



The Republic of Ecuador

U.S.\$701,616,000 10.500% Notes due 2020

U.S.\$500,000,000 10.750% Notes due 2022

The Republic of Ecuador (the “Republic” or “Ecuador”) and The Bank of New York Mellon, as trustee (the “Trustee”) have entered into (i) the indenture dated March 24, 2015, with respect to the 2020 Notes (as defined below) (the “2020 Indenture”), and (ii) the indenture dated July 28, 2016, with respect to the 2022 Notes (as defined below) (the “2022 Indenture”, and together with the 2020 Indenture, the “Indentures”). Pursuant to the respective Indentures, the Republic has issued (i) an initial U.S.\$750,000,000 and an additional U.S.\$750,000,000 of its 10.500% Notes due 2020 (together, the “2020 Notes”), and (ii) an initial U.S.\$1,000,000,000 and an additional U.S.\$1,378,000,000 of its 10.750% Notes due 2022 (together, the “2022 Notes”, and together with the 2020 Notes, the “Original Notes”).

The Republic is issuing (i) an additional U.S.\$701,616,000 aggregate principal amount of its 10.500% 2020 Notes (the “Additional 2020 Notes”), and (ii) an additional U.S.\$500,000,000 aggregate principal amount of its 10.750% 2022 Notes (the “Additional 2022 Notes”, and together with the Additional 2020 Notes, the “Additional Notes”). The Additional Notes will be additional notes issued under each respective Indenture. Each series of Additional Notes will have identical terms and conditions as its respective series of Original Notes, other than issue date and issue price, and each will be consolidated and form a single series with their respective series of Original Notes (the Additional Notes and the Original Notes, together the “Notes”). Each series of Additional Notes will vote together as a single class with its respective series of Original Notes. Upon consummation of this offering, the aggregate principal amount of (i) 2020 Notes will be U.S.\$2,201,616,000, and (ii) 2022 Notes will be U.S.\$2,878,000,000.

This Offering Circular Supplement (the “Supplement”) is supplemental to and should be read in conjunction with (i) the Offering Circular dated March 24, 2015, and its supplement dated May 14, 2015, with respect to the 2020 Notes (the “2020 Offering Circular”), and (ii) the Offering Circular dated July 28, 2016, and its supplement dated September 30, 2016, with respect to the 2022 Notes (the “2022 Offering Circular”), and (iii) the Additional Offering Circular Supplement dated October 11, 2017, with respect to the 2022 Notes (the “Additional Supplement”, and together with the 2020 Offering Circular and the 2022 Offering Circular, the “Offering Circulars”), attached as Appendix A, Appendix B and Appendix C, respectively, to this Supplement. Terms defined in the Offering Circulars shall have the same meaning in this Supplement. With effect from the date of this Supplement, the information appearing in the Offering Circulars shall be amended and/or supplemented in the manner described in this Supplement.

There is currently no public market for the Additional Notes. Application has been made to list the Additional Notes on the Official List of the Luxembourg Stock Exchange and to have the Additional Notes admitted to trading on the Euro MTF Market. This Supplement, together with the Offering Circulars, constitutes a prospectus for the purpose of the Luxembourg Law dated July 10, 2005 on prospectuses for securities, as amended. The Additional Notes are and will be issued in registered form and, in limited circumstances, definitive form in minimum denominations of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof.

See “Risk Factors” section of this Supplement regarding certain risk factors you should consider before investing in the Additional Notes.

Additional 2020 Notes Price: 103.509% plus accrued interest from March 24, 2018 to but excluding August 31, 2018

Additional 2022 Notes Price: 104.753% plus accrued interest from March 28, 2018 to but excluding August 31, 2018

Delivery of the Additional Notes was made on August 31, 2018.

The Additional Notes have not been and will not be registered under the Securities Act of 1933, as amended (the “Securities Act”). The Additional Notes may not be sold within the United States or to U.S. persons except in reliance on the exemption from registration provided under the Securities Act and offered and sold to certain persons in offshore transactions in reliance on Regulation S under the Securities Act. There are no Additional Notes being offered and sold in the United States or to U.S. persons.

The Additional Notes will be represented by one or more permanent global notes in fully registered form without interest coupons, deposited with a common depositary for Euroclear Bank S.A./N.V. (“Euroclear”) and Clearstream Banking, *société anonyme* (“Clearstream”). Beneficial interests of Euroclear participants in the global notes will be shown on, and transfers thereof between Euroclear participants will be effected only through, records maintained by Euroclear and its direct and indirect participants, including Clearstream.

ANY OFFER OR SALE OF NOTES IN ANY MEMBER STATE OF THE EUROPEAN ECONOMIC AREA (THE “EEA”) THAT HAS IMPLEMENTED DIRECTIVE 2003/71 EC (THE “PROSPECTUS DIRECTIVE”) MUST BE ADDRESSED TO QUALIFIED INVESTORS (AS DEFINED IN THE PROSPECTUS DIRECTIVE).

The date of this Supplement is September 3, 2018.

IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE REPUBLIC AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND THE RISKS INVOLVED.

You should rely only on the information contained in the Offering Circulars and this Supplement or to which the Republic of Ecuador has referred you. Ecuador has not authorized anyone to provide information that is different from the information contained in the Offering Circulars and this Supplement. This Supplement and the Offering Circulars may only be used where it is legal to sell these Additional Notes. The information in this Supplement may only be accurate on the date of this Supplement.

This Supplement may only be used for the purposes for which it has been published.

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The Additional Notes will be general, direct, unsecured, unsubordinated and unconditional obligations of Ecuador, will be backed by the full faith and credit of Ecuador and will rank equally in terms of priority with Ecuador's External Indebtedness (other than Excluded Indebtedness), as defined in "*Description of the Notes*" in each Offering Circular, provided that such ranking is in terms of priority only and does not require that Ecuador make ratable payments on the Additional Notes with payments made on its other External Indebtedness.

The Additional Notes will be issued in registered form only. Additional Notes sold in offshore transactions in reliance on Regulation S under the Securities Act ("Regulation S") will be represented by one or more permanent global notes in fully registered form without interest coupons (the "Regulation S Global Note") and Additional Notes sold in the United States, if any, to qualified institutional buyers (each a "qualified institutional buyer") as defined in, and in reliance on, Rule 144A under the Securities Act ("Rule 144A") will be represented by one or more permanent global notes in fully registered form without interest coupons (the "Restricted Global Note" and, together with the Regulation S Global Note, the "Global Notes"), in each case deposited with a common depository for, and registered in the nominee name of a common depository for Euroclear for the respective accounts at Euroclear as such subscribers may direct. Beneficial interests of Euroclear participants (as defined under "*Book-Entry Settlement and Clearance*" in each Offering Circular) in the Global Notes will be shown on, and transfers thereof between Euroclear participants will be effected only through, records maintained by Euroclear and its direct and indirect participants, including Clearstream. Except as described herein, definitive Additional Notes will not be issued in exchange for beneficial interests in the Global Notes in each relevant Offering Circular.

The Republic has taken reasonable care to ensure that the information contained in this Supplement is true and correct in all material respects and not misleading as of the date hereof, and that, to the best of the knowledge and belief of the Republic, there has been no omission of information which, in the context of the issue of the Additional Notes, would make this Supplement as a whole or any information included in this Supplement, misleading in any material respect. The Republic accepts responsibility accordingly.

This Supplement does not constitute an offer by, or an invitation by or on behalf of, the Republic to subscribe to or purchase any of the Additional Notes. Each recipient shall be deemed to have made its own investigation and appraisal of the financial condition of the Republic. The distribution of this Supplement or any part of it and the offering, possession, sale and delivery of the Additional Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Supplement comes are required by the Republic to inform themselves about and to observe any such restrictions. See "*Transfer Restrictions*" in each Offering Circular for a description of further restrictions on the offer, sale and delivery of Additional Notes, the distribution of this Supplement, and other offering material relating to the Additional Notes.

Each purchaser of the Additional Notes sold outside the United States in reliance on Regulation S will be deemed to have represented that it is not purchasing the Additional Notes with a view to distribution thereof in the United States. With respect to the offer and sale of the Additional Notes by the Republic, no Additional Notes will be offered and sold in the United States or to U.S. persons.

THE ADDITIONAL NOTES OFFERING

The following summary does not purport to be complete and is qualified in its entirety by, and is subject to, the detailed information appearing elsewhere in this Supplement and in the attached Offering Circulars, in particular in the sections entitled the “Offering” and “Description of the Notes” in each attached Offering Circular. Each series of Additional Notes will have identical terms and conditions as its respective series of Original Notes, other than the issue date and issue price as described below.

Issuer:	The Republic of Ecuador.
Additional Notes Issue Amount:	Additional 2020 Notes: U.S.\$701,616,000. Upon consummation of this Additional Notes offering, the aggregate principal amount of the 2020 Notes will be U.S.\$2,201,616,000. Additional 2022 Notes: U.S.\$500,000,000. Upon consummation of this Additional Notes offering, the aggregate principal amount of the 2022 Notes will be U.S.\$2,878,000,000.
Securities Offered:	U.S.\$701,616,000 principal amount of 10.500% notes due 2020. Consolidated with and forming a single series, from and including the Issue Date, with the 2020 Notes issued originally on March 24, 2015 and reopened on May 19, 2015, in the aggregate principal amount of U.S.\$1,500,000,000. U.S.\$500,000,000 principal amount of 10.750% notes due 2022. Consolidated with and forming a single series, from and including the Issue Date, with the 2022 Notes issued originally on July 28, 2016 and reopened on September 30, 2016 and October 16, 2017, in the aggregate principal amount of U.S.\$2,378,000,000.
Issue Format:	Rule 144A/Regulation S; however, with respect to the offer and sale of the Additional Notes by the Republic, no Additional Notes will be offered and sold in the United States or to U.S. persons
Issue Price:	For the 2020 Notes, 103.509% plus accrued interest from March 24, 2018 to but excluding August 31, 2018, which equals U.S.\$45.50 per U.S.\$1,000 principal amount of 2020 Notes for a total of U.S.\$1,080.59. For the 2022 Notes, 104.753% plus accrued interest from March 28, 2018 to but excluding August 31, 2018, which equals U.S.\$45.38889 per U.S.\$1,000 principal amount of 2022 Notes for a total of U.S.\$1,092.91889.
Issue Date:	August 31, 2018.
Maturity Date:	2020 Notes: March 24, 2020. 2022 Notes: March 28, 2022.

