



FIRST REPORTING
ON THE PRINCIPLES FOR RESPONSIBLE BANKING
BANCO DE MACHALA.



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Vision and commitment to sustainability

At Banco de Machala we operate under a solid financial institution culture, seeking to be efficient and profitable, while creating value for all of our stakeholders.

We have articulated our corporate governance with this approach, guaranteeing the sustainability of the company's operation and its assets, together with the trust of clients, employees, shareholders and other groups.

We understand banking as a generator of opportunities for economic and social development, protecting the environment. In response to the growth of concern for sustainability in the market, we have excellent opportunities related to the development of products designed for those who are working under good environmental and social practices.

We are also signatories of the Principles for Responsible Banking, a proposal for a commitment to this new understanding of banking, promoted by the Financial Initiative of the United Nations Environment Program (UNEP-FI), with the support of prominent financial groups to international level.

We are working on a roadmap that starts from the determination of the critical ESG issues for the company (environmental, social and governance), considering the perspective of the stakeholders and the internal strategy.

Based on these issues, we articulate a strategy that integrates the current initiatives that we already have and that are related to the defined priorities, along with new ones to advance the company's commitment from the business.

Main figures



(The variations related to 2019 are presented)



Company profile

We began activities in 1962, in the province of El Oro. Since then, we have provided financial solutions with personalized service. We attend to the needs of our clients, in a close and pertinent way.

Mission: "We are a financial institution that offers products and services to our clients and the community with personalized attention, providing value for stakeholders with a committed human team, efficient processes and cutting-edge technology"

Vision: "To position ourselves as an innovative and competitive Bank, with specialized products and services to solve the financial needs of our clients"

We work under principles and values that govern the good conduct of the company:

- Loyalty
- Service vocation
- Honesty
- Probity
- Responsibility
- Competence
- Self-control
- Civil value
- Transparency
- Confidentiality

We work as a universal bank, offering different savings and credit products, as well as a wide range of services, to individuals and companies.

MAIN PRODUCTS AND SERVICES			
Type of business	Category	Sectors and activities	Products and services
Business Banking	Credit	Agriculture Commerce Construction Logistics and transportation Services	<ul style="list-style-type: none"> • CrediCamión • Productive credit • Crédito rol
	Deposits	Agriculture Commerce Construction Services	<ul style="list-style-type: none"> • Checking account • Saving account
	Receivables and payables	Agriculture Commerce Construction Logistics and transportation Services	<ul style="list-style-type: none"> • Receivables • Payables • Soft Token y OTP
	Foreign Trade	Agroindustry Commerce Construction Logistics and transportation Services	<ul style="list-style-type: none"> • Domestic letters of credit • Import letters of credit • Export letters of credit • Import and export collection • Bank sureties • Stand-by letter of credit
	Investments	Agroindustry Commerce Construction Services	<ul style="list-style-type: none"> • Term deposits • BM 365 • CEDA
Consumer Banking	Deposits	Dependent people, independent people, retired people.	<ul style="list-style-type: none"> • Saving account • Checking account • Mi cuenta crecer account • Cuenta crecer plus account
	Credits	Dependent people, mainly on the private sector, independent people and retired people.	<ul style="list-style-type: none"> • AutoCredit • Crédito rol • Back to back credit • Casa Credit • Educative credit: Estudio Meta
	Investments	Dependent people, independent people and retired people.	<ul style="list-style-type: none"> • Term deposits • BM 365 • Inversión Plus investment • CEDA

Operational and Financial Results

The solid performance of the company, adequate risk management and profitability should be highlighted. In the context generated by the pandemic, we have also been decisive in guaranteeing liquidity, solvency and supply capacity. Likewise, the experience of our employees, their culture of customer service and commitment to the team.

We present below our main operational and financial results.

Operational indicators

To serve our clients, we put at their disposal a wide network in different cities of Ecuador in the Coast and Highlands. It is completed with our online channels, to which we are investing heavily and which have grown exponentially in their use during the pandemic.

CONTACT POINTS	
Main office	1
Offices	13
Agencies	27
Special offices	5
Extension offices	3
Drive-through bank	4
ATMs	54
Smart ATMs	12
Virtual kiosks	3
TOTAL	122

Digital media

Oronet - Online banking, which allows managing the financial products that the client has with the company, including making funds transfers, paying for services, and other functionalities.

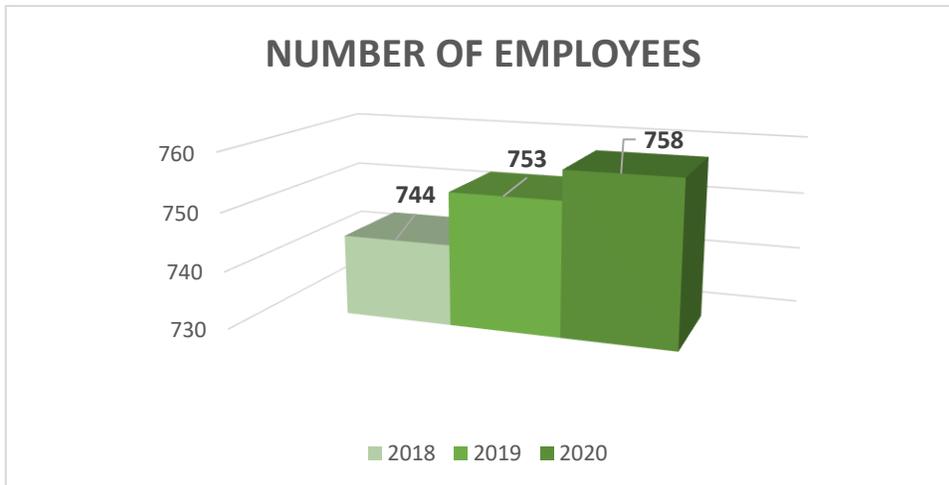
Oromóvil - mobile application, which transfers the operation of the products online to the cell phone, so that the customer can access to it anywhere.

Machala Wallet - mobile application that allows clients to register credit and debit cards, and make payments by scanning the QR codes available at affiliated establishments. We are the first bank in the country with this type of technology.

Kiosko virtual - self-service system, which allows requests for checkbooks, printing of movements of accounts, printing of bank certificates, and other functionalities. New for 2020, it is already available in Machala and Guayaquil.

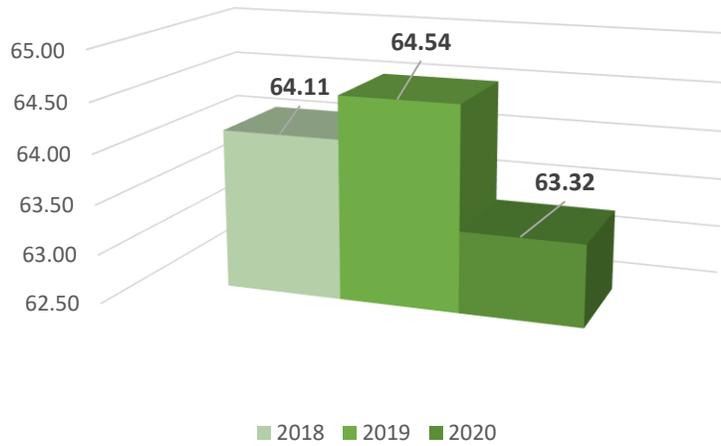
We have a **workforce** that reached 758 employees at the end of 2020. Committed to job stability, 100% of our employees have permanent contracts.

We value diversity, and we work on non-discrimination in access to employment and career development. 63% of our employees are women, 480 employees. Of these, 92% work in administrative positions, and 8% in managerial responsibilities.



