b>	<b>19,344,399</b>	<b>966,955</b>	<b>18,377,444</b>	<b>100.00%</b>	<b>8.29%</b>	<b>1,603,809</b>	<b>1,603,809</b>	<b>0</b>

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# Summary of the Credit and Contingent Rating Portfolio and Provisions Constitution as of December 31, 2020 - continued 8 of 9

Banco de la Producción S.A.

Information in USD dollars

231 A.6 Educational								
	Total	Credits covered with self-liquidating guarantees	Balance subject to qualification	% Participation	% Provision	Provisions Required	Constituted Provisions	Provisions excess or deficit
A1	103,526	0	103,526	100.00%	1.00%	1,035	1,035	0
A2 Normal risk	0	0	0	0.00%	0.00%	0	0	0
A3	0	0	0	0.00%	0.00%	0	0	0
B1	0	0	0	0.00%	0.00%	0	0	0
B2 Potential risk	0	0	0	0.00%	0.00%	0	0	0
C1	0	0	0	0.00%	0.00%	0	0	0
C2 Deficient	0	0	0	0.00%	0.00%	0	0	0
D	0	0	0	0.00%	0.00%	0	0	0
D Doubtful collection	0	0	0	0.00%	0.00%	0	0	0
E	0	0	0	0.00%	0.00%	0	0	0
E Loss	0	0	0	0.00%	0.00%	0	0	0
AL	0	0	0	0.00%	0.00%	0	0	0
AL 100% Self-liquidating guarantees	0	0	0	0.00%	0.00%	0	0	0
Total	103,526	0	103,526	100.00%	1.00%	1,035	1,035	0

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# Summary of the Credit and Contingent Rating Portfolio and Provisions Constitution as of December 31, 2020 - continued 9 of 9

Banco de la Producción S.A.

Information in USD dollars

Grand Total								
	Total	Credits covered with self-liquidating guarantees	Balance subject to qualification	% Participation	% Provision	Provisions Required	Constituted Provisions	Provisions excess or deficit
Grand Total	3,714,928,449	337,073,270	3,377,855,179	100.00%	3.81%	160,816,687	141,357,169	-19,585

# Summary of Investment Rating and Other Assets, and Constitution of Provisions as of December 31, 2020

Banco de la Producción S.A.

Units of USD dollars

231 B.1					
Code	Investments	Nominal Value	Market Value	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 from private sector entities.	318,502,661.92	316,771,988.88	80,000.00	0.00
1304	Available for sale by State or public sector agencies.	180,184,913.44	159,153,203.89	0.00	0.00
	<b>Total</b>	<b>498,687,575.36</b>	<b>475,925,192.77</b>	<b>80,000.00</b>	<b>0.00</b>

Code	Investments	Value in Books	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	2,700,078.31	2,700,078.31	58,801.02	27,000.78
1306	Held to maturity State or public sector agency	185,372,828.64	185,372,828.64	88,000.00	1,853,728.29
1307	Of restricted availability	13,263,895.55	13,263,895.55	0.00	51,196.61
190205	Fiduciary rights - Investments	0.00	0.00	0.00	0.00
	<b>Total</b>	<b>201,336,802.50</b>	<b>201,336,802.50</b>	<b>146,801.02</b>	<b>1,931,925.68</b>

231 B.2						
		Total	% Risk	Provisions required	Constituted Provisions	Provisions excess or deficit
A1	Normal risk	36,342,083.23	81.20%	315,456.66	318,669.29	3,212.63
A2		517,736.53	1.16%	10,354.73	10,354.73	0.00
A3		469,988.14	1.05%	18,799.53	18,799.53	0.00
B1	Potential risk	279,707.31	0.62%	20,978.11	20,978.11	0.00
B2		224,851.77	0.50%	32,603.56	32,603.56	0.00
C1	Deficient	305,066.76	0.68%	89,994.82	89,994.82	0.00
c2		285,863.14	0.64%	143,554.70	143,628.54	73.84
D	Doubtful collection	573,721.16	1.28%	456,108.49	456,108.49	0.00
E	Loss	5,756,517.48	12.86%	5,756,517.48	5,756,517.48	0.00
	Assessed	44,755,535.52	100.00%	0.00	0.00	0.00
	Not assessed	0.00	0.00	0.00	0.00	0.00
	<b>Total</b>	<b>44,755,535.52</b>	<b>100.00</b>	<b>6,844,368.08</b>	<b>6,847,654.55</b>	<b>3,286.47</b>