Interest:	2020 Notes: 10.500% per annum, computed on the basis of a 360-day year of twelve 30-day months. 2022 Notes: 10.750% per annum, computed on the basis of a 360-day year of twelve 30-day months.
Interest Payment Dates:	2020 Notes: Each March 24 and September 24, commencing on September 24, 2018. 2022 Notes: Each March 28 and September 28, commencing on September 28, 2018.
Form:	The Additional Notes will be represented in the form of global notes, without coupons, registered in the nominee name of the common depositary for Euroclear and Clearstream for the accounts of its participants. Additional Notes in definitive certificated form will not be issued in exchange for the global notes except under limited circumstances.
Denominations:	The Republic will issue the Additional Notes only in denominations of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof.
Ranking:	The Additional Notes will be general, direct, unsecured, unsubordinated and unconditional obligations of Ecuador, will be backed by the full faith and credit of Ecuador and will rank equally in terms of priority with Ecuador's External Indebtedness (other than Excluded Indebtedness), provided, that, such ranking is in terms of priority only and does not require that Ecuador make ratable payments on the Additional Notes with payments made on its other External Indebtedness.
Use of Proceeds:	The Republic will use the proceeds of U.S.\$500,000,000 of the Additional Notes in accordance with the limitations of the Public Planning and Finance Code, as further described in "<i>Use of Proceeds</i>" on page 19 of this Supplement and "<i>The Republic of Ecuador–Public Debt–GSI Repo Transaction</i>" on page 147 of this Supplement.
Trustee, Registrar and Transfer Agent:	The Bank of New York Mellon.
London Paying Agent:	The Bank of New York Mellon, London Branch.
Luxembourg Listing Agent, Transfer Agent and Luxembourg Paying Agent:	The Bank of New York Mellon SA/NV, Luxembourg Branch
Governing Law:	The Additional Notes will be governed by the laws of the State of New

York, except for the terms concerning submissions to arbitration which will be governed by English law.

Further Issues:

The Republic may, from time to time, without the consent of the holders of the Additional Notes, create and issue additional notes having the same terms and conditions as the Additional Notes in all respects (or in all respects except for the amount of the first interest payment and the issue price) provided that:

- (a) the notes are consolidated and form a single series with the outstanding Notes, and
- (b) such additional notes do not have, for purposes of U.S. federal income taxation, a greater amount of original issue discount than the outstanding Additional Notes have as of the date of the issue of such additional notes (regardless of whether any holders of such Notes are subject to U.S. federal income taxation).

RISK FACTORS

This section describes certain risks associated with investing in the Additional Notes. Investors should consult their financial and legal advisors about the risk of investing in the Additional Notes. Ecuador disclaims any responsibility for advising investors on these matters.

Risk Factors Relating to the Additional Notes

There may be no active trading market for the Additional Notes, or the trading market for the Additional Notes may be volatile and may be adversely affected by many factors.

The Additional Notes will not have any established trading market when issued, and there can be no assurance that an active trading market for the Additional Notes will develop, or, if one does develop, that it will be maintained. If an active trading market for the Additional Notes does not develop or is not maintained, investors may not be able to sell their Additional Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market, and the market or trading price and liquidity of the Additional Notes may be adversely affected. Even if a trading market for the Additional Notes develops, the Additional Notes may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions, and the financial condition of Ecuador. Although application has been made to list the Additional Notes on the Official List of the Luxembourg Stock Exchange, and to have the Additional Notes admitted to trading on the Euro MTF Market, there can be no assurance that such application will be accepted or that an active trading market will develop. Illiquidity may have a material adverse effect on the market value of the Additional Notes.

The price at which the Additional Notes will trade in the secondary market is uncertain.

Application has been made to list the Additional Notes on the Official List of the Luxembourg Stock Exchange and to have the Additional Notes admitted to trading on the Euro MTF Market. No assurance can be given as to the liquidity of the trading market for the Additional Notes. The price at which the Additional Notes will trade in the secondary market is uncertain.

The Additional Notes contain provisions that allow the payment terms to be amended without the consent of all holders.

The Additional Notes contain provisions, commonly known as “collective action clauses,” regarding acceleration of the applicable series of Notes and voting on future amendments, modifications and waivers to the terms and conditions of such Notes. Under these provisions, which are described in the sections entitled “Description of the Notes—Events of Default” and “Description of the Notes—Modifications—Collective Action” in the Offering Circulars, Ecuador may: (a) amend the payment provisions of the Notes and certain other reserved matters with the consent of the holders of 75% of the aggregate amount of the outstanding Notes and other non-reserved matters with the consent of the holders of 66 ⅔% of the aggregate amount of the outstanding Notes; (b) make reserved matter modifications affecting two or more series of debt securities with the consent of (x) holders of at least 66⅔% of the aggregate principal amount of the outstanding debt securities of all series that would be affected by that reserved matter modification (taken in aggregate) and (y) holders of more than 50% of the aggregate principal amount of the outstanding debt securities of each affected series (taken individually); or (c) make reserved matter modifications affecting two or more series of debt securities with the consent of holders of at least 75% of the aggregate principal amount of the outstanding debt securities of all affected series (taken in aggregate), provided that the Uniformly Applicable condition is satisfied.

Recent federal court decisions in the United States create uncertainty regarding the meaning of ranking provisions and could potentially reduce or hinder the ability of sovereign issuers to restructure their public sector debt.

In litigation in federal courts in New York captioned NML Capital, Ltd. v. Republic of Argentina, the U.S. Court of Appeals for the Second Circuit ruled on August 23, 2013 that the ranking clause (which included ratable payment language) in certain defaulted notes issued by Argentina, prevents Argentina from making payments in respect of new performing notes that it issued in exchange for the defaulted notes in a restructuring in which a certain minority of holders elected not to participate, unless it makes *pro rata* payments in respect of the defaulted notes that rank *pari passu* with new notes. The defaulted notes in this case did not contain the “collective action clauses” referred to in the preceding risk factor. While the U.S. Court of Appeals for the Second Circuit’s decision was narrowly tailored to the facts of the case, including the conduct of Argentina and the specific wording of the *pari passu* clause in the defaulted notes, the implication from this case is that it may be more difficult for sovereign debtors to restructure their debts.

On February 18, 2014, the Republic of Argentina filed a petition in the U.S. Supreme Court seeking review of the Second Circuit’s August 2013 ruling. On June 16, 2014, the U.S. Supreme Court denied the Republic of Argentina’s petition for review, thereby letting stand the Second Circuit’s August 2013 ruling. On July 22, 2014, the U.S. District Court for the Southern District of New York enforced the ruling and barred the international trustee from making a U.S.\$539 million payment to bondholders of the new performing notes that Argentina issued in exchange for the defaulted notes. On the same date, the U.S. District Court ordered Argentina to undergo continuous mediation and settlement talks with holders of the defaulted notes.

On June 16, 2014, the U.S. Supreme Court issued an opinion in a related case, ruling that the Republic of Argentina is not immune from complying with a judgment creditor’s discovery demands seeking information about its assets outside the United States. On August 11, 2014, the U.S. District Court for Nevada granted NML Capital, Ltd.’s motion to compel discovery of information regarding Argentine assets in the United States.

On February 25, 2015, the U.S. District Court for the Southern District of New York ordered Deutsche Bank and JPMorgan Chase and Co. to deliver the documents relevant to Argentina’s planned new issuance of dollar-denominated debt to the court and NML Capital, Ltd.

On December 10, 2015, Mauricio Macri became the new president of Argentina. Under his administration, Argentina negotiated and reached settlements with a group of holdout creditors for U.S.\$1.35 billion on February 2, 2016, and a group of six other holdout creditors for U.S.\$1.1 billion on February 18, 2016. On February 19, 2016, the U.S. District Court lifted its ban on payments to creditors on the condition that Argentina repeal two laws enacted for the purpose of blocking agreements with holdout creditors and agree to pay remaining holdouts by a certain date. Argentina’s congress repealed the two laws on March 31, 2016. The U.S. Court of Appeals for the Second Circuit voted to confirm the lifting of the ban on April 13, 2016. Argentina proceeded with a sale of U.S.\$16.5 billion in sovereign bonds on April 19, 2016.

On December 22, 2016, the U.S. District Court for the Southern District of New York issued an opinion dismissing claims by certain institutional investors that had not participated in the February 2016 settlements, rejecting their claims based upon the breach of the *pari passu* clause and any claims that accrued outside of the six-year statute of limitations. In this new decision, the U.S. District Court held that Argentina’s payments to creditors who participated in the settlement were not a violation of the rights of the non-settling investors. The U.S. District Court also found that even if the *pari passu* clause had been breached, monetary damages would be barred as duplicative of the damages from failure to pay, and an injunction would be granted only in extraordinary circumstances. The December 22, 2016 decision by the U.S. District Court appears to limit the application of the prior rulings in the litigation relating to the defaulted notes, although it is difficult to predict what impact, if any, the December 22, 2016 decision will have on sovereign issuers such as Ecuador.

Despite the above recent developments and settlement agreements between the Republic of Argentina and its creditors, Ecuador cannot predict what impact, if any, the above U.S. court rulings will have on sovereign issuers such as Ecuador.

The ability of holders to transfer Additional Notes in the United States and certain other jurisdictions will be limited.

The Additional Notes will not be registered under the Securities Act and, therefore, may not be offered or sold in the United States except pursuant to an exemption from the registration requirements of the Securities Act and applicable U.S. state securities laws. Offers and sales of the Additional Notes may also be subject to transfer restrictions in other jurisdictions. Investors should consult their financial or legal advisors for advice concerning applicable transfer restrictions with respect to the Additional Notes.

Credit ratings may not reflect all risks of investment in the Additional Notes.

Credit ratings are an assessment by rating agencies of Ecuador's ability to pay its debts when due. Consequently, real or anticipated changes in Ecuador's credit ratings will generally affect the market value of the Additional Notes. These credit ratings may not reflect the potential impact of risks relating to structure or marketing of the Additional Notes. Credit ratings are not a recommendation to buy, sell or hold any security, and may be revised or withdrawn at any time by the issuing organization. Each agency's rating should be evaluated independently of any other agency's rating.

The effects of the United Kingdom's vote to exit from the European Union and its impact on the economy and fiscal conditions of Ecuador and the trading market of the Notes are uncertain.

On June 23, 2016 the United Kingdom voted to leave the European Union in a referendum (the "Brexit Vote") and on March 29, 2017 the United Kingdom gave formal notice (the "Article 50 Notice") under Article 50 of the Treaty on European Union ("Article 50") of its intention to leave the European Union.

The timing of the United Kingdom's exit from the European Union remains subject to some uncertainty, but it is unlikely to be before March 2019. Article 50 provides that the European Union treaties will cease to apply to the United Kingdom two years after the Article 50 Notice unless a withdrawal agreement enters into force earlier or the two year period is extended by unanimous agreement of the United Kingdom and the European Council.

The terms of the United Kingdom's exit from the European Union are also unclear and will be determined by the negotiations taking place following the Article 50 Notice. It is possible that the United Kingdom will leave the European Union with no withdrawal agreement in place if no agreement can be reached and approved by all relevant parties within the allotted time. If the United Kingdom leaves the European Union with no withdrawal agreement, it is likely that a high degree of political, legal, economic and other uncertainty will result.

On March 23, 2018, the European Union announced that agreement in principle had been reached on a transition period running from the United Kingdom's withdrawal from the European Union in March 2019 to the end of 2020, during which the United Kingdom would retain access to the European Union Internal Market and Customs Union on its current terms. This agreement is only political in nature and will not be legally binding until any withdrawal agreement is formally agreed and ratified, a process which is expected to start in October 2018. The European Union also announced that the European Council has adopted guidelines for the European Union's negotiators, with a view to opening the negotiations with the United Kingdom to agree on a framework for the future relationship between the European Union and the United Kingdom post-Brexit.

The results of the United Kingdom's referendum and the Article 50 Notice have caused, and are anticipated to continue causing, significant new uncertainties and volatility in the global financial markets, which may affect Ecuador and the trading market of the Additional Notes, though exports to the United Kingdom only represented 1.0% of Ecuador's exports for 2017. These uncertainties could have a material adverse effect on the global economy and Ecuador's economy, fiscal condition or prospects. It is unclear at this stage what the impact of the United Kingdom's departure from the European Union will ultimately be on the global economy, including Ecuador, or the trading market of the Additional Notes.

Risk Factors Relating to Ecuador

Ecuador has defaulted on its sovereign debt obligations in the past, in particular its obligations under the 2012 and 2030 Notes.

In 2008, Ecuador defaulted on its interest payments for the 2012 and 2030 Notes (as defined in “Public Debt—Debt Obligations” herein) in the aggregate amount of approximately U.S.\$157 million and principal payments of approximately U.S.\$3,200 million. The 2012 and 2030 Notes were originally issued in exchange for prior debt offerings of the Republic in order to extend the maturity dates of those prior obligations. These defaults followed the publication of a report in 2008 by the Commission of Integral Audit of Public Credit (“CAIC”), a committee composed of representatives from both the Ecuadorian Government and private sector organizations and members of civil society. CAIC reviewed Ecuador’s debt obligations from 1976 to 2006 and in its report made a number of findings regarding the legitimacy of Ecuador’s debt obligations (including the 2012 and 2030 Notes), in particular relating to concerns involving the public assumption of private debt, appropriate authorizations, sovereign immunity, and the relevant economic terms of the debt obligations incurred. After the default, which occurred during the first term of former President Correa’s administration, Ecuador offered to repurchase the 2012 and 2030 Notes at a discount to their par value. Holders responded to this offer by tendering substantially all of the 2012 and 2030 Notes. Although some holders continue to hold the defaulted 2012 and 2030 Notes, Ecuador has successfully repurchased additional 2012 and 2030 Notes from remaining holders from 2009 onwards. For more information, see “Public Debt—Debt Obligations—2012 and 2030 Notes and tender offer.” Ecuador has remained current on its obligation to its other series of sovereign notes including the 2020 Notes, 2022 Notes, 2026 Notes and 2027 Notes (as defined in “Public Debt—Debt Obligations” herein), as well as on its other debt obligations as further described in “Public Debt—External Debt.” To date, no judgments have been issued against the Republic with respect to the 2012 and 2030 Notes and none are pending. Proceedings have been issued against the Republic in two cases. See “Risk Factors—Risks Factors Relating to Ecuador—*Ecuador is involved in a number of legal proceedings and disputes that could result in losses to Ecuador as well as a decrease in foreign investment.*” There is a risk that other holders, other than the holders described in “Public Debt—Debt Obligations – 2012 and 2030 Notes and tender offer,” of these defaulted notes may institute proceedings against the Republic and may seek to enforce any judgments obtained by seeking to attach assets of the Republic. Any action by the holders of the 2012 and 2030 Notes, or any further defaults by Ecuador on its sovereign debt obligations, could materially adversely affect the market value of the Notes and the ability of the Republic to make principal and interest payments free of the risk of attachment. Any action by the holders of the 2012 and 2030 Notes making similar *pari passu* arguments as the holders in *NML Capital, Ltd. v. Republic of Argentina* (see “Risk Factors—Risk Factors Relating to the Notes—*Recent federal court decisions in New York create uncertainty regarding the meaning of ranking provisions and could potentially reduce or hinder the ability of sovereign issuers to restructure their public sector debt*”) or any further defaults by Ecuador of its sovereign debt obligations, could materially adversely affect the market value of the Additional Notes and the ability of the Republic to make principal and interest payments free of the risk of attachment.

The Office of the Comptroller General has issued a report with conclusions from its audit to the Republic’s internal and external debt.

In July 2017, the *Contraloría General del Estado* (the “Office of the Comptroller General”) headed by Dr. Pablo Celi announced pursuant to *Acuerdo* 024-CG-2017 its intention to conduct a special audit on the legality, sources and uses of all the internal and external debt of the Republic incurred between January 2012 and May 2017 (the “Special Audit”), as authorized by Ecuadorian law to examine acts of public entities. The Office of the Comptroller General previously, in 2015 and 2017, audited all of the Republic’s internal and external debt borrowed or issued through 2015 and found no illegalities in the process of borrowing or issuing debt. The review included the *Ministerio de Economía y Finanzas* (the “Ministry of Economy and Finance”), the Central Bank and SENPLADES. On January 8, 2018, the Comptroller General announced the creation of a citizenship oversight commission composed of Ecuadorian professionals, including former high level public officials such as a former Vice-president of the Republic, two former Comptrollers Generals, and a former Minister of Economy and Finance, to observe the procedures and methodology relating to the Republic’s incurrence of debt from January 2012 through May 2017. The Special Audit examined the sources and uses of various financings, and whether those financings were

completed in accordance with the relevant applicable laws, regulations and policies, as more fully described in “The Republic of Ecuador–Form of Government–Review and Audit by the Office of the Comptroller General.” The citizenship oversight commission supported the Office of the Comptroller General during the audit process. The Office of the Comptroller General in its report dated April 6, 2018 (the “CGR Audit Report”) included: (i) conclusions of the Special Audit conducted; and (ii) recommendations regarding actions related to specific contracts or methodologies (according to the law, these recommendations are mandatory for public entities and cannot be challenged). The Special Audit did not result in the annulment of previous acts, or the invalidation of existing contracts, which may only occur with judicial intervention in a proceeding initiated before Ecuadorian courts.

Among others, the CGR Audit Report concluded that certain rules that clearly defined the methodology to calculate public debt were repealed by the Public Planning and Finance Code when enacted in October 2010 and replaced by laws and regulations that allow a discretionary application and use of certain concepts related to public debt; and, that the amounts of advance payments pursuant to certain commercial agreements providing for the advance payment of a portion of the purchase price of future oil deliveries should have been categorized as public debt and considered for the calculations of the public debt to GDP ratio. The CGR Audit Report also concluded that Decree 1218 established a methodology for the calculation of public debt in relation to GDP (based on the total consolidated public debt methodology set out in the Manual of Public Finance Statistics of the IMF) which was not consistent with Article 123 of the Public Planning and Finance Code and moved away from the historical tradition of using the aggregation public debt methodology for the purpose of establishing whether the total public debt ceiling of 40% had been exceeded, and thus allowed certain debt transactions to be entered into without obtaining the prior approval of the National Assembly despite the fact that, according to the Office of the Comptroller General, the total public debt to GDP ratio would have exceeded the 40% limit established in Article 124 of the Public Planning and Finance Code had Decree 1218 not been in place.

The CGR Audit Report also included some conclusions and recommendations regarding: certain inter-institutional agreements between the Ministry of Economy and Finance and *Empresa Pública de Hidrocarburos del Ecuador, EP Petroecuador* (“Petroecuador”); deficiencies in the filing of debt documentation; the implementation of the agreed joint office for the management and monitoring of certain credit agreements between the Ministry of Economy and Finance and China Development Bank; and, the confidential character of certain finance documents relating to public debt.

On April 9, 2018, during the presentation of the CGR Audit Report to the public, the Office of the Comptroller General announced that the Special Audit resulted in (i) indications of administrative liability of public officials, which may lead to the dismissal of public officials; (ii) indications of civil liability of current or former public officials, which may lead to payment of damages by the public officials being due to the Republic if found to have acted in breach of their duties; and (iii) indications of criminal liability of former or current public officials. Civil and administrative indications of liability are reviewed by the Office of the Comptroller General. If the Office of the Comptroller General finds that the former or current officials acted in breach of their duties, it will issue a resolution determining civil and/or administrative liability. A final resolution from the Office of the Comptroller General may be appealed before the district administrative courts, in which case the courts will finally determine whether those officials are civilly and/or administratively liable.

On April 9, 2018, the Office of the Comptroller General delivered to the *Fiscalía General del Estado* (the “Office of the Prosecutor General”) a report regarding the indications of criminal liability of former or current public officials. Based on that report of the Office of the Comptroller General, on April 10, 2018, the Office of the Prosecutor General initiated a preliminary criminal investigation against the former President Rafael Correa, three former Ministers of Finance and another seven former or current public officials of the Ministry of Economy and Finance. During the preliminary criminal investigation phase, which may last up to two years, the Office of the Prosecutor General will collect all the evidentiary elements that will serve to determine if a crime has been committed. Once the preliminary investigation is completed, the Office of the Prosecutor General may request the competent judge that an indictment hearing is held. If the judge determines that there are grounds for an indictment, a 90-day period will commence in which the Office of the Prosecutor General will conclude its investigation and issue a final report. The final report will be presented before the competent criminal court before which the hearing

to call the alleged offenders to trial will be held. The alleged offenders will not be considered criminally liable until a trial is conducted and a decision determining criminal liability is issued.

While there is no indication that the conclusions of the CGR Audit Report have had an impact on the market value of the Notes or any of the Republic's outstanding notes, or the ability of the Republic to incur further debt obligations, any lack of certainty regarding the debt to GDP ratio and public debt accounting methodology could limit the ability of the Republic to access the international markets in the future. The CGR Audit Report recommended that, in order to reconcile amounts comprising public debt, it would be necessary to amend the Public Planning and Finance Code and repeal Decree 1218 with respect to the calculation of the total public debt to GDP ratio for purposes of being able to ascertain the actual value of total public debt and determine if the latter has surpassed the legal limit of 40% debt to GDP set out in Article 124 of the Public Planning and Finance Code. Since the Office of the Comptroller General issued its CGR Audit Report, the Ministry of Economy and Finance has only been releasing public debt to GDP ratio information applying the aggregation methodology, even though Decree 1218 has not been repealed through official procedures.

On June 21, 2018, the National Assembly passed the Organic Law for Development, Investment, Employment and Fiscal Stability (the “Organic Law for Development, Investment, Employment and Fiscal Stability”) which became effective on August 21, 2018, which among other things, expressly confirms that certain activities and instruments are considered a *pasivo contingente* (“contingent liability”), and therefore are not included in the calculation of the total public debt to GDP ratio, and provides for a waiver of the 40% public debt to GDP ratio ceiling for the period 2018-2021, and until the public debt reaches a level below such 40% debt to GDP ratio. This new law provides that for the period 2018-2021, a fiscal stability plan shall be implemented by the governing body of public finances, for these purposes the Ministry of Economy and Finance, in light of the 40% public debt to GDP ratio ceiling having been exceeded had Decree 1218 not been in place. The new law sets forth that in each subsequent fiscal year after the period 2018-2021, the General State Budget must be presented with a fiscal program aimed at reducing in the long term the amount of total public debt with respect to GDP, until it reaches a level below such 40% debt to GDP ratio. The new law also mandates that the governing body of public finances will issue within 90 days from August 21, 2018, a new regulation implementing a new accounting methodology (which will replace the consolidation methodology established by Decree 1218), which shall be in accordance with Article 123 of the Public Planning and Finance Code (as amended), internationally accepted standards and best practices for the registration and disclosure of public debt (see “Public Debt-Decree 1218” and “Public Debt-Organic Law for Development, Investment, Employment and Fiscal Stability”). The public debt to GDP ratio amount may therefore vary once the new accounting methodology has been determined.

The Office of the Comptroller General has announced that the Special Audit will result in additional audits. These audits include: (i) an examination finalized on July 4, 2018, regarding the issuance, placement and payment of short-term treasury notes with a term of up to 360 days (the “CETES”) by the Republic; (ii) two ongoing examinations, including one examination of the contracts with service providers (including lawyers, banks, financial agents and other firms) involved in public debt transactions; and another examination regarding the GSI Loan Facility, the Gold Derivative Transaction and the Bond Derivative Transaction (see “Public Debt-GSI Loan Facility”); and (iii) three additional audits that are yet to be commenced on the Republic’s use of shares of public banks to pay the Central Bank of Ecuador; and the financial, technical and legal conditions of the public debt.

The special examination of the process of issuance, placement and payment of CETES by the Republic between January 1, 2016 and December 31, 2017 concluded with the Office of the Comptroller General report dated July 4, 2018 (the “CGR CETES Report”). The CGR CETES Report included, among others, the following conclusions: (i) CETES were renewed and placed for periods longer than the 360-day period allowed by the Public Planning and Financing Code; (ii) CETES were delivered as payment instruments to pay debts, contrary to their purpose of being used to obtain resources to finance deficiencies in the fiscal accounts; and (iii) CETES were delivered to the Central Bank of Ecuador in exchange for other internal debt instruments already due, contrary to the nature of the CETES of being used to obtain resources to finance deficiencies in the fiscal accounts. In the CGR CETES Report, the Office of the Comptroller General recommended, among others, the repeal of Decree 1218 with respect to the short-term securities with a term of up to 360 days which shall not be included in the calculation of the total public debt. On July 4, 2018, the Office of the Comptroller General delivered to the Office of the Prosecutor

General a report with findings of criminal liability in respect of former President Rafael Correa, former Ministers of Economy and Finance and former general managers of the Central Bank of Ecuador, among others. Once the Office of the Prosecutor General completes the preliminary criminal investigation, which may last up to two years, it may request that an indictment hearing is held. If the judge determines that there are grounds for an indictment, a 90-day period will commence in which the Office of the Prosecutor General will conclude its investigation and issue a final report to be presented to the competent criminal court. After that, a hearing to call the alleged offenders to trial will be held. The alleged offenders will not be considered criminally liable until a trial is conducted and a decision determining criminal liability is issued.

Any series of notes issued by the Republic (including the Additional Notes) and any other financing transactions (including the GSI Repo Transaction) could in the future be subject to the review of the Office of the Comptroller General.

Since President Lenín Moreno was elected, certain personnel changes have taken place in the Ministry of Economy and Finance. Carlos de la Torre served as Minister of Economy and Finance between May 24, 2017 and March 6, 2018 when he resigned and was replaced by María Elsa Viteri. On May 14, 2018, María Elsa Viteri was replaced by Richard Martínez, the then Chairman of the *Comité Empresarial Ecuatoriano* (the “Ecuadorian Business Committee”) as the new Minister of Economy and Finance of Ecuador. On May 16, 2018, Richard Martínez took his post and stated that his agenda contains three general action items: (i) adjusting the public finances without affecting social programs; (ii) promoting public-private partnerships; and (iii) honoring the current debts of the Republic while seeking other financing following the recommendations in the CGR Audit Report.

Ecuador’s history has been characterized by institutional instability.

Between 1997 and 2007, Ecuador has had eight presidents, and three of them were overthrown during periods of political unrest: Abdala Bucaram in 1997, Jamil Mahuad in 2000, and Lucio Gutiérrez in 2005. Since 2007, Ecuador has experienced political stability starting with former President Correa’s Alianza PAIS party having won five consecutive National Assembly elections, and former President Correa having won re-election in 2013.

On February 19, 2017, a presidential election (the “2017 Election”) was held with eight candidates to replace former President Rafael Correa who served for 10 years. Lenín Moreno of former President Correa’s Alianza PAIS came in first with 39.36% of the vote and Guillermo Lasso of the CREO - SUMA party, came in second with 28.09% of the vote. A congressional election was also held on February 19, 2017 with Alianza PAIS preserving control of the legislative assembly by winning the majority of seats with 74 seats, CREO-SUMA with 28 seats and PSC with 15 seats, respectively. Since no candidate gained an outright victory of 50% of the vote or at least 40% of the vote with an additional ten points of advantage over the candidate in second place for the presidential election, a run-off election between President Moreno and Mr. Lasso was held on April 2, 2017. President Moreno was elected with 51.16% of the vote. The CNE declared President Moreno president elect on April 4, 2017. Both the OAS and the UNASUR monitored the elections and recognized the transparency of the electoral process and the election results. On April 13, 2017, CNE approved the recount of approximately 11.2% of the total ballots cast in the run-off election due to a claim of alleged inconsistencies by CREO-SUMA and Alianza PAIS. On April 18, CNE broadcast a live recount of the ballots subject to the claim. International observers, political delegates of Alianza PAIS and representatives of social organizations monitored the recount. The recount ratified President Moreno as the winner of the run-off election with 51.16% of the votes. President Moreno assumed the post of President of Ecuador on May 24, 2017 with Jorge Glas as Vice President for a four-year term. After the election, President Moreno stated, in light of Ecuador’s economic climate, that Ecuador’s priority is to push for economic and social development through generating employment, equality and social justice, eradicating extreme poverty and reducing inequality while maintaining dollarization.

Pursuant to Article 149 of the 2008 Constitution, the Vice President performs all functions assigned to the post by the President. On August 3, 2017, President Moreno signed Decree 100 to withdraw all functions previously assigned to the then Vice President Jorge Glas on May 24, 2017 under Decree 9. As part of the revocation of functions assigned to the then Vice President Jorge Glas under Decree 9, Decree 100 removed the then Vice President Jorge Glas as member and official in charge of the Sectorial Council of Production, withdrew his duties to

coordinate the execution of policies and projects of the productive sector as developed by ministries, secretariats and other member entities of the Sectorial Council of Production and removed the then Vice President Jorge Glas as member and chair of the Committee for Reconstruction and Productive Recovery in the zones affected by the Pedernales Earthquake. Additionally, Decree 100 removed the then Vice President Jorge Glas as member of the Advisory Council Executive Committee and also repealed all norms of equal or lower priority to a presidential decree assigning functions to the then Vice President Jorge Glas. Otherwise, Jorge Glas then retained the post of Vice President. The then Vice President Jorge Glas was subject to an investigation for allegedly accepting bribes from Odebrecht, a Brazilian conglomerate consisting of diversified businesses in the fields of engineering, construction, chemicals and petrochemicals. Odebrecht admitted as part of its plea agreement with the U.S. Department of Justice that it made and caused to be made more than U.S.\$33.5 million in corrupt payments to government officials in Ecuador and intermediaries working on their behalf between 2007 and 2016. On September 28, 2017, Ecuador's Attorney General presented charges related to allegations of corruption in Ecuador involving Odebrecht. The charges were presented to Ecuador's highest court, the National Court of Justice and included the former Vice President, among others. The National Court of Justice decreed that the former Vice President was not allowed to leave Ecuador. On October 2, 2017, the National Court of Justice decreed the preventive detention of the former Vice President and ordered a freeze of his bank accounts. On October 4, 2017, President Moreno appointed the Minister of Urban and Housing Development, María Alejandra Vicuña Muñoz, as interim Vice President. On October 16, 2017, Jorge Glas filed for recusal of the judge overseeing the investigation which led to the postponement of the conclusion of the investigation until the motion for recusal has been resolved. Jorge Glas's motion for recusal of the judge overseeing his case was denied. On November 10, 2017, Ecuador's Attorney General accused the former Vice President of unlawful association related to Odebrecht. On November 14, 2017, the National Justice Court ordered the trial of the former Vice President for unlawful association related to Odebrecht and subsequently held the first hearing where the parties presented their opening arguments on November 24, 2017. On December 8, 2017, hearings for this trial concluded. On December 13, 2017, the former Vice President Jorge Glas received a 6-year prison sentence in connection with the unlawful association investigation related to Odebrecht. The former Vice President appealed this sentence. On June 8, 2018, the National Court of Justice denied the former Vice President's appeal. After confirmation that the former Vice President could no longer retain his post as Vice President on January 6, 2018, the National Assembly elected María Alejandra Vicuña Muñoz as the Vice President of Ecuador until 2021. Separate from the judicial proceeding, on November 7, 2017, certain legislators submitted a request to the *Comisión de Fiscalización* (the "Investigative Commission") to initiate a political trial (impeachment) against the former Vice-President. On January 7, 2018, the Investigative Commission terminated the political proceedings against the former Vice-President concluding that it did not have the authority to impeach a former political office-holder.

For more information on presidential term limits, see "The Republic of Ecuador—Form of Government." A return to an unstable political environment could significantly affect Ecuador's economy and Ecuador's ability to perform its obligations under the Notes.

Certain economic risks are inherent in any investment in an emerging market country such as Ecuador.

Investing in an emerging market country such as Ecuador carries economic risks. These risks include many different factors that may affect Ecuador's economic results, including the following:

- interest rates in the United States and financial markets outside Ecuador;
- changes in economic or tax policies in Ecuador;
- the imposition of trade barriers by Ecuador's trade partners;
- general economic, political, and business conditions in Ecuador, Ecuador's major trading partners, and the global economy;

- the ability of Ecuador to effect key economic reforms, including its economic strategy to re-balance the economy by increasing the percentage of GDP represented by the non-petroleum economy. For more information, see “The Ecuadorian Economy—Strategic Sectors of the Economy—Oil Sector”;
- political and social tensions in Ecuador;
- the prices of commodities, including oil;
- the impact of policies, sanctions, hostilities or political unrest in other countries that may affect international trade, commodity prices and the global economy; and
- the decisions of international financial institutions regarding the terms of their financial assistance to Ecuador.

Any of these factors, as well as volatility in the markets for securities similar to the Additional Notes, may adversely affect the liquidity of, and trading markets for, the Notes. See “Forward-Looking Statements” in each of the Offering Circulars for further information on factors that may affect the Additional Notes.

Ecuador’s economy remains vulnerable to external shocks, including the negative global economic consequences that occurred as a result of the global economic recession that took place in 2008 and 2009, the economic impact of the decrease in international oil prices that took place between the fourth quarter of 2014 and into 2016 and the negative economic consequences that can arise as a result of future significant economic difficulties of its major regional trading partners or by more general “contagion” effects, which could have a material adverse effect on Ecuador’s economic growth and its ability to service its public debt. In addition, political events such as a change in administration in the United States or changes in the policies of the European Union, other emerging market countries, or Ecuador’s regional trading partners could impact Ecuador’s economy.

Emerging-market investment generally poses a greater degree of risk than investment in more mature market economies because the economies in the developing world are more susceptible to destabilization resulting from domestic and international developments. Generally, investment in emerging markets is only suitable for sophisticated investors who appreciate the significance of the risks involved in, and are familiar with, investing in emerging markets.

A significant decline in the economic growth of any of Ecuador’s major trading partners could adversely affect Ecuador’s economic growth. In addition, because international investors’ reactions to the events occurring in one emerging market country sometimes appear to demonstrate a “contagion” effect, in which an entire region or class of investment is disfavored by international investors, Ecuador could be adversely affected by negative economic or financial developments in other emerging market countries or in Latin America generally. Furthermore, Ecuador’s policies towards bilateral investment treaties, as further described in “The Republic of Ecuador – Memberships in International Organizations and International Relations—Treaties and Other Bilateral Relationships”, could impact foreign direct investment into Ecuador and Ecuador’s trading relationships.

There can be no assurance that any crises such as those described above or similar events will not negatively affect investor confidence in emerging markets or the economies of the principal countries in Latin America, including Ecuador. In addition, there can be no assurance that these events will not adversely affect Ecuador’s economy, its ability to raise capital in the external debt markets in the future or its ability to service its public debt.

A significant increase in interest rates in the international financial markets could have a material adverse effect on the economies of Ecuador’s trading partners and adversely affect Ecuador’s economic growth and Ecuador’s ability to make payments on its outstanding public debt, including the Notes.

If interest rates outside Ecuador increase significantly, Ecuador’s trading partners, in particular, could find it more difficult and expensive to borrow capital and refinance their existing debt. These increased costs could in

turn adversely affect economic growth in those countries. Decreased growth on the part of Ecuador's trading partners could have a material adverse effect on the markets for Ecuador's exports and, in turn, adversely affect Ecuador's economy. An increase in interest rates would also increase Ecuador's debt service requirements with respect to Ecuador's debt obligations that accrue interest at floating rates. As a result, Ecuador's ability to make payments on its outstanding public debt generally, including the Notes, would be adversely affected.

A number of factors have impacted and may continue to impact on revenues and the performance of the economy of Ecuador.

The economy of Ecuador and the Republic's budget are highly dependent on petroleum revenues. In 2017, 17.7% of Ecuador's non-financial public sector revenues were derived from petroleum and petroleum-related taxes and royalties. For example, in response to the decline in revenue attributable to the fall in the price of oil in 2016, Ecuador reduced its budget from U.S.\$34.1 billion in 2015 to U.S.\$29.8 billion in 2016. For more information, see "Public Sector Finances—Non-Financial Public Sector Revenues and Expenditures." In the event the price of oil was to decrease from its average levels of approximately U.S.\$41.9 per barrel as estimated by the 2018 Budget, Ecuador's revenues from oil could significantly decline. There can be no assurance that Government revenues from petroleum exports will not experience significant fluctuations as a result of changes in the international petroleum market. Concerns with respect to the current global recession, weakness of the world economy, terrorism, market volatility and certain geopolitical developments, such as political instability in the Middle East and Venezuela or the effect of sanctions with respect to Iran, may have a potentially adverse effect on the petroleum market as a whole.

In addition, as of May 2018, 87.0% of Ecuador's petroleum exports by destination were to four countries - the United States (44.6%), Peru (19.2%), Chile (14.8%) and China (8.4%). Worsening economic conditions in any of these countries could have a significant impact on Ecuador's revenues from oil and overall economic activity.

Further, operating difficulties in certain oil fields, lower production budgets, and the outages and the overhaul of Ecuador's largest refinery, the Esmeraldas Refinery (see "The Ecuadorian Economy—Strategic Sectors of the Economy—Oil Sector"), have led to uneven crude oil and petroleum derivatives production over the last few years. While Ecuador expects to increase production through the development of new fields, in particular the ITT fields which became operational in September 2016 (see "The Ecuadorian Economy—Strategic Sectors of the Economy—Oil Sector") and has completed the overhaul of the Esmeraldas Refinery, future political opposition, budget adjustments that affect investments in oil exploration, natural disasters such as earthquakes, or further outages could result in a decline of overall production. Accordingly, any sustained period of decline in capacity, if exacerbated by a decline in oil production, could adversely affect the Republic's fiscal accounts and International Reserves.

Organization of the Petroleum Exporting Countries ("OPEC") members have historically entered into agreements to reduce their production of crude oil. Such agreements have sometimes increased global crude oil prices by decreasing the global supply of crude oil. Since 1998, OPEC's production quotas have contributed to substantial increases in international crude oil prices. Beginning with the 160th Meeting of the Conference of OPEC, convened on December 14, 2011 in Vienna, Austria, to the present, OPEC decided to maintain a production level of 30.0 mbpd, including production from Libya, and also agreed that OPEC member countries would, if necessary, take steps (including voluntary downward adjustments of output) to ensure market balance and reasonable price levels. In the 171st Meeting of the Conference of OPEC, held in Vienna, Austria, on November 30, 2016, the Conference, emphasizing its commitment to stable markets, mutual interests of producing nations, the efficient, economic and secure supply to consumers, and a fair return on invested capital, agreed to reduce its production by approximately 1.2 mbpd to bring its ceiling to 32.5 mbpd, effective January 1, 2017.

In connection with the November 30, 2016 OPEC agreement (the "OPEC Agreement") to reduce aggregate production by approximately 1.2 mbpd, Ecuador agreed to reduce its daily production quota for a six-month period starting on January 1, 2017. As a result, for January, February, March, April and May of 2017, Ecuador reduced its daily production quota by 18,000 bpd, 19,000 bpd, 23,000 bpd, 20,506 bpd and 20,004 bpd, respectively. On May 25, 2017, Ecuador agreed to extend its production adjustments for a further nine-month period beginning July 1, 2017. In June 2017, Ecuador state-owned oil company *Empresa Pública de Exploración y Explotación de*

Hidrocarburos Petroamazonas EP (“Petroamazonas”) produced 423,505 bpd compared to its initial goal of 445,283 bpd. In July 2017, Petroamazonas produced 422,595 bpd compared to its initial goal of 460,690 bpd. In August 2017, Petroamazonas produced 419,147 bpd compared to its initial goal of 458,210 bpd. In September 2017, Petroamazonas produced 413,689 bpd compared to its initial goal of 461,389 bpd. In October 2017, Petroamazonas produced 408,734 bpd compared to its initial goal of 467,414 bpd. In November, Petroamazonas produced 402,272 bpd barrels of oil compared to its initial goal of 473,921 bpd. In December 2017, Petroamazonas produced 401,250 bpd barrels of oil. In January 2018, Petroamazonas produced 394,401 bpd barrels of oil. In February 2018, Petroamazonas produced 394,525 bpd. In March 2018, Petroamazonas produced 396,495 bpd barrels of oil. In April 2018, Petroamazonas produced 400,272 bpd. In May 2018, Petroamazonas produced 398,872 bpd. In June 2018, Petroamazonas produced 398,929 bpd. In July 2018, Petroamazonas produced 406,064 bpd.

Any reduction in Ecuador’s crude oil production or export activities that could occur as a result of the foregoing changes in OPEC’s production quotas or a decline in the prices of crude oil and refined petroleum products for a substantial period of time may materially adversely affect Ecuador’s revenues and the performance of its economy. Following a proposal by Russia and Saudi Arabia to increase global oil production, on June 22, 2018, OPEC agreed to increase the annual oil barrel production by around 1.2 million barrels per day. Ecuador’s oil production is not affected by the new OPEC agreement to increase oil production starting in July 2018.

In addition to the effects of the volatility of the oil market, the National Assembly has passed several laws that have altered the Republic’s budget and the established budgetary agenda and resulted in higher deficits. Certain assumptions regarding the levels of future oil prices are contained in the budgetary process and in the *Plan Nacional para el Buen Vivir* (the “National Development Plan”). Anticipated revenues contained in the budget could be lower if these assumptions about oil prices are not accurate. In January 2015, in response to the decline of oil prices in the last quarter of 2014, Ecuador reduced its 2015 budget by U.S.\$1.4 billion and again by U.S.\$800 million in August 2015, resulting in a modified budget of U.S.\$34.1 billion for 2015. On March 3, 2016, the Minister of Finance announced that the 2016 Budget would be reduced by U.S.\$800 million. After the election, President Moreno stated, in light of Ecuador’s economic climate, that Ecuador’s priority is to push for economic and social development through generating employment, equality and social justice, eradicating extreme poverty and reducing inequality while maintaining dollarization. Ecuador may need to balance its social and employment goals given its budgetary constraints.

Commodity prices are volatile, and a significant decline in commodity prices could adversely affect Ecuador’s economy and its ability to perform its obligations under the Notes.

In addition to petroleum prices, see “Risk Factors—Risk Factors Relating to Ecuador—A number of factors have impacted on and may continue to impact on revenues and the performance of the economy,” Ecuador’s economy is exposed to other commodity price volatility, especially with regard to bananas and shrimp, which made up approximately 16.1% and 15.4% of Ecuador’s total exports for the first five months of 2018, respectively. A significant drop in the price of certain commodities, such as bananas or shrimp, would adversely affect Ecuador’s economy and could affect Ecuador’s ability to perform its obligations under the Notes.

Damage caused by the Pedernales Earthquake may impede Ecuador’s ability to export goods and the associated reconstruction costs may affect its ability to perform its obligations under the Notes.

On April 16, 2016, the Pedernales Earthquake, a 7.8 magnitude earthquake struck the northern coast of Ecuador. The Pedernales Earthquake and its aftershocks caused severe damage to Ecuador’s infrastructure in the region, including its roads and ports. On October 5, 2017, the Committee for Reconstruction and Productive Recovery presented a report to President Moreno which stated that as of September 15, 2017, the total assigned budget to reconstruct the infrastructure damaged by the Pedernales Earthquake was approximately U.S.\$2.805 billion out of which U.S.\$1.419 billion have already been used towards reconstruction efforts. As of July, 2018, the total assigned budget to reconstruct the infrastructure damaged by the Pedernales Earthquake was approximately U.S.\$3.242 billion out of which U.S.\$1.786 billion have already used towards reconstruction efforts. The damage to Ecuador’s infrastructure may have an adverse impact on the Ecuadorian economy and, in particular, on export businesses that operate in the affected areas. A study conducted by SENPLADES, INEC and various ministries

revealed that, without taking into account the cost of reconstruction, the damage from the earthquake had an impact of -0.7% on the growth of Ecuador's GDP in 2016. In addition, the increased need for funds to finance reconstruction of infrastructure damaged in the Pedernales Earthquake may have an adverse impact on Ecuador's ability to perform its obligations under the Notes.

Ecuador is a sovereign state and has not waived its sovereign immunity to the fullest extent permitted under the United States Foreign Sovereign Immunities Act of 1976; accordingly it may be difficult to obtain or enforce judgments against it.

Ecuador is a sovereign state. Consequently, it may be difficult for investors to obtain or realize judgments against Ecuador in the United States or elsewhere. For example, Argentina defaulted on part of its external debt beginning in 2002. Holders of those bonds issued by Argentina had difficulty in obtaining payment from the defaulted issuer, as described further in the risk factor entitled "Recent federal court decisions in New York create uncertainty regarding the meaning of ranking provisions and could potentially reduce or hinder the ability of sovereign issuers to restructure their public sector debt." In the event holders of the Notes were to attempt to enforce a court judgment or arbitral award against Ecuador, they may experience similar difficulty.

Furthermore, the dispute resolution provisions of the Notes require submission to arbitration at the London Court of International Arbitration while the contractual provisions of the Notes are governed by New York law. In order to obtain an enforceable judgment any disputes will have to be submitted first to the decision of an arbitral panel prior to being subject to enforcement by an applicable court.

To the extent holders of Notes were to bring suit in Ecuador or attempt to enforce a foreign judgment or arbitral award in Ecuador, under the laws of Ecuador certain property of Ecuador is exempt from attachment. In addition, pursuant to the terms of the Notes and the Indenture, Ecuador has limited its sovereign immunity (other than with respect to the laws of Ecuador) with respect to actions brought against it under the Notes or the Indenture. This limitation of immunity, however, may be more limited in scope than those under certain other sovereign issuances in which issuers may waive immunity to the full extent under the U.S. Foreign Sovereign Immunities Act of 1976. Given this limitation on the scope of immunity, as well as the limitations of the U.S. Foreign Sovereign Immunities Act of 1976 and the immunity granted to Ecuador under Ecuadorian law, or which may in the future be granted under Ecuadorian law, holders seeking to attach assets of Ecuador may not be able to do so within Ecuador and may face difficulties doing so outside of Ecuador.

Ecuador is involved in a number of legal proceedings and disputes that could result in losses to Ecuador as well as a decrease in foreign investment.

Ecuador is currently involved in several legal proceedings, mainly related to contracts in the oil and electricity sectors. For a description of these legal proceedings and other proceedings against Ecuador, see "Legal Proceedings." If the foreign companies were to succeed, the awards could adversely impact the finances of Ecuador. Ecuador can offer no assurances as to whether or not such proceedings will be resolved in its favor.

Part of the offering proceeds could be attached by creditors to satisfy outstanding arbitral awards and judgments (if applicable) against Ecuador.

Creditors holding outstanding arbitral awards or court judgments present a risk of disruption to the offering. This could involve any type of creditor, including trade, supply, investor and finance creditors who obtain arbitral awards and possibly seek to enforce these awards or judgments. Ecuador's creditors could attempt to attach the proceeds of the offering or the payment of principal and/or interest on the Notes.

Payments to holders of the Notes could be attached by creditors, including holders of other debt instruments of Ecuador, to satisfy awards against Ecuador. As a result, Ecuador may not be able to make payments to holders of the Notes.

There is a risk that creditors could attach payments of interest and principal by Ecuador to holders of the Notes outside of Ecuador because, until payments reach holders of the Notes, they could possibly be deemed to be the assets of Ecuador. For more information on these pending awards, see “Legal Proceedings” and “Risk Factors—Risk Factors Relating to Ecuador—*Ecuador is involved in a number of legal proceedings and disputes that could result in losses to Ecuador as well as a decrease in foreign investment.*”

There is a risk that creditors could seek to attach part of the offering proceeds to satisfy pending awards against Ecuador. If creditors are successful in attaching payments to holders of the Notes, Ecuador may not be able to make payments to holders of the Notes. For further information about the attempts of creditors of Argentina to enforce payment obligations on defaulted sovereign debt, see “Risk Factors—Risk Factors Relating to the Notes—*Recent federal court decisions in New York create uncertainty regarding the meaning of ranking provisions and could potentially reduce or hinder the ability of sovereign issuers to restructure their public sector debt.*”

Specifically, payments of principal and/or interest on the Notes may be attached, enjoined or otherwise challenged by holders of other debt instruments of Ecuador, including outstanding holders of the 2012 and 2030 Notes. Some creditors have, in recent years, used litigation tactics against several sovereign debtors that have defaulted on their sovereign bonds including Peru, Nicaragua and Argentina, to attach or interrupt payments made by these sovereign debtors to, among others, holders of the relevant defaulted bonds who agreed to a debt restructuring and accepted new securities in an exchange offer. Ecuador may also become subject to suits to collect on defaulted indebtedness. Ecuador cannot guarantee that a creditor will not be able to interfere, through an attachment of assets, injunction, temporary restraining order or otherwise, with payments made under the Notes. As of the date of this Supplement, the Republic is aware of one claim that has been made by a holder of the 2030 Notes. For more information, see “Public Debt—Debt Obligations—2012 and 2030 Notes and tender offer.”

The Republic may incur additional debt beyond what investors may have anticipated as a result of a change in methodology in calculating the public debt to GDP ratio for the purpose of complying with a 40% limit under Ecuadorian law, which could materially adversely affect the interests of Noteholders.

The Republic has ordinarily been subject to a limitation on borrowing due to the Public Planning and Financing Code enacted in October 2010, which limits total public debt to 40% of GDP unless, in the case of public investment programs and projects of national interest, a majority of the National Assembly approves an exception to this limit on a project by project basis. Accordingly, ordinarily in order to exceed the 40% limit of total public debt to GDP the Republic must either amend the Public Planning and Financing Code or seek an exemption from the National Assembly on a case by case basis. See “Public Sector Finances Overview—Fiscal Policy.” Ordinarily, each time the Republic wishes to issue additional debt, such as the Notes, it must ensure it is within those limits.

On October 25, 2016, pursuant to Article 147, Clause 13 of the 2008 Constitution, former President Correa exercised his presidential authority to issue implementing regulations and signed Decree 1218, which modified Article 135 of the General Rules to the Public Planning and Finance Code. Decree 1218 changed the methodology that the Ministry of Economy and Finance uses to calculate the total public debt to GDP ratio for the purpose of establishing whether the total public debt ceiling of 40% established in Article 124 of the Public Planning and Finance Code has been exceeded. Under Decree 1218, the Ministry of Economy and Finance has been using the total consolidated public debt methodology set out in the Manual of Public Finance Statistics of the IMF. The IMF GFS, which was published in 2001, provides that the presentation of government financial statistics, including total public debt, should be calculated on a consolidated basis rather than on an aggregate basis. According to the IMF GFS, the consolidation methodology presents statistics for a group of units as if accounting for a single unit. In the context of total public debt, this means that debt that flows between governmental units or entities or between the central government and these governmental units or entities (“intra-governmental debt”) is not included in the calculation of total public debt. This principle is reaffirmed in the preamble of the Organic Law for Development, Investment, Employment and Fiscal Stability, approved by the National Assembly on June 21, 2018. In contrast, the

aggregation methodology, which the Ministry of Economy and Finance used prior to Decree 1218, does include intra-governmental debt in the calculation of total public debt. By changing the method of calculating total public debt from an aggregation methodology to a consolidation methodology, Decree 1218 effectively eliminated certain types of debt from the calculation and, by extension, reduced the amount of total public debt taken into account for purposes of the 40% public debt to GDP ceiling.

Because the consolidation methodology did not take into account intra-governmental debt in the calculation of public debt to GDP ratio, Decree 1218 enabled the Republic to incur more public debt than investors may have anticipated before the signing of Decree 1218, when Ecuador calculated the total debt for the purpose of the 40% public debt to GDP ratio ceiling using the aggregation methodology.

The change in methodology for the calculation of the debt ceiling, and the implementation of Decree 1218, were subject to review as part of the Special Audit undertaken by the Office of the Comptroller General, as more fully described in “The Republic of Ecuador—Form of Government—Review and Audit by the Office of the Comptroller General.” Since the Office of the Comptroller General issued its CGR Audit Report, the Ministry of Economy and Finance has only been releasing public debt to GDP ratio information applying the aggregation methodology, even though Decree 1218 has not been repealed through official procedures.

Following the recommendations made by the Office of the Comptroller General in the CGR Audit Report, on June 21, 2018, the National Assembly approved the Organic Law for Development, Investment, Employment and Fiscal Stability (submitted by President Moreno), which became effective on August 21, 2018, which among other things, provides certainty as to the nature of certain activities as *pasivos contingentes* (“contingent liabilities”) for purposes of the calculation of the debt to GDP ratio (see “Public Debt—Organic Law for Development, Investment, Employment and Fiscal Stability” below), and provides for a waiver of the 40% public debt to GDP ratio ceiling for the period 2018-2021, and until the public debt reaches a level below such 40% debt to GDP ratio. This new law provides that for the period 2018-2021, a fiscal stability plan shall be implemented by the governing body of public finances, for these purposes the Ministry of Economy and Finance, in light of the 40% public debt to GDP ratio ceiling having been exceeded had Decree 1218 not been in place. The new law sets forth that in each subsequent fiscal year after the period 2018-2021, the General State Budget must be presented with a fiscal program aimed at reducing in the long term the amount of total public debt with respect to GDP, until it reaches a level below such 40% debt to GDP ratio.

The new law also mandates that the governing body of public finances will issue within 90 days from August 21, 2018, a new regulation implementing a new accounting methodology (which will replace the consolidation methodology established by Decree 1218), which shall be in accordance with Article 123 of the Public Planning and Finance Code (as amended), internationally accepted standards and best practices for the registration and disclosure of public debt. While the waivers for the debt ceiling may reduce the near-term likelihood that the Republic will need to seek an exemption from the National Assembly in order to incur more debt, the interests of the Noteholders could be materially affected to the extent that the waiver results in the incurrence of additional public debt.

Ecuador faces challenges in its ability to access external financing.

Ecuador may have to rely in part on additional financing from the domestic and international capital markets in order to meet its future expenses. Given the fluctuations in Ecuador’s level of International Reserves in the last few years, as of December 31, 2017, International Reserves covered 9.5% of current account payments. Ecuador’s ability to obtain diverse sources of international funding has become increasingly important. See “Public Sector Finances—Overview—Fiscal Policy.” Since the U.S. dollar is legal tender of Ecuador, the level of International Reserves may not be an indicator of its ability to meet current account payments as would be the case in an economy where the dollar is not legal tender.

In 2008, the CAIC issued a report that made a number of findings regarding the legitimacy of Ecuador’s debt obligations (including the 2012 and 2030 Notes), in particular relating to concerns involving the public assumption of private debt, appropriate authorizations, sovereign immunity, and the relevant economic terms of the

debt obligations incurred. See also “Risk Factors—Risk Factors Relating to Ecuador—*Ecuador has defaulted on its sovereign debt obligations in the past, in particular its obligations under the 2012 and 2030 Notes.*” Following the report in 2008, Ecuador defaulted on its payments for the 2012 and 2030 Notes in the aggregate amount, as of February 2009, of approximately U.S.\$157 million in interest and U.S.\$3,200 million in principal. Ecuador invited holders of the 2012 and 2030 Notes to participate in two tender offers in April 2009 and November 2009 which resulted in the tender of 93.22% of the 2012 and 2030 Notes. Although some holders continue to hold the defaulted 2012 and 2030 Notes, Ecuador has successfully repurchased additional 2012 and 2030 Notes from remaining holders from 2009 onwards. As of the date hereof, the total aggregate amount of outstanding principal on the 2012 and 2030 Notes is U.S.\$52 million, which represents 1.6% of the original aggregate principal amount of the 2012 and 2030 Notes. For more information, see “Public Debt—Debt Obligations—2012 and 2030 Notes and tender offer.” Given the history of defaults, and more recently, defaults with respect to the 2012 and 2030 Notes as a result of the CAIC determining that the notes were issued illegally, Ecuador may not be able access external financing on favorable terms. For further information regarding the external debt payment record of Ecuador and the history of defaults, see “Public Debt—Debt Obligations.”

The ability of Ecuador to counter external shocks through economic policy is limited.

Ecuador instituted the Dollarization Program in 2000, replacing the Ecuadorian sucre with the U.S. dollar. Due to the current market conditions, Ecuador may be at risk if it cannot export sufficient goods to receive additional U.S. dollars, as it has no ability to mint currency. In addition, due to the Dollarization Program, the ability of Ecuador and/or the Central Bank to adjust monetary policy and interest rates in order to influence macroeconomic trends in the economy is limited. The total income from its exports and remittances needs to outweigh the total cost of its imports. The disruptions currently experienced in the financial markets have led to reduced liquidity and increased credit risk premiums for certain market participants and have resulted in a reduction in available financing. Furthermore, by law, Ecuador’s oil revenues can only be used to finance infrastructure projects and its ability to use these revenues to address other sectors or fiscal policy in general is limited. Accordingly, Ecuador’s ability to use the tools of monetary policy to correct external shocks to the economy may be limited. See also “Risk Factors—Risk Factors Relating to Ecuador—*The Office of the Comptroller General has issued a report with conclusions from its audit to the Republic's internal and external debt.*”

USE OF PROCEEDS

The Additional Notes are being issued to be sold to GSI (defined in this Supplement) in consideration for: (1) the transfer to the Republic of the purchase price of U.S.\$500,000,000 under the August 2018 GSI-Ecuador Repurchase Agreement (defined in this Supplement), (2) the periodic return to the Republic of interest amounts payable on the Additional Notes and (3) the value of the Republic's residual interest in the August 2018 GSI-Ecuador Repurchase Transaction. For more information regarding the terms of the August 2018 GSI-Ecuador Repurchase Transaction and the use of proceeds of the Additional Notes, see *"The Republic of Ecuador – Public Debt – GSI Repo Transaction."*

The Republic will use the proceeds of the purchase price received from GSI under the August 2018 GSI-Ecuador Repurchase Agreement in accordance with the limitations of the Public Planning and Finance Code (amended in 2018 and as defined in this Supplement). Under the Public Planning and Finance Code, proceeds of public debt transactions may only be used to: (1) finance Government programs, (2) finance infrastructure projects that have the capacity to repay the related debt obligations and (3) refinance an existing external debt obligation on more favorable terms. The Public Planning and Finance Code prohibits public transactions for the purpose of paying ongoing expenses, with the exception of expenses related to health, education, and justice, under exceptional circumstances as determined by the President of the Republic.

THE REPUBLIC OF ECUADOR

Territory, Population and Society

Ecuador is one of the smallest countries in South America, covering an area of approximately 99,054 square miles (256,549 square kilometers). Located on the north-western coast of the continent, it shares a 950-mile border with Peru to the south and the east, a 373-mile border with Colombia to the north, and a 1,452-mile coastline to the Pacific Ocean to the west.

Ecuador encompasses a wide range of geographic areas and climates, including the Pacific coastal plains, the Sierra (consisting of the Andean highland region), the Oriente (characterized by the Amazonian tropical rain forest) and the Galapagos Islands region located in the Pacific Ocean approximately 600 miles from the coast. The Republic is traversed by the equator and lies entirely in the north and south tropical zones. The country's regional climates vary depending on altitude. The climate is tropical in the Pacific coastal plains and the Oriente, predominantly temperate in the Sierra, and maritime in the Galapagos Islands.

Ecuador has several active volcanoes, some of which have shown increased activity in the past several years. When it occurs, the irregular 'El Niño' climatic phenomenon has caused heavy rains, landslides, widespread flooding and hotter temperatures across Ecuador. In 2012, forest fires occurred in many areas of Ecuador. The Pichincha province on the outskirts of Quito was particularly affected.

On October 26, 1998, Ecuador and Peru signed a comprehensive peace agreement that ended a long-standing territorial dispute concerning territory in the Oriente region. Although the territorial conflict spanned more than a century, the treaty ended multiple hostile encounters between the two governments over the course of the previous four years. As a result of this treaty, the two countries presented joint plans for the development of infrastructure and commerce in the border region.

On March 1, 2008, Colombian forces raided a camp of the *Fuerzas Armadas Revolucionarias de Colombia* ("Revolutionary Armed Forces of Colombia" or "FARC"), which was located in Ecuadorian territory. This led to the death of FARC's leader, Raúl Reyes. Despite some brief tensions that resulted in the end of diplomatic relations with Colombia, the restoration of diplomatic relations between both countries was announced in November of 2010 by the presidents of Ecuador and Colombia, Rafael Correa and Juan Manuel Santos, respectively, during the UNASUR summit in Guyana.

According to projections based on the 2010 census conducted by the INEC, in 2018, the total population of Ecuador is approximately 17.0 million. Approximately 49.4% of the population live in the Pacific coastal plains, 44.8% live in the Andean highlands, 5.4% in the Oriente and 0.2% in the Galapagos Islands. From 2001 to 2010, the population grew at an average annual rate of 1.9%, down from 2.05% between 1990 and 2001. Approximately 63.8% of the population is urban. Quito, the country's capital, is the largest city with 2.69 million inhabitants and is located in the highlands at 2,850 meters above sea level. Guayaquil, which is located on the coast, is the second largest city and it has a population of 2.67 million. Cuenca is the third largest city with 614,539 inhabitants, and is also located in the Andean highlands. Spanish is the official language, while Quechua and Shuar are considered official languages for intercultural relations.

Historically, Ecuador has been a Catholic country and while the country remains predominantly Catholic, evangelical Christianity has become increasingly popular.

The following chart sets forth certain demographic characteristics for Ecuador in the time period specified:

Demographic Characteristics

	2013	2014	2015	2016	2017
Total population (million)	15.8	16.0	16.3	16.5	16.7
Female (%).....	50.5	50.5	50.5	50.5	50.5
Male (%).....	49.5	49.5	49.5	49.5	49.5
Urban (%).....	63.2	63.3	63.4	63.6	63.7
Rural (%).....	36.8	36.7	36.6	36.4	36.3
Functional age groups (%)					
Child (0–14).....	31.5	31.1	30.7	30.3	29.9
Adult (15–64).....	61.9	62.2	62.5	62.8	63.1
Elderly (65+).....	6.7	6.7	6.8	6.9	7.0
Demographic Indicators					
Average Annual Growth (%).....	1.6	1.6	1.6	1.5	1.6
Birth Rate (per thousand)	18.7	18.1	17.7	16.5	17.2
Infant Mortality Rate (per 1,000 live births).....	8.8	8.5	8.9	9.2	9.7
Fertility Rate (per woman).....	2.6	2.6	2.5	2.5	n/a
Average Life Expectancy (age)					
Female.....	78.6	78.8	79.1	79.3	79.5
Male.....	72.9	73.2	73.4	73.7	73.9
Overall.....	75.8	76.0	76.2	76.5	76.7

Source: Based on data from INEC. 2017 figures based on INEC projections.

The following table sets forth certain comparative information for Ecuador in 2016 relative to certain countries:

Selected Comparative Social Statistics

	Ecuador	Bolivia	Paraguay	Honduras	Guatemala	Costa Rica	United States
Average life expectancy ⁽¹⁾	76.7	69.1	73.1	73.5	73.4	79.8	78.7
Adult literacy rate ⁽²⁾	94.35%	92.46%	95.07%	88.97%	81.3%	97.41%	n/a
Expected years of schooling ⁽²⁾	10.13 ⁽³⁾	n/a	n/a	10.22	10.8	15.2	16.5
Population below poverty line ⁽⁵⁾	24.5% ⁽⁴⁾	39.1%	22.6%	49.3%	53.7%	21.7%	n/a

Source: Ecuador data based on INEC projections and remaining country data based on World Bank data available as of December 31, 2016 unless otherwise indicated.

(1) Based on data from Central Intelligence Agency; The World Fact book.

(2) Based on data from UNESCO as of 2018. Latest available data for Bolivia is from 2015, for Costa Rica is from 2011, for Guatemala is from 2014.

(3) Based on data from INEC as of December 2016.

(4) Based on data from INEC as of June 2018.

(5) In Ecuador, as of June 2018, the poverty line was U.S.\$84.72/month, per household.

Pedernales Earthquake

Ecuador is located in an active seismic area where the risk of an earthquake or tremors is high. On April 16, 2016, the Pedernales Earthquake, a 7.8 magnitude earthquake, struck the northern coast of Ecuador above the convergent boundary where the Nazca tectonic plate subducts beneath the South American tectonic plate. Ecuador has a history of serious earthquakes relating to this convergent boundary, with seven earthquakes with a magnitude of seven or higher occurring in this zone since 1900.

The epicenter of the Pedernales Earthquake was located between the provinces of Esmeraldas and Manabí and approximately 110 miles from Quito. According to situation bulletin Number 65 published by the Secretary of Risk Management, as of May 16, 2016, the number of fatalities from the Pedernales Earthquake had risen to 661, while 6,274 people sustained injuