

APPENDIX: Detailed index of Principles for Responsible Banking progress – Self-assessment questionnaire

Request	Response and self-assessment	For more detail
<p>Principle 1: Aligment</p> <p>As stated in The Sustainable Development Goals, The Paris Climate Agreement, and relevant regional and national agendas, Banco de Machala S.A. will line up its business strategy to be consistent and contributive to individuals needs and goals of society.</p>		
<p>1.1. Describe (high level) your bank's business model, including the main customer segments served, the types of products and services provided, the main sectors and types of activities, and, where applicable, the technologies financed in the main geographies in which that your bank has operations or provides products and services.</p>	<p>Banco de Machala is financial institution, which operates in Ecuador with over 60 years of experience in commercial and retail banking business.</p> <p>Founded in in the Province of El Oro, Banco de Machala is the leading bank in this banana producer region.</p> <p>Services offered are checking, savings, credit and other financial services and products for individuals and companies, with a partnering with customer business model.</p> <p>Specialized productive loans stand out in primary sector such us agriculture, livestock, forestry and fishing, followed by retail sector.</p>	<p>Profile</p> <p>Economic Performance</p>
<p>1.1. Describe how your bank has aligned and/or plans to align its strategy to be consistent and contribute to society goals, as expressed in the Sustainable Development Goals (SDGs), the Paris Climate Agreement, and national and relevant regional frameworks.</p>	<p>In 2020 after a process of materiality impact analysis it was determined critical ESGs factors (environmental, social and governance). Scope of this process covered the Bank's role with different partners as employers, clients, suppliers and providers of financial products and services or as trade union participants.</p> <p>These issues were a key factor stablishing Sustainable Development Goals (SDGs) the Bank is capable of contribute with, since they are closely related to the Bank's business and operating core.</p> <p>Materiality exercise is complementary to the second process executed, which is analysis of potential positive and negative main impacts of the loan portfolio (in personal banking and business banking).</p> <p>Responsible banking priorities are conceived from impact analysis performed and laid out as commitments in direct relation to measurable key performance indicators with semi-annual and annual goals. It has been stablished medium-term goals, for 2023. Such commitments are also part of application of the Sustainable Finance Protocol of Ecuador (developed by CAF, UNEP-FI and ASOBANCA).</p> <p>Material factors are in the scope of a extensive analysis, in which ESG Strategy is built. Throughout this process, climate action measures to reduce our greenhouse gas (GHG) emissions, will be incorporated of 2030 Agenda.</p>	<p>Responsible Banking</p> <p>Appendix: Materiality Analysis</p> <p>Appendix: Identification of Portfolio Impacts</p>

Principle 2: Impact and target setting

Banco de Machala S.A. is permanently increasing its positive impact whilst reducing the negative impact and risk management for individuals and environment resulting from daily activities, products and services. To that extent, targets will be determined and socialized where significant impact can be achieved.

<p>2.1 Impact Analysis:</p> <p>Show that your bank has identified the areas where it has its most significant (potential) positive and negative impacts through an impact analysis that meets the following elements:</p> <p>a) Scope: b) Exposure scale: c) Context and relevance: d) Scale and intensity / importance of the impact</p> <p>Show that, based on this analysis, the bank:</p> <ul style="list-style-type: none"> Identified and disclosed your most significant (potential) positive and negative impact areas. Identified strategic business opportunities in relation to increasing / reducing positive impacts. Negative impacts. 	<p>Positive and negative impacts of our credit portfolio are analyzed through a process that considers the recommendations of UNEP-FI. We use the Portfolio Impact Analysis Tool.</p> <p>Organizational scope: We include credit to individuals, for the total value: 24% as consumer credit (including education and housing); 70% as credit for business activity; in the remaining 5% other credit possibilities are grouped.</p> <p>Regarding business credit, the entirety was also included. The main sectors (according to the ISIC classification) were agriculture/forestry/fishing and commerce; Together they account for 65% of total business credit (productive/commercial).</p> <p>Geographic scope: Ecuador</p> <p>Exposure scale: all sectors and industries subject to credit, also with segmentation in personal banking credit.</p> <p>Context and relevance: the criticality for Ecuador of the potential impact issues was integrated, with the impact of the businesses that the tool establishes as a result.</p> <p>Scale and intensity / importance of the impact: determined from the indicated process.</p> <p>To establish the impact areas, we consider the level at which the portfolio has an impact and the criticality of the issue in the country (50% of each variable).</p> <p>The main areas of potential positive and negative impact are presented in the report.</p> <p>The nomenclature of the impact areas corresponds to that established by UNEP-FI.</p>	<p>Appendix: Identification of portfolio impacts</p>
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Provide your bank's conclusion/statement if you have met the requirements related to the Impact Analysis.

We have complied with the requirements related to the Impact Analysis, determining the main areas. For this, we use the Portfolio Impact Analysis Tool for personal and business banking credit portfolios (corporate, business and SME).