% Of Other Assets Assessed [(Assessed / Total) 100] =						100.00%
% Risk Other Assets Assessed [(Prov. Required / Assessed) 100] =						15.29%

231 B.2						
Goods given in lieu of payment	Total	Provisions required (a)	Provisions required by appraisal (b)	Total provisions required	Constituted Provisions	Provisions excess or deficit
Normal risk	8,523,076.12	7,717,539.14	0.00	7,717,539.14	7,719,791.39	2,252.25
<b>Total</b>	<b>8,523,076.12</b>	<b>7,717,539.14</b>	<b>0.00</b>	<b>7,717,539.14</b>	<b>7,719,791.39</b>	<b>2,252.25</b>

(a) **Required Provisions:** Art. 195 of the Organic Monetary and Financial Code (Código Orgánico Monetario y Financiero).  
 (b) **Provisions Required for Appraisal:** Second paragraph, numeral 3, article 5, section II, chapter XVIII, title II, book 1 of the Codification of Monetary, Financial, Securities and Insurance Resolutions (Codificación de Resoluciones Monetarias, Financieras, de Valores y Seguros).

## General Consolidated Balance

### Externalización de Servicios S.A. Exsersa

Thousands of USD dollars

	2019	2020	% Growth
<b>Assets</b>			
Available funds and investments	2,793	2,113	-24.33%
Loan Portfolio			
Debtors by acceptances			
Accounts receivable	1,288	907	-29.57%
Realizable assets, awarded for payment			
Properties and equipment (*)	7,301	5,142	-29.58%
Other assets	1,854	1,948	5.05%
<b>Total Assets</b>	<b>13,236</b>	<b>10,110</b>	<b>-23.62%</b>
<b>Liabilities</b>			
Obligations to the public			
Interbank operations			
Immediate obligations			
Acceptances in circulation			
Accounts payable (*)	8,822	7,499	-15.00%
Financial obligations			
Securities in circulation			
Contributions for future capitalizations			
Other liabilities			
<b>Total Liabilities</b>	<b>8,822</b>	<b>7,499</b>	<b>-15.00%</b>
<b>Total Equity</b>	<b>4,414</b>	<b>2,612</b>	<b>-40.84%</b>
<b>Total Liabilities and Equity</b>	<b>13,236</b>	<b>10,110</b>	<b>-23.62%</b>

#### Note (\*)

In 2019, IFRS 16 on Leases came into force, thus, in application of the same, these items include the recording of Assets for Right of Use and Liabilities for Leasing.

## Profit and Loss Statement

### Externalización de Servicios S.A. Exsersa

Thousands of USD dollars

	2019	2020	% Growth
<b>Income</b>			
Interest and discounts earned	10	4	-63.67%
Commissions earned			
Financial profit			
Income from services	16,897	13,024	-22.92%
Other operating income			
Other income	160	281	75.15%
<b>Total Income</b>	<b>17,068</b>	<b>13,309</b>	<b>-22.02%</b>
<b>Expenses</b>			
Interest accrued	642	544	-15.27%
Commissions incurred			
Financial losses			
Provisions			
Costs of operation	15,116	13,882	-8.16%
Other operating losses			
Other expenses and losses			
Taxes and employee participation			
<b>Total Expenses</b>	<b>15,758</b>	<b>14,426</b>	<b>-8.45%</b>
Profit or (-Loss) before provision for employee profit sharing and income tax	1,310	-1,117	-185.31%
Provision for employee profit sharing	177	0	-100.00%
Profit or (-Loss) before provision for income tax	1,132	-1,117	-198.66%
Provision for Income tax	354	0	-100.00%
<b>Net Profit or (- Loss)</b>	<b>778</b>	<b>-1,117</b>	<b>-243.57%</b>