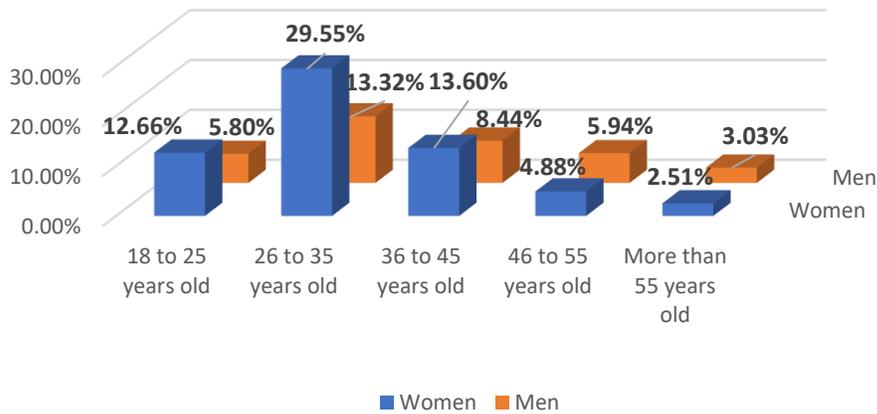
In 2018, our workforce reached 744 employees and, in 2019, our workforce reached 753 employees.

PERCENTAGE OF WOMEN



TOTAL WORKFORCE 2018-20			
	2018	2019	2020
Women	477	486	480
Men	267	267	278
Total	744	753	758

WORKFORCE BY AGE AND GENDER 2020



WORKFORCE BY AGE AND GENDER 2020			
	Women	Men	Total
18 to 25 years old	97	44	141

26 to 35 years old	224	102	326
36 to 45 years old	103	-----64	167
46 to 55 years old	37	45	82
More than 55 years old	19	23	42
Total	480	278	758

LABOR DEMOGRAPHICS 2020		
Categorization	Total workforce	% Women
President	1	100.0
Officials	56	53.6
Middle managers	147	66.7
Administrative workforce	554	63.4
Total workforce	758	63.3

Business results and financial indicators

In a complicated year, due to the incidence of the pandemic in the country, we obtained good results, because of the trust of our clients.

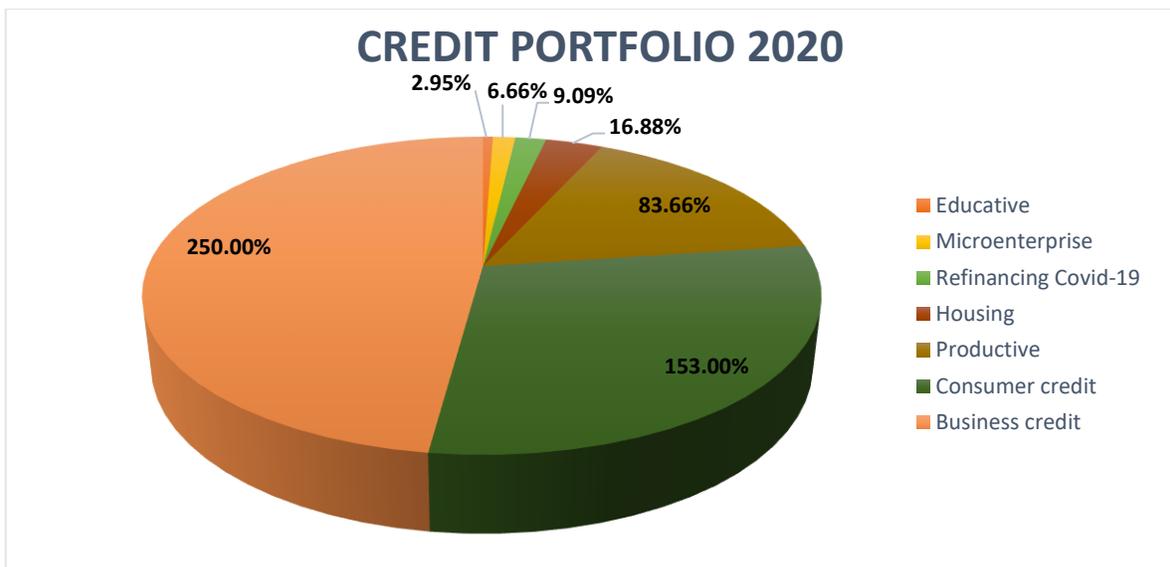
MAIN BUSINESS AND FINANCIAL INDICATORS 2018-20				
	2018	2019	2020	VAR 20-19
Assets (thousands of dollars)	767,733	807,867	861,293	6.6
Contingents (thousands of dollars)	41.57	45.91	47.68	3.8
Credit portfolio (thousands of dollars)	483.25	513.80	523.41	1.9
Deposits (thousands of dollars)	686.86	720.45	765.92	6.3
Available funds (thousands of dollars)	129.02	133.93	165.10	23.3
Investment (thousands of dollars)	117.82	118.66	135.98	14.6
Provisions (thousands of dollars)	5.78	6.55	8.94	36.6
Taxes and contributions (thousands of dollars)	7,149	7,369	7,319	-0.7
Net profit (thousands of dollars)	3.35	3.80	2.14	-43.7
Operational efficiency index (operating costs/average of total assets) (%)	4.87	4.74	4.22	-52
Productive assets/total assets (%)	83.98	84.30	84.80	50
ROE (%)	5.96	6.59	3.46	-313
ROA (%)	0.44	0.47	0.25	-22
Liquidity ratio (%)	25.69	25.81	29.95	414
Wealth (thousands of dollars)	59.50	61.48	64.02	4.1
Solvency ratio (Patrimonio Técnico) (%)	10.99	10.82	11.12	30

Delinquency rate (cartera vencida) (%)	2.37	2.03	1.12	-91
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It should be noted that the decrease in ROE in 2020 was mainly due to the fact that the Banco de Machala constituted higher provisions than the previous year related to the unproductive portfolio which had a coverage of 233.33% higher than 2019, which was 160.54 %

At Banco de Machala we stood firm in our commitment to support all our clients and finance their projects, even in crisis situations. We exceeded our credit issuance goals, without affecting profitability, with profit growth.

The Bank's total (gross) loan portfolio, in December 2020 reached US \$ 523MM, reflecting a growth of US \$ 9.61MM (1.99%) compared to the previous year.



Sustainability priorities

Progress

At Banco de Machala, we have been addressing our impacts as a result of banking activity, enhancing the positives and mitigating the negatives.

Our origin in the Province of El Oro let us support the attention of the different needs of its population, in aspects such as education. We expanded our reach as we operated in other areas of the country, accompanied by a solid commitment to the development of Ecuador.

Here are the main milestones at this time:

- Origin of the Bank in the concern of a group of businessmen to support the development of the agricultural sector (especially bananas and cocoa) and aquaculture in the province of El Oro; focus on productive credit.
- Geographic diversification to serve the productive sectors in other provinces of the country (Guayas, Azuay, Los Ríos, Pichincha, Manabí, Loja, Tungurahua and Santo Domingo).
- Operation as universal banking, developing personal banking, with a focus on personalized attention.
- Strength in the management of processes to avoid risks of corruption and money laundering, safeguarding the assets of our clients.
- Development of the educational credit offer, serving a segment with access to these credits. In this way, an important contribution to the development of the country, preparing future professionals.
- Launch of the financial education program, innovating in channels and content.
- Incorporation of technology to facilitate customer access and banking experience; development of Machala Wallet.
- Development of an environmental and social risk assessment system, which applies to a selection of business credit. Support from the National Finance Corporation (CFN).
- Adherence to the Principles for Responsible Banking, as progress in the articulation of a specific strategy related to the Sustainability strategy.
- Diagnosis of the Sustainable Development Goals to which we can contribute strategically, by type of activity and context.

Relationship with stakeholders

The Bank's growth, as well as the goals achieved over the years, are due to the trust that stakeholders have placed in our operations, products and services. We maintain an open dialogue and it's guided by transparency in our daily activities and results.

We identify our stakeholders as those who are significantly impacted by our operations and/or are decisive in the achievement of our business goals.

With each of them, we have the goal of generating long-term relationships that may develop mutual benefit. We always interact in accordance with our values and principles, as well as the Code of Ethics.

STAKEHOLDERS	CREATION OF VALUE
Employees	<ul style="list-style-type: none"> • We support professional development through constant training in order to maintain an expert team in each area. • We also offer a career plan for professional development, favoring internal talent. • We guarantee health and safety; We strive for the physical and psychological well-being of our employees, through campaigns and activities that ensure their quality of life. • We safeguard their integrity and the absence of discrimination, promoting a culture of respect.
Shareholders	<ul style="list-style-type: none"> • We guarantee the financial stability and growth of the company, with adequate risk management, providing security in the shareholders' investments.
Clients	<ul style="list-style-type: none"> • We offer products and services with high quality standards. We adjust to the client's needs and work on a tailored offer. • We seek transparency in information, guaranteeing the security and trust of our clients.
Providers	<ul style="list-style-type: none"> • We generate opportunities to participate in the Bank's operations, by selecting quality products and services. • We have a focus on long-term relationships generating a win-win.
Authorities	<ul style="list-style-type: none"> • We promote a culture of compliance in the company; we monitor compliance with applicable legislation. We generate development opportunities for the country.
Community	<ul style="list-style-type: none"> • We contribute to social development, through financial education and other initiatives with social organizations.

Materiality analysis

To understand our impacts as a company and properly due to our products and services, we developed a double exercise.

First, the materiality analysis, to determine the critical issues of our performance in all our roles: as employer, client of our providers, provider of our clients (asset manager, financing facilitator), and promoter of community development (example: generator of financial culture).

On the other hand, specifically for our role with the client, we made the impact map. With this exercise, we identified the positive and negative social and environmental impacts that are generated through our offer of products and services (it is expanded in this report, in a specific section).

Details of materiality

We developed the exercise for the first time, in which we integrated the perspective of the stakeholders and the strategic vision of the business.

According to the current scenario, the exercise incorporates changes in customer expectations, employee priorities, and trends for other stakeholders, as well as in the management of the operation and business development.

We present below the detail of the process:

1. Identification/Revision

Identification of the set of potentially relevant issues, based on documentary reviews and a reference framework corresponding to similar companies.

Preparation of a list of potentially relevant issues, with bibliography referring to:

- **Sector references:** references of investment criteria in the sector.
- **National references:** Analysis of the national context of the activity and the sectors in which the organization operates.
- **Business references:** Analysis of trends in business management, risks and opportunities and improvements.

2. Prioritization

Prioritization of issues based on the opinion of the relevant stakeholders of Banco de Machala, and the strategic perspective of the company.

- **Stakeholder priority:** prepared through the implementation of employee and provider surveys.
- **For clients:** interviews for the relationship with clients in different businesses.
- **Strategic priority of the company:** interviews with senior management.

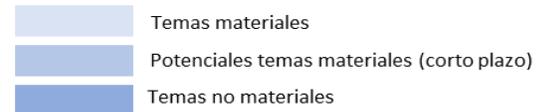
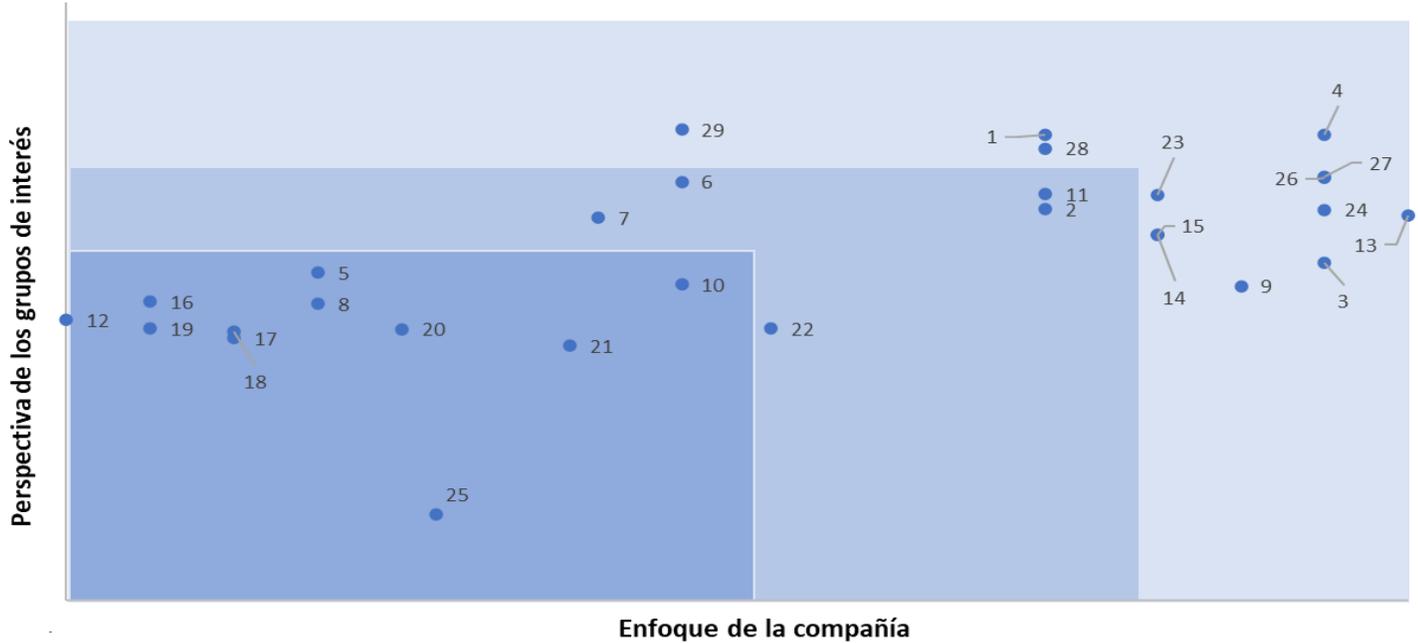
3. Identification/Revision

1. Development of the matrix and validation of relevant issues.
2. Preparation of the materiality matrix of Banco de Machala.
3. Determination of the set of material issues.
4. Validation session with Banco de Machala.

We present the materiality matrix, where the topics are divided into three categories that respond to the concept of dynamic materiality:

- **Material issues:** those especially critical at the present time, both for stakeholders and for the company. The initiatives it comprises and the contents of this report serve as the basis.
- **Emerging issues:** those to which we will pay attention because they may become material in the short term, derived from a significant change in the context and/or in our operation.
- **Non-material issues:** those of low significance, which do not require special action on our part.

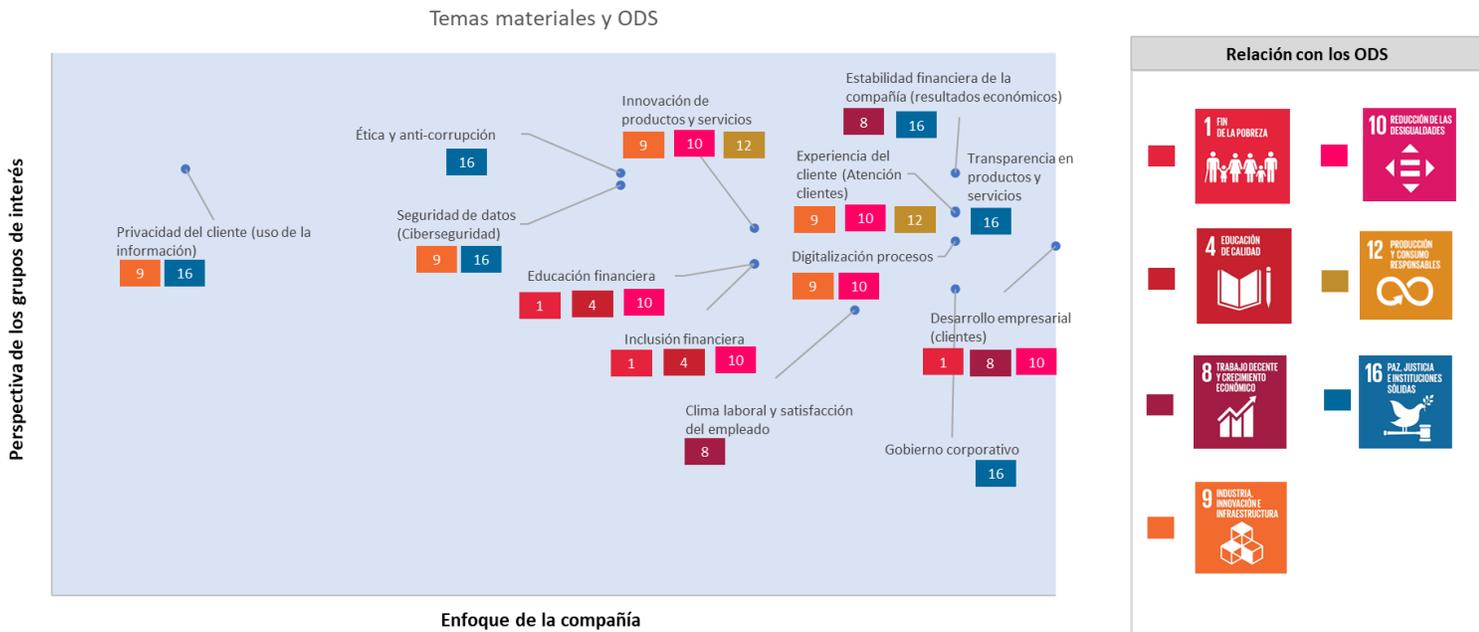
Matriz de materialidad – Banco de Machala



1	Ethics and anticorruption	15	Financial Inclusion
2	Regulatory compliance	16	ESG investment
3	Corporate Governance	17	Energy efficiency
4	Financial stability of the company (economic results)	18	Water management
5	Relationship with authorities	19	Waste management
6	Brand management (transparency and communication)	20	Resilience to climate change
7	Training and opportunities development	21	Emission management
8	Talent attraction and retention	22	Products and/or services with environmental benefit
9	Working environment and employee satisfaction	23	Products and services innovation
10	Diversity and equal opportunities	24	Processes digitization
11	Employee health and safety	25	Responsible supply chain
12	Social investment	26	Customer experience (customer service)
13	Business development (clients)	27	Transparency in products and services
14	Financial Education	28	Data security (Cybersecurity)
		29	Customer privacy (use of information)

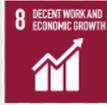
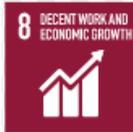
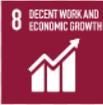
From our operation, we seek to contribute to addressing the great challenges of society, prioritized by the United Nations in the 2030 Agenda. We are committed to contributing to the achievement of the Sustainable Development Goals (SDG) that comprise it, especially those in which we can do the difference due to our activity in the financial sector.

We present the correlation between material issues and the SDGs:



Sustainability initiatives

At Banco de Machala we have already been making progress in sustainability, a trajectory that is now being reinforced, articulated in a medium-term strategy, with additional commitments.

Material issue	SDG	Initiative
Ethics and anticorruption		Internal self-regulation, especially the Code of Ethics and Conduct. Reporting channels and case analysis. Compliance culture program. Training for Board members on ethics and anti-corruption issues.
Corporate Governance		Corporate Governance Structure and members, which has made it possible to advance in the fulfillment of the strategic objectives, ensuring that the institution is a viable and competitive organization. Corporate Governance Code, which establishes duties, rights and limits.
Financial stability of the company (economic results)	 	We make our financial statements public and explain them in a report specially addressed to shareholders. Performance of the Audit Committee.
Working environment and employee satisfaction		Occupational health and safety program that addresses psychosocial risks. Medical care and other measures. Initiatives to respond to COVID-19, with teleworking and protocols for work in offices. We have obtained the <i>Covid Safe</i> certification that verifies that biosafety protocols are met to minimize the risk of contamination, thus providing confidence to all our employees (and clients). We promote a culture of respect and non-discrimination (Code of Ethics).
Business development (clients)	  	We design financial products that contribute to the development of companies, from MSEs. We have credit for individuals with business activity, and commercial or productive credit for companies (from MSEs). We support clients with advice for the best choice and use of products.

<p>Financial Education</p>		<p>We are oriented towards the strengthening of capacities, exchange of experiences and financial education of the community banks led by women in rural and urban-popular areas.</p> <p>We innovate in financial education processes, as well as in the use of digital tools.</p> <p>We have started the development of a web platform that houses the financial education MOOCs.</p>
<p>Financial Inclusion</p>		<p>Social capital is being strengthened with Non-Governmental Organizations, international cooperation organizations to develop proposals that strengthen financial inclusion</p> <p>We have made a diagnosis from the Global Findex methodology that allows us to do a benchmarking exercise and have a baseline.</p> <p>We offer credit products for students; also savings and credit for the workers of companies that are our clients (with a special impact on workers in the agricultural sector, banking services).</p>
<p>Products and services innovation</p>		<p>We have developed digital products and services that contribute to the development of our clients and the Bank.</p> <p>We have developed virtual kiosks, to speed up the procedures in our offices, as well as Machala Wallet for payments in small establishments with virtual cards loaded in the application.</p> <p>We also work on the selection of providers to have the best allies; We also incorporate the evaluation of environmental criteria in the selection processes.</p>
<p>Processes digitization</p>		<p>We are working on strengthening digital channels that will guide us towards an omnichannel strategy. And ensuring the accessibility of our products and services.</p> <p>We also have an environmental program, which includes “paper less” commitments.</p>
<p>Customer experience (Customer service)</p>		<p>We train our commercial areas in terms of proper customer service. We have mechanisms to make inquiries and/or claims. We monitor customer’s satisfaction.</p>
<p>Transparency of products and services</p>		<p>As part of our values, we promote the characteristics of our products and services, as well as their terms and conditions. We also carry out annual reports, aimed at shareholders. Complementary, we are developing this first report on progress in sustainability.</p>
<p>Data security (Cybersecurity)</p>		<p>We are in the digital transition. So we are establishing the principles and tools in cybersecurity.</p> <p>Internal control structure; training for employees and awareness-raising initiatives for a culture of precaution.</p>

<p>Customer privacy (use of information)</p>	 	<p>We have the Data Governance Committee, which defines the necessary guidelines to efficiently manage data, through all areas of the organization.</p> <p>The Compliance Unit has presented the Client Data Update Mechanism, which adheres to current legislation.</p>
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Governance in sustainability

The Corporate Governance Committee has among its functions the analysis of progress in sustainability management, including existing initiatives and new ones proposed for the following years. They report the different areas and teams in charge.

For this, we have indicators and goals that each responsible area has completed, which are key in monitoring. The Committee meets as often as required and reports in turn to the Board of Directors.

On the other hand, the risk area has incorporated social and environmental criteria in the credit evaluation, through the environmental and social risk analysis system. In this way, the Credit Committee monitors its application and reports through the Board.

The Board supervises the performance in responsible banking, including both the integration of sustainability in processes (example: credit evaluation) and product development (example: student credit). In a broader sense, it promotes the overall sustainability strategy and evaluates its implementation.

The Board of Directors includes the founding partners as members. Their commitment has been decisive throughout the Bank's history, also in sustainability.

Responsible banking strategy

Impact map

Complementary to the materiality exercise already mentioned, and specifically for our role as a financial entity, we evaluate the impacts of our product portfolio. For this we use the Portfolio Impact Analysis Tool for Banks, developed by UNEP-FI.

At Banco de Machala, as part of our commitment to the Principles for Responsible Banking, we are also an active part in different work groups of the initiative, including the group of companies that used the tool developed by UNEP-FI as a pilot.

To determine the impact areas, the tool works with a priority of impacts for the company based on its portfolio and for the context of activity (countries where it operates). To establish the final impact areas, positive and negative, we integrate both priorities.

We reference the process:

1. Impact identification

1.1. Determination of the mapping of products and services

Based on the mapping structure of the tool, we include the credit portfolio in the scope:

Consumer banking: credit to individuals (consumer, educational and housing), to individuals with business activity and microcredit.

Business banking (commercial and productive loans), including the different sectors of economic activity and segments by company size: SMEs, business and corporate.

1.2. Mapping the country's needs

Our operations are developed in Ecuador. Our main activity is in the El Oro province, where the institution was born, but we are expanding our presence thanks to our clients' value proposition in 8 other provinces of the country.

We consider the criticality delivered by the tool to each impact category for Ecuador.

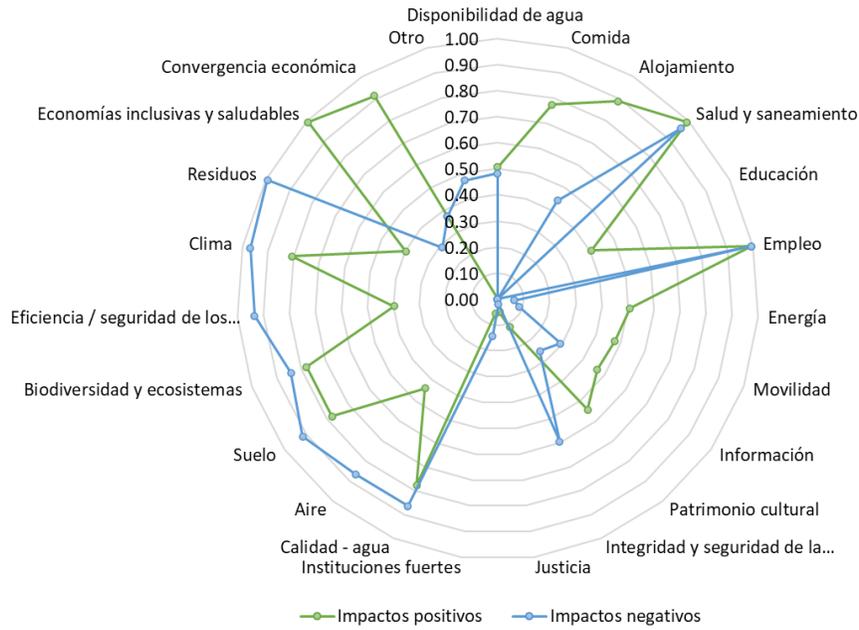
1.3 Preparation of impact and prioritization maps

Based on the first two steps, we build our maps of positive and negative impact by consumer and business banking.

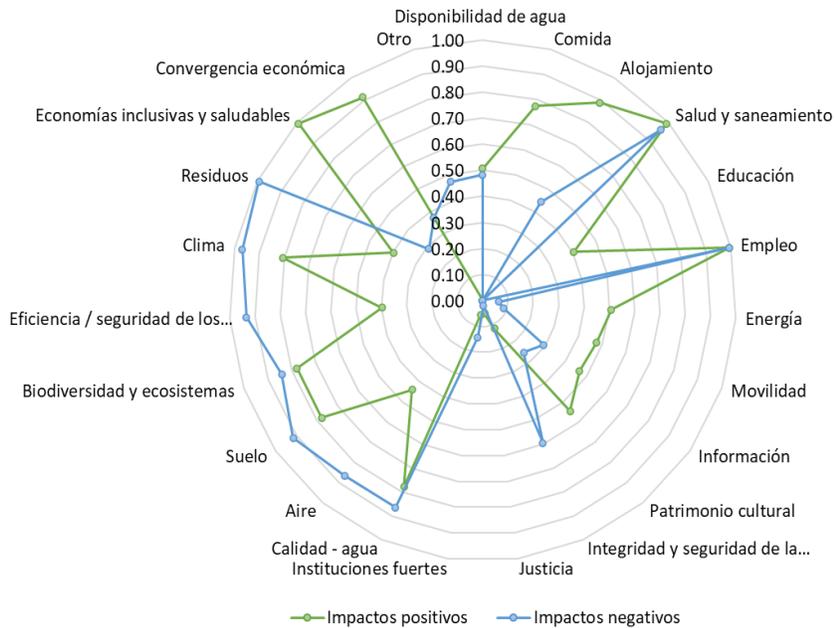
The map responds to the impact categories established by UNEP-FI, published in the Impact radar (2018).

The maps show how much is impacted on the maximum possible (1 = 100), in positive and negative.

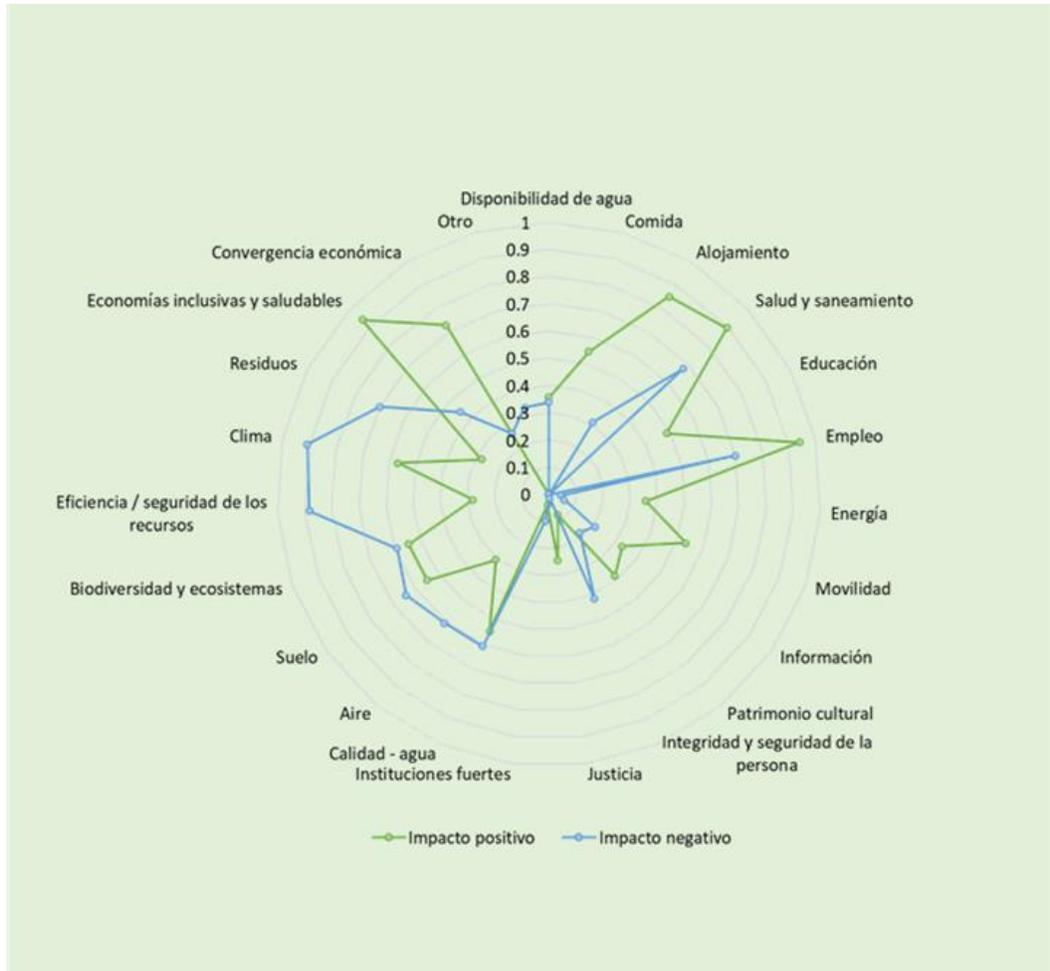
Business Banking



Consumer Banking



Integrated



POSITIVE IMPACT	NEGATIVE IMPACT
Inclusive and healthy economies Mobility Health and sanitation Soil Climate	Soil Waste Climate Resource efficiency and safety Water: quality

Commitments and goals

As an institution, we have grown by contributing to the economic and social development of both individuals and companies.

Our support through credit is complemented with the promotion and facilitation of savings, as well as support for the understanding and convenient use of the products; this is completed with the financial education that we provide to different sectors of society.

We articulate these efforts in the Responsible Banking Strategy, in which we also assume new commitments to continue advancing, including the development of new products with an environmental and/or social purpose.

We monitor commitments through a selection of indicators, for which we present our baseline. Due to the exceptionality of 2020, due to the incidence of the COVID-19 pandemic, we also reference the 2019 values.

We want to move forward, and we have set annual targets for these indicators.

The development of responsible banking is a bet for the present and for the future, which we reflect in a series of goals for 2023.

COMMITMENTS	IMPACT AREAS	SDG	INITIATIVES	INDICATORS	2019	2020	MILESTO NE 2021
Contribute to the professional development of young people and adults, facilitating access to higher education through preferential credits.	Employment (extra +) Education (extra +)	4, 8, 9	Educational credit merchandising: Estudio Meta, for financing master's degrees.	Balance at the end of the year - educational credit (MM)	2.98	2.92	3.06
Facilitate opportunities for families, promoting savings and providing credit.	Inclusive and healthy economies Mobility Health and sanitation Economic convergence (extra+) Climate	1, 10, 12	Other specialized credits: Autocredit y Casa Credit. Improvement of the quality of life of clients	Balance at the end of the year - Casa Credit (MM)	17.76	16.98	17.73
				Balance at the end of the year - Crédito automotriz (MM)	0.39	0.36	0.40
				Balance at the end of the year – Consumer credit (MM)	107.84	105.89	109.34
			Saving account product; complement with debit card: payment facilities.	Number of saving accounts (individuals)	130,210	122,904	124,215
				Amount of deposits (MM) – saving accounts	199.54	215.58	218.63
			Development of the checking account product, with checkbook and debit card.	Number of checking accounts (individuals)	12,652	10,831	10,636
				Amount of deposits (MM) – checking accounts	60.87	56.36	58.89
			Investment products, facilitating the performance of financial assets for personal and/or professional projects.	Attracting investments (MM)	328.75	347.77	333.73
Wide portfolio of credit cards: access to consumption and structuring of spending (individuals)	Number of credit cards (individuals)	25,677	24,102	24,092			

Promote savings in children and young people, and the responsible management of finances.	Education (extra +)	1	Availability of account for the saving of children: Mi Cuenta Crecer. Also for teenagers: Mi Cuenta Crecer Plus.	Number of clients - Mi Cuenta Crecer	2,215	2,068	2,162
				Number of clients - Mi Cuenta Crecer Plus	852	752	788

COMMITMENTS	IMPACT AREA	SDG	INITIATIVES	INDICATORS	2019	2020	MILESTONE 2021
Facilitate the operations of companies and their competitiveness.	Economic convergence (extra +) Climate (extra -)	8, 9, 12	Facilities of deposit and payment (payroll, providers): saving or checking accounts for companies (legal entity)	Number of saving accounts (companies)	994	963	969
				Number of checking accounts (companies)	3,883	3,697	3,728
			Wide portfolio of credit cards: access to consumption and structuring of spending (companies)	Number of credit cards (companies)	620	576	552
Contribute to the productive development of the country, of large companies and SMEs, and of their value chain: providers, employees (job creation), clients	Inclusive and healthy economies Soil Waste Climate Resource efficiency/safety Water quality	8, 9, 10, 12	Company credit for productive sectors (especially bananas and shrimp) (Productive credit)	Business and productive credits – balance at the end of the year (MM)	321.85	341.35	339.40

(access to products and/or services).							
Facilitate the financing of SMEs.	Inclusive and healthy economies Waste Climate water quality	8, 10	Microcredit available for SMEs, contribution to their development (includes legal individuals)	Balance at the end of the year – microcredit (MM)	10.43	6.45	6.06
Promote high standards and good labor practices, relations with the community, environmental and governance, in clients' companies.	Soil Climate	12, 13, 16	Environmental and Social Risk Analysis System, with requirements for the delivery of credit.	Number of clients evaluated in the environmental and social risk analysis system processes.	0	0	16
				Credit evaluated under environmental and social risk analysis system (MM)	0	0	10

COMMITMENTS	IMPACT AREAS	SDG	INITIATIVES	INDICATORS	2019	2020	MILESTO NE 2021
Facilitate the use of financial products and services, through digital media for greater reach.	Economic convergence (extra +) Integrity and safety of the person (extra -)	10, 16	Development of remote assistance and online services: ORONET and OROMÓVIL facilitating access from the cell phone: extension of geographic, social and generational reach.	% online banking transactions	0.8%	1.9%	2.0%
				% transactions through mobil app	0.0%	0.5%	0.6%
				Number of active users of the web	25,748	29,652	33,544
				Number of active users of the app (Oromóvil)	1,584	9,291	12,496
			Development of digital payment methods: Machala Wallet, which allows transactions to be carried out in	Number of affiliated establishments	186	215	217
				Number of active users (of the Wallet app)	5,545	6,932	9,243

			establishments without physical cards and without terminals.				
			Operation of contact points that includes: offices, agencies, and special offices (also the principal office)	Number of contact points (excluding ATMs)	53	53	52
				Number of ATMs (all of them)	61	69	71
				% of smart ATMs (virtual kiosks)	15%	22%	21%
Support of the knowledge of the population on financial management, as a complement to product information and for a greater reach: financial education.	Education (extra+) Information (extra +)	1, 4	Financial education program by age segment	Number of children trained in financial education	178	203	203
				Number of young people trained in financial education (including preteens, teenagers and young adults)	382	343	343
				Number of adults trained in financial education (including older adults)	1,449	1,485	2,563

Medium-term commitment – Milestones to 2023

As part of our efforts to develop responsible banking, we have set the following milestones for 2023:

Educational credits: balance at the end of the year (MM) → 3.2 millions

Business and productive credit: balance at year-end → 361.2 millions

Number of adults trained in financial education → 2,138 people

The governance of our Responsible Banking Strategy is integrated into the Sustainability Strategy, which we previously detailed in this report. The business areas, in charge of the commercialization of products and services, together with the teams in charge of technology (essential for accessibility) and financial education.

Key performance

Environmental and Social Risk Analysis System

Developed in 2020, it is already in operation. It consists of an environmental and social risk policy, with the guidelines established by the company and a procedure for evaluating credit applicants.

It is complemented by an exclusion list of activities that we do not finance, due to their negative impacts, aligned with the best international practices.

The environmental and social risk analysis system allows the identification and evaluation of risks, establishing control and monitoring measures, including the requirement of mitigation commitments by the client. It is in charge of the National Risk Management.

In this way, we promote good practices in our clients. For our part, we are developing a solid portfolio, related to indirect risks on the ability to pay and the value of customer guarantees due to the impact of regulatory sanctions and market losses are reduced.

During the first quarter of 2021, we have already evaluated 16 clients in the year, which represent a credit volume of US \$ 10 million.

Saving and credit products with social impact

At Banco Machala, we have different products that stand out for their contribution to social development.

We are one of the few institutions in the country that competitively offers credits to students (educational), with conditions that have allowed us to have a remarkable portfolio of clients. It is a commitment of the Bank for the future of the country and the development of the productive sectors that we also support.

→ We disbursed US \$ 0.6 million in the year, benefiting 87 students; the balance of the educational loan portfolio was US \$ 2.92 million.

For workers of companies in the productive sector (bananas, shrimp), with greater difficulties in accessing to financial entities, we offer saving accounts and help them, so that they formalize the deposit of their income and can have better control.

On the other hand, in terms of productive credit, and with the benefits already mentioned, we have contributed to its development, so that they can invest in technology and machinery, and are in a position to export. In this way, we favor the generation of employment and the local supply chain.

→ We disbursed US \$ 297.91 million in 2020, benefiting 894 clients: the balance of the business and productive loan portfolio was US \$ 341.35 million.

We provide microcredit to individuals and those with business activity. The amount range of US \$ 6.45 MM. In this way, we favor the development of entrepreneurs and small businesses, which are key to the country's economy, to generate employment and serve the population.

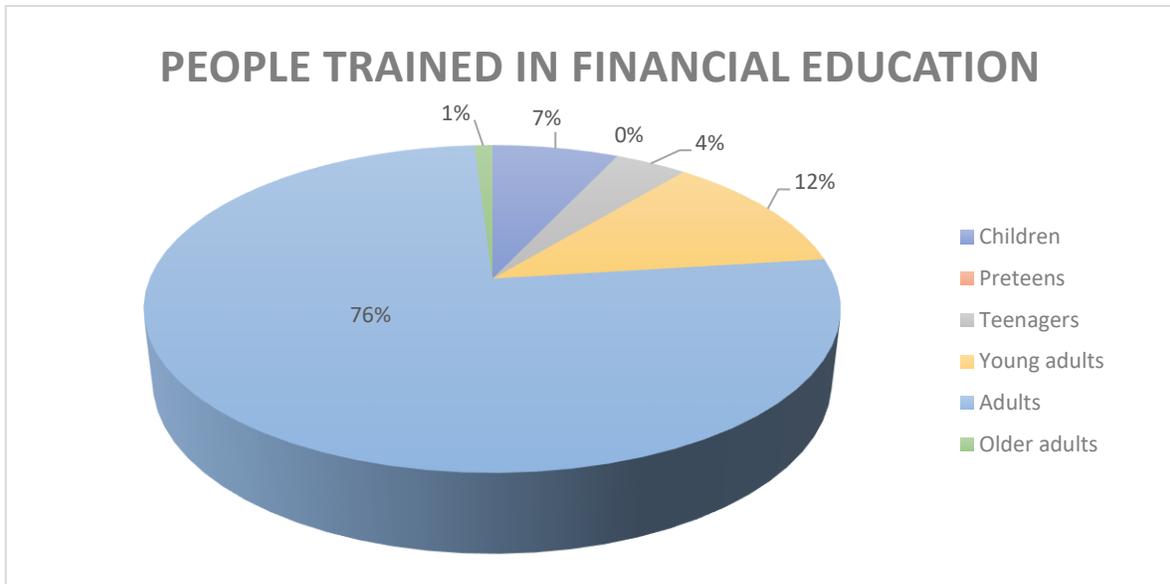
→ We contributed US \$ 2.9 million in 2020, benefiting 93 clients: the balance of the microcredit portfolio was US \$ 6.45 million.

Financial Education Program

We are leaving a mark on society and working with different segments of the population for a better understanding of finances, according to the specific needs in each case.

We offer face-to-face and virtual training, especially with adults from urban areas, in financial management in times of uncertainty (use of credit, planning and budget management, cost reduction and the importance of saving). It included training for employees from client companies and our own workforce. We complement the program with 12 webinars open to all audiences.

Our efforts allowed us to exceed the goal established by the authority and train 104% of the required amount. We train 2.723 people, of different ages, in the provinces of: El Oro, Guayas, Pichincha, Azuay, Loja, Los Ríos, Tungurahua and Santo Domingo.



During 2020, children trained in financial education represented 7%, preteens trained in financial education represented 0%, teenagers trained in financial education represented 4%, young adults trained in financial education represented 12%, adults trained in financial education represented 76% and older adults trained in financial education represented 1%.

By 2021 we seek to focus on rural areas, through joint work with social organizations. For this, we have already signed collaboration agreements with HIAS, Fundación Quimera, Fundación Terminal Terrestre de Guayaquil and the Kolping Foundation.

In the context of the pandemic, we remained committed and accelerated our innovation efforts in financial education. We developed the online educational platform, *Un Banco para crecer*, with the aim of making available to the different target groups a set of courses and tools that promote the education and subsequent financial inclusion of citizens.

The virtual platform currently has two MOOCs (Massive Open Online Course) courses characterized by their easy accessibility and flexibility for learning.

Each of the courses have a set of classes in video format that present specific topics, learning reinforcement documents and content evaluations. The user who completes each course will receive a certificate of achievement obtained by Banco de Machala.

- **Financial Education Course:** seeks to provide participants with financial planning tools that facilitate their well-being. It highlights the importance of saving and provides the technique to prepare personal and family budgets, as well as introduces the most relevant financial products and services and their characteristics, with special emphasis on the advantages and risks.
- **Entrepreneurship Course:** developed to contribute to the economic reactivation of the country in the context of a pandemic. It includes the techniques to undertake, including market analysis, defining the attributes of the product and/or service, setting the price.

As a complement, we promote the dissemination of financial tips through our social networks.

Summary of First year of progress – Principles for Responsible Banking

P1	P2	P3	P4	P5	P6
<p>As part of our materiality exercise, we established the SDGs to which we can contribute strategically. We incorporate commitments on climate change, aligned with the Paris Agreement. Specifically, we are carbon neutral and we are working on defining emission targets.</p>	<p>We carry out the impact analysis of our portfolio, with the UNEP-FI tool. We established impact areas considering how much we impact (positively or negatively) and how critical the issue is in the country. We also established commitments in these areas, from the business activity, with indicators, annual and medium-term targets.</p>	<p>We have the Environmental and Social Risk Analysis System, with which we restrict the negative impacts of our portfolio and promote good practices.</p>	<p>We have an analysis of our stakeholders, and a list of channels for dialogue. We involve employees and providers in determining material issues. Each area of the Bank has a relationship strategy with the corresponding groups (example: in the selection of providers).</p>	<p>We articulate a Responsible Banking Strategy, in which different areas participate. Its monitoring is integrated into the Sustainability Strategy, with the Corporate Governance Committee as the main responsible for monitoring. Progress is reported to the Board of Directors, which shares the commitment of senior management to responsible banking. We are part of different UNEP-FI working groups, which allows us to exchange experiences and learnings with different banks at an international level.</p>	<p>Complementary to the report to shareholders, we generated our first report on progress in sustainability. We integrate the impact analysis of the portfolio and the Responsible Banking Strategy into it. In addition, we attended the Self-Assessment questionnaire.</p>

APPENDIX: Detailed index of progress on the Principles for Responsible Banking Self-Assessment questionnaire

Principle 1: Alignment		
<p>We will align our business strategy to be consistent and contribute to the needs of individuals and the goals of society, as expressed in the Sustainable Development Goals, the Paris Climate Agreement, and relevant regional and national frameworks</p>		
Request	Response and Self-Assessment	For more detail
1.1. Description of the business model	<p>Banco de Machala is a commercial banking institution that operates in Ecuador.</p> <p>We have savings, credit and financial services products for individuals and companies, with a model of closeness in service.</p>	<p>Company profile</p> <p>https://www.bancomachala.com/institucional/</p>
1.2. Alignment of business strategy with sustainable development	<p>Based on material issues, we have established sustainability priorities, which includes the business.</p> <p>This part of the business is structured around a Responsible Banking Strategy, with initiatives already underway: development of products and services with a social focus (example: educational credit), financial education program, environmental and social evaluation of clients, among others.</p> <p>In addition, we identify the SDGs to focus on strategically (based on material issues).</p>	<p>Materiality analysis</p> <p>Sustainability initiatives</p> <p>Impact map</p> <p>Commitments and targets (responsible banking)</p>

Principle 2: Impact and target setting		
<p>We will continually increase our positive impacts while reducing the negative impacts and risk management for people and the environment resulting from our activities, products and services. To that end, we will establish and publish targets where we can have the most significant impacts.</p>		
Request	Response and Self-Assessment	For more detail
2.1 Impact Analysis	<p>We analyzed the positive and negative impacts of our portfolio of products and services, through a process that considered the recommendations of UNEP-FI. We use the Portfolio Impact Analysis Tool.</p> <p>We include credit to individuals, for the total value: 24% as consumer credit (including education and housing); 70% as credit for business activity; other credit possibilities are grouped in the remaining 5%.</p>	<p>Impact map</p>

	<p>Regarding business credit, the main sectors (according to the ISIC classification) were agriculture/ forestry / fishing and commerce; together they generate 65% of commercial credit.</p> <p>To establish the impact areas, we consider the level at which the portfolio impacts and the criticality of the issue in the country (50% each variable).</p>	
2.2. Target setting	<p>Based on the areas/issues of impact, we established responsible banking commitments. These are articulated in initiatives, with indicators.</p> <p>We set 2021 annual goals for these initiatives (indicators) and a selection of medium-term goals.</p>	Commitments and targets
2.3. Implementation and monitoring related to targets	<p>The commitments assumed in Responsible Banking based on the impact map have been provided with indicators, with short and medium-term goals (2021 through 2023).</p>	Commitments and targets
2.4. Progress in achieving targets	<p>The progress of the initiatives and the fulfillment of the goals corresponds to the Corporate Governance Committee and is integrated into the monitoring of the Sustainability Strategy.</p> <p>The Corporate Governance Committee reports to the Board of Directors.</p> <p>We will also report the annual results in our successive sustainability reports.</p>	<p>Governance in sustainability</p> <p>https://www.bancomachala.com/institucional/gobierno-corporativo/</p>

Principle 3: Clients and customers		
<p>We will work responsibly with our clients and customers to encourage sustainable practices and enable economic activities that create shared prosperity for current and future generations.</p>		
Request	Response and Self-Assessment	For more detail
3.1. Policies and practices	<p>One of our main differential strengths compared to other institutions is our proximity to the clients, which allows us to offer convenient solutions and know their needs.</p> <p>Our employees already know the Code of Ethics in commercial activity and other internal guidelines, so that the client always has the necessary information for decision-making and an offer of suitable products.</p> <p>We also have a social and environmental evaluation program for business credits, with a specific risk policy.</p>	Commitments and targets
3.2. Sustainable practices with clients	<p>Through that system, we assess the social and/or environmental risks of the projects to be financed. In this way, we promote compliance with high standards to be beneficiaries of credit, we also establish a monitoring plan during the use of credit.</p> <p>Through product information and advice to clients, we promote the sustainability of their financial situation.</p> <p>On the other hand, credit to companies help them to invest in machinery, equipment and other resources, which makes them more competitive. We seek that this already responds to a sustainability scenario.</p>	Commitments and targets

Principle 4: Stakeholders		
We will proactively and responsibly consult, engage and partner with relevant stakeholders to achieve society's goals.		
Request	Response and Self-Assessment	For more detail
4.1. Consultation, dialogue and alliances with stakeholders	<p>The different areas or teams of the company interact with different stakeholders, both with other employees (internal) as well as clients, providers and other external groups. This continuous operating relationship allows them to know their expectations and respond to them as allowed by the business strategy. In the same way, this rises to the direction at the time of building the strategic plans.</p> <p>Additionally, in the materiality exercise, it has been possible to count on the participation of a representation of the most significant groups: employees and providers, with commercial managers to give the clients perspective.</p> <p>The commercial areas, with their understanding of the clients, have also participated in the identification of the portfolio's impacts.</p>	<p>Relationship with stakeholders</p> <p>Materiality analysis</p>

Principle 5: Governance and culture		
We will implement our commitment to these Principles through effective governance and a culture of responsible banking.		
Request	Response and Self-Assessment	For more detail
5.1. Governance structure	<p>Responsible banking Commitments and initiatives (which form a specific strategy) are integrated into the Sustainability Strategy and its governance.</p> <p>The Corporate Governance Committee monitors progress, with the information provided by those responsible for the initiatives, especially the commercial areas; informs the Board of Directors.</p> <p>Likewise, the Credit Committee participates in the authorization of financing that goes through the environmental and social risk system process.</p>	Governance in sustainability
5.2. Initiatives and measures	<p>Monitoring progress in responsible banking and sustainability is part of external management, but also of accountability through public reports.</p> <p>The participation of senior management and directors in the materiality process contributes to ensuring that sustainability becomes established in the culture and decision-making.</p> <p>Additionally, progress in sustainability management will be disseminated internally, through the different channels available for communication with employees.</p>	<p>Materiality Analysis</p> <p>Sustainability initiatives</p>

5.3. Governance structure for the implementation of the Principles	The monitoring of the progress of the indicators with respect to the targets set based on the impacts of the portfolio (positive and negative impacts) corresponds to the Corporate Governance Committee, including the commercial areas and the rest of those responsible for initiatives report.	Governance in sustainability
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Principio 6: Transparency & accountability We will periodically review our individual and collective implementation of these Principles to be transparent about and accountable for our positive and negative impacts and our contribution to society's goals.		
Request	Response and Self-Assessment	For more detail
6.1. Progress in the implementation of the Principles for Responsible Banking	In this report and appendix, we indicate how we have been implementing the Principles in the first year of progress. We have carried out the portfolio impact analysis, established the responsible banking commitments, the list of initiatives and the monitoring indicators are being promoted. In addition, we set short-term goals (annual, 2021) and medium-term goals.	Reporting on First Year Progress Appendix: detailed index

Credits

Banco de Machala

With the technical support of Valora Consulting.



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El Oro es nuestro respaldo



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