<p>2.2. Target setting</p> <p>Show that the bank has established and published a minimum of two Specific, Measurable (can be qualitative or quantitative), Achievable, Relevant and Time-bound (SMART) goals, which address at least two of the "most significant impact areas" identified, resulting from the bank's activities and the provision of products and services.</p> <p>Show that these goals are aligned to further contribution to the</p>	<p>A series of commitments were set addressing the most significant impact areas by positive or negative contribution, aligned with different SDGs.</p> <p>These commitments are articulated in initiatives, with indicators. Annual goals for the initiatives (indicators) and a selection of medium-term goals is set.</p>	<p>Responsible banking</p> <p>Appendix: Identification of portfolio impacts</p>
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<p>appropriate Sustainable Development Goals, the goals of the Paris Agreement and other relevant international, national or regional frameworks. The bank should have identified a baseline (assessed against a particular year) and set targets against this baseline.</p> <p>Show that the bank has analyzed and recognized significant (potential) negative impacts of the established goals in other dimensions of the SDGs/climate society goals and that it has established relevant actions to mitigate them to the extent possible to maximize the result of the positive impact of the target setting.</p>		
<p>Provide your bank's conclusion/statement if you have met the requirements regarding Target Setting.</p>		
<p>Based on the main areas of impact, commitments are set, which materialize throughout different initiatives. established indicators to measure them and annual goals; for a selection of the indicators we also set medium-term goals (2023).</p>		
<p>2.3. Implementation and monitoring against goals</p> <p>Show that your bank has defined actions and milestones to meet the established goals.</p> <p>Show that your bank has put in place the means to measure and monitor progress against stated goals. The definitions of key performance indicators, any changes to these definitions, and any changes to baselines must be transparent.</p>	<p>The commitments assumed in Responsible Banking based on the impact map have been provided with indicators, with short- and medium-term goals (2022 and 2025).</p> <p>Progress regarding goals is monitored by a multi-area team, which has also led the development of materiality and impact maps, and now also the construction of the ESG Strategy.</p>	<p>Responsible Banking</p>
<p>Provide your bank's conclusion/statement if you have met the requirements regarding the Plans for the Implementation and Monitoring of the goals.</p>		
<p>For each commitment, different initiatives are implemented, reported and measure through a series of indicators, for which annual and medium-term goals are put in pce. The progress regarding the objectives is monitored by a multi-area team.</p>		
<p>2.4. Progress in achieving goals</p> <p><u>For each goal:</u></p> <p>Show that your bank has implemented the actions you had</p>	<p>Progress in achieving goals is monitored in their first instance by the different responsible areas, and in an integrated manner by the team in charge of sustainability management.</p> <p>Up to date, Committee in which the progress is presented is the Corporate Governance committee itself, as part of the progress on the</p>	<p>Responsible Banking Focus on sustainability</p>

<p>previously defined to meet the stated objective. Or explain why the actions could not be implemented / needed to be modified and how your bank is adapting its plan to meet its stated goal.</p> <p>Report on your bank's progress over the past 12 months (up to 18 months in your first report after becoming a signatory) towards achieving each of the stated goals and the impact your progress had (where feasible and appropriate, banks must include quantitative disclosures).</p>	<p>ESG roadmap, which also includes strategy currently under development.</p>	
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Provide your bank's conclusion/statement if you have met the requirements regarding Progress in Implementing Targets

Banco de Machala established these commitments in 2020-21, with annual goals. During 2021 goals for the following year were lined up. Medium-term goals, to 2023, remain unchanged.
We directly monitor the progress of the team of each related area and comprehensively the own built with different representatives for the advances in the ESG roadmap.
Progress is detailed annually in sustainability report.

Principle 3: Clients and customers
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>3.1. Please provide an overview of the policies and practices your bank has implemented and/or plans to implement to promote responsible relationships with its customers and users. This should include high-level information on the programs and actions implemented (and/or planned), their scale and, where possible, their results.</p>	<p>One of our main differential strengths compared to other institutions is close relationship with clients, which allows us to offer convenient solutions and meet customer needs.</p> <p>Employees adhere to the Code of Ethics and Conduct in commercial activity and other internal guidelines, so that the client always has the necessary information for decision making and an offer of adequate products.</p> <p>There is social and environmental evaluation programs for commercial loans (SARAS), with an specific risk policy.</p>	<p>Ethics and compliance Code of Ethics and Conduct Responsible Banking: analysis of social and environmental risks</p>
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<p>3.2. Describe how your bank has worked and/or plans to work with its customers and users to encourage sustainable practices and enable sustainable economic activities. This should include information on actions planned/implemented, products and services developed, and, where possible, impacts achieved.</p>	<p>Through SARAS, 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 the credit, we also establish a monitoring plan during the use of the credit. Through product information and customer advice, we promote the sustainability of their financial situation. On the other hand, credit incentive companies to invest in machinery, equipment and other resources, which makes them more competitive. We seek that this already responds to a sustainability scenario. We are also working on the development of loans with environmental criteria (green lines), with support of Corporación Nacional Financiera.</p>	
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<p>Principle 4: Stakeholders</p> <p>We will proactively and responsibly consult, engage and partner with relevant stakeholders to achieve society's goals.</p>		
<p>4.1. Describe which stakeholders (or groups/types of stakeholders) your bank has consulted, engaged, collaborated with or associated with for the purpose of implementing these Principles and enhancing your bank's impacts. This should include a high-level overview of how your bank has identified relevant stakeholders and what issues were addressed/results achieved.</p>	<p>To determine the impact areas, using the UNEP-FI tool, different business teams were consulted, which provided the necessary information.</p> <p>In addition, in the materiality exercise it was possible to count with participation of major groups representation: employees and suppliers, together with the business managers to provide perspective of the clients.</p> <p>On the other hand, on a day-to-day basis, the company's teams interact with different interest groups in each case, both with other collaborators (internal) and with customers, suppliers and other external groups.</p> <p>Responsible banking priorities will be integrated into the ESG Strategy that we are developing.</p>	<p>Focus on sustainability</p>
<p>Principle 5: Governance and culture</p> <p>We will implement our commitment to these Principles through effective governance and a culture of responsible banking.</p>		
<p>5.1. Describe the relevant governance structures, policies and procedures your bank has in place or plans to implement to manage significant positive and (potential) negative impacts and support the effective implementation of the Principles.</p>	<p>Responsible banking commitments and initiatives will be integrated into the ESG Strategy and its governance. Currently, the commitments, indicators and objectives are monitored in the first instance by the related areas and in the second by the multi-area team that is leading the entire roadmap, from the materiality analysis and the impact maps.</p> <p>The Corporate Governance Committee is the body of the structure to which advances are reported, so that they can be escalated to the Board of Directors.</p> <p>On another hand, the Credit Committee participates in matters related to the authorization of financing that goes through SARAS process.</p>	<p>Focus on sustainability</p> <p>Corporate governance</p>
<p>5.2. Describe the initiatives and measures your bank has implemented or plans to implement to foster a culture of responsible banking among its employees. This should include a high-level overview of skills development, inclusion in pay structures, and leadership communication and performance management, among others.</p>	<p>The participation of senior management and Directors in materiality process contributes to the consolidation of sustainability in the culture and decision-making.</p> <p>Advances in the ESG roadmap, including the construction of the Strategy, are discussed in the Corporate Governance Committee.</p> <p>All advances in sustainability have been communicated through the internal channels of the Bank, such as the adherence to the Red Ecuador Global Compact, publication of the first sustainability report, talent and culture initiatives, etc.</p>	<p>Corporate governance</p> <p>Appendix: materiality analysis</p>
<p>5.3. Governance structure for the implementation of the principles</p> <p>Show that your bank has a governance structure for the implementation of the RBPs, including:</p>	<p>Monitoring of the progress of indicators related to objectives set based on the impacts of the portfolio (positive and negative impacts) is performed in the following sequence: first teams of related areas, then the transversal team that leads the roadmap ESG and then Corporate Governance Committee.</p>	<p>Focus on sustainability</p> <p>Corporate governance</p>

<p>a) <i>establishment of objectives and actions to achieve the established objectives</i></p> <p>a) b) <i>corrective actions in case objectives or milestones are not achieved or unexpected negative impacts are detected.</i></p>		
<p>Provide your bank's conclusion/statement if you have met the requirements regarding the Governance Structure for the Implementation of the Principles</p>		
<p>Banco de Machala has a governance structure for responsible banking commitments, which interact with involved areas. Monitoring is also integrated with the rest of the progress of ESG roadmap, which currently includes the construction of ESG Strategy 2023-2025.</p>		
<p>Principle 6: Transparency & accountability</p> <p>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.</p>		
<p>6.1. Progress in the implementation of the Principles.</p> <p>Show that your bank has made progress in implementing all six Principles in the last 12 months (up to 18 months in its first report after becoming a signatory), as well as setting and implementing targets in at least two areas (see 2.1-2.4).</p> <p>Show that your bank has considered existing and emerging international/regional good practices relevant to the implementation of the six Principles for Responsible Banking. Based on this, it has defined priorities and ambitions to align with good practices.</p> <p>Demonstrate that your bank has implemented/is working on implementing changes to existing practices to reflect and be in line with existing and emerging international/regional good practices and has made progress in implementing these Principles.</p>	<p>In this report and appendix, it is pointed out how Principles of Responsible Banking are implemented.</p> <p>Portfolio impact analysis has been executed, establishing responsible banking commitments, list of initiatives to promote, and monitoring indicators.</p> <p>In addition, we have set short-term goals (2021, now 2022) and medium-term goals (2023).</p>	<p>Appendix</p>
<p>Please provide your bank's conclusion/statement if you have met the requirements regarding progress in implementing the Principles for Responsible Banking</p>		
<p>After Banco de Machala's adherence in 2019 to Principles of Responsible Banking, following milestones were reached: 1) Analysis of impact in credit portfolio, 2) Setting of commitments, 3) Creation of initiatives monitored with indicators, 4) Medium term objectives for assigned indicators.</p> <p>In a complementary way, we have been establishing each year annual objectives for all the indicators.</p>		



The Bank is making progress in the construction of ESG Strategy 2023-25, in which responsible banking initiatives will be integrated.