## General Consolidated Balance

### Protramites Trámites Profesionales S.A.

Thousands of USD dollars

	2019	2020	% Growth
<b>Assets</b>			
Available funds and investments	1,028	498	-51.56%
Assets available for sale - portfolio purchased	1,167	1,118	-4.20%
Debtors by acceptances			
Accounts receivable	3	2	-33.33%
Realizable assets, awarded for payment			
Properties and equipment (*)	332	143	-56.93%
Other assets	335	513	53.13%
<b>Total Assets</b>	<b>2,865</b>	<b>2,274</b>	<b>-20.63%</b>
<b>Liabilities</b>			
Obligations to the public			
Interbank operations			
Immediate obligations			
Acceptances in circulation			
Accounts payable (*)	1,336	1,257	-5.91%
Financial obligations		213	
Contributions for future capitalizations			
Other liabilities	2	0	-100.00%
<b>Total Liabilities</b>	<b>1,338</b>	<b>1,470</b>	<b>9.87%</b>
<b>Total Equity</b>	<b>1,527</b>	<b>804</b>	<b>-47.35%</b>
<b>Total Liabilities and Equity</b>	<b>2,865</b>	<b>2,274</b>	<b>-20.63%</b>

#### Note (\*)

In 2019, IFRS 16 on Leases came into force, thus in application of the same, these items include the recording of Assets for Right of Use and Liabilities for Leasing.

## Profit and Loss Statement

### Protramites Trámites Profesionales S.A.

Thousands of USD dollars

	2019	2020	% Growth
<b>Income</b>			
Interest and discounts earned	157	141	-10.19%
Commissions Earned			
Financial profit			
Income from services	3,143	2,869	-8.72%
Other operating income	530	322	-39.25%
Other income	32	97	203.13%
<b>Total Income</b>	<b>3,862</b>	<b>3,429</b>	<b>-11.21%</b>
<b>Expenses</b>			
Interest accrued	20	19	-5.00%
Commissions incurred			
Financial losses			
Provisions			
Cost of operation	2,673	2,917	9.13%
Other operating losses			
Other expenses and losses	38	41	7.89%
Taxes and employee profit sharing			
<b>Total Expenses</b>	<b>2,731</b>	<b>2,977</b>	<b>9.01%</b>
Profit before provision for employee profit sharing and income tax	1,131	452	-60.04%
Provision for employee profit sharing	167	64	-61.68%
Profit before provision for income tax	964	388	-59.75%
Provision for Income tax	228	93	-59.21%
<b>Net profit</b>	<b>736</b>	<b>295</b>	<b>-59.92%</b>

# General Consolidated Balance EcuaPayphone C.A.

Thousands of USD dollars

	2020
<b>Assets</b>	
Available funds and investments	952
Loan Portfolio	
Debtors by acceptances	
Accounts receivable	5
Realizable assets, awarded for payment	
Property and equipment	7
Other assets	501
<b>Total Assets</b>	<b>1,465</b>
<b>Liabilities</b>	
Obligations to the public	
Interbank operations	
Immediate obligations	
Acceptances in circulation	
Accounts payable	1,034
Financial obligations	109
Contributions for future capitalizations	
Other liabilities	
<b>Total Liabilities</b>	<b>1,143</b>
<b>Total Equity</b>	<b>322</b>
<b>Total Liabilities and Equity</b>	<b>1,465</b>

# Profit and Loss Statement EcuaPayphone C.A.

Thousands of USD dollars

	2020
<b>Income</b>	
Interest and discounts earned	16
Commissions Earned	
Financial profit	
Income from services	387
Other operating income	
Other income	4
<b>Total Income</b>	<b>406</b>
<b>Expenses</b>	
Interest accrued	
Commissions incurred	
Financial losses	
Provisions	
Cost of operation	980
Other operating losses	
Other expenses and losses	
Taxes and employee profit sharing	
<b>Total Expenses</b>	<b>980</b>
Loss before provision for employee profit sharing and income tax	-574
Provision for employee profit sharing	
Loss before provision for income tax	-574
Provision for Income tax	8
<b>Net loss</b>	<b>-582</b>

# General Consolidated Balance

## ProContacto Soluciones Inteligentes S.A.

Thousands of USD dollars

	2020
<b>Assets</b>	
Available funds and investments	382
Loan Portfolio	
Debtors by acceptances	
Accounts receivable	3
Realizable assets, awarded for payment	
Properties and equipment (*)	278
Other assets	98
<b>Total Assets</b>	<b>762</b>
<b>Liabilities</b>	
Obligations to the public	
Interbank operations	
Immediate obligations	
Acceptances in circulation	
Accounts payable (*)	697
Financial obligations	
Contributions for future capitalizations	
Other liabilities	
<b>Total Liabilities</b>	<b>697</b>
<b>Total Equity</b>	<b>65</b>
<b>Total Liabilities and Equity</b>	<b>762</b>

**Note (\*)**  
 In 2019, IFRS 16 on Leases came into force, thus in application of the same, these items include the recording of Assets for Right of Use and Liabilities for Leasing.

# Profit and Loss Statement

## ProContacto Soluciones Inteligentes S.A.

Thousands of USD dollars

	2020
<b>Income</b>	
Interest and discounts earned	
Commissions Earned	
Financial profit	
Income from services	811
Other operating income	
Other income	97
<b>Total Income</b>	<b>908</b>
<b>Expenses</b>	
Interest accrued	9
Commissions incurred	
Financial losses	
Provisions	
Cost of operation	1,068
Other operating losses	
Other expenses and losses	
Taxes and employee profit sharing	
<b>Total Expenses</b>	<b>1,077</b>
Loss before provision for employee profit sharing and income tax	-169
Provision for employee profit sharing	0
Loss before provision for income tax	-169
Provision for Income tax	16
<b>Net loss</b>	<b>-185</b>



# Report of Independent Auditors

## Banco de la Producción S.A. and Subsidiaries



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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, 2020, 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, 2020, 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><b>Valuation of Loan Portfolio and Contingencies of Commercial and Productive Segments over US\$100,000 and Establishment of Provisions</b></p> <p>The provision of loan portfolio and contingencies of commercial and productive segments over US\$100,000 is considered one of the most significant issues due to the representativeness. Also, the rating process of this credit and contingent portfolio includes the application of certain estimates by the Bank's Management and determines the most important estimate of the consolidated financial statements, since it involves, among other aspects, the analysis of economic sectors and of the financial information of the credit subjects; the payment behavior and the effects of changes in the terms and conditions of the credit operations in accordance with the applicable regulations.</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"> <li>- 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.</li> <li>- 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.</li> <li>- For a sample of commercial and productive loans with risk over US\$100,000 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.</li> <li>- Recalculation of the provision for loan portfolio and contingencies of commercial and productive segments over US\$100,000 in accordance with the parameters established by the Regulators.</li> </ul>

Key Audit Matter	How the key matter was addressed in the audit
	<p>- We inspect the Risk Asset Rating reports submitted to the Risk Assets Rating Commission and the sector analyzes prepared by the Bank.</p> <p>No material differences were identified as a result of the procedures performed.</p>

#### Other Information

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

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.

Once we read the "Board's Report" and the "Annual Report", if we conclude that there is a significant error in this other information, we have the obligation to report said matter to the Bank's Management.

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

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the accounting 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.

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#### 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.
- 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.

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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 15, 2021

Shony R. Bolívar Isturiz  
Jhonny R. Bolívar Isturiz, Partner

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## Report of Independent Auditors

### Banco de la Producción S.A.



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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, 2020, and the individual 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, 2020, 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.

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### 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><b>Valuation of Loan Portfolio and Contingencies of Commercial and Productive Segments over US\$100,000 and Establishment of Provisions</b></p> <p>The provision of loan portfolio and contingencies of commercial and productive segments over US\$100,000 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"> <li>- 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.</li> <li>- 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.</li> <li>- For a sample of commercial loans with risk over US\$100,000 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.</li> <li>- Recalculation of the provision for loan portfolio and contingencies of commercial and productive segments over US\$100,000 in accordance with the parameters established by the Regulators.</li> <li>- We inspect the Risk Asset Rating reports submitted to the Risk Assets Rating Commission and the sector analyzes prepared by the Bank.</li> </ul> <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.

Once we read the "Board's Report" and the "Annual Report", if we conclude that there is a significant error in this other information, we have the obligation to report said matter to the Bank's Management and Board.

### **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.

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# Internal Audit Report

## Banco de la Producción S.A. and Subsidiaries



### INTERNAL AUDIT REPORT

Quito, January 27, 2021

Mssrs.  
SHAREHOLDERS  
BANCO DE LA PRODUCCIÓN S.A. PRODUBANCO  
Quito – Ecuador

Dear Shareholders:

In my capacity as Internal Auditor, appointed by the Bank's General Shareholders' Meeting, and in compliance with current provisions, I hereby issue the following report:

This report contains my opinion on the financial statements as of December 31, 2020, the degree of compliance with the laws, statutes, internal regulations, regulations instructed by control agencies, and on the quality of the internal control system.

My opinion is sustained in the reviews, testing, and control assessments made during the year 2020; the reviews were made in accordance with auditing norms, which require that they comply with ethical relevant requirements, that they be planned and performed through an audit in order to obtain reasonable assurance about whether the financial statements do not contain significant errors. An audit also includes, based on trials, the examination of the evidence that supports the figures in the financial statements and the evaluation of the internal control system, as well as the evaluation of the accounting practices applied, the principles used, and the estimates made by the Administration. I consider that the trials carried out, which were executed in accordance with the annual work plan approved by the Bank's Audit Committee and Board of Directors and communicated to the Superintendency of Banks, provide a reasonable basis to express the following opinion:

#### 1. In relation to the financial statements:

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

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

The financial relief programs during the period of the health emergency, derived from the COVID 19 pandemic, were applied in accordance with the policies designed for this purpose as approved by the Board of Directors, and fall within the corresponding regulatory framework.

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- 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 de Ecuador

AE-7808

March 15, 2021

Jhonny R. Bolívar Istúriz, Partner



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

- b. Investments in securities have made based on quotas and limits approved by the Board.
  - c. In both asset and liability operations, the Bank has complied with the information transparency standard.
2. Produbanco's first-line liquidity index had an annual average level of 26.80%, thus exceeding the minimum established by the Superintendency of Banks for 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 182.17 million, which is equivalent to a solvency indicator of 13.46%, higher than the required minimum of 9%.
  4. Tax and labor obligations are properly observed.
  5. The Bank and its subsidiaries maintain a reasonable internal control system for transactions and processes, thus allowing for an adequate degree of security in their operations.
  6. In relation to the control system for the prevention of money laundering stemming from illicit 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 established by both the Superintendency of Banks and by the Financial and Economic Analysis Unit (UAF E); it covers the operations of the Bank, is applied at all offices, and is disseminated to all personnel through the means available to the Bank.
  7. With regard to comprehensive risk management standards, in general, the Bank has complied with the terms and deadlines established by the Superintendency of Banks. The Bank's administration issued the policies and procedures necessary for the implementation of comprehensive risk management. There is an adequate evaluation of exposures to different risks, and the Board of Directors is informed with the periodicity established by the Management Body. Pending is the reclassification to a portfolio that does not accrue interest of the consumer credit and microcredit operations with a D rating presenting arrears of less than 60 days, which as of December 31, 2020, represented a principal amount of USD 20,114,497, and interest amounting to USD 811,734, a change included in the coding of resolutions by the Superintendency of Banks with the modification of the credit segments, which is being once again analyzed by the Control Agencies at the request of Produbanco.

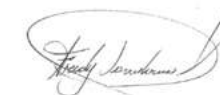
## OPINION

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

In my opinion, the general balance sheet, as well as the profit and loss statement for December 31, 2020, both for Produbanco as its Subsidiaries, are presented reasonably in accordance with accounting standards and practices established by the Superintendency of Banks and other regulatory and control bodies.

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

Sincerely,



Fredy Sandoval Cerda  
**INTERNAL AUDITOR**



## Credits

### Coordination

Marketing

### Graphic line

Grupo Promerica

### Editing and Layout

Solange Luna

### Translation

Rodrigo Sandoval

### Photography

Produbanco

March 2021



[produbanco.com](http://produbanco.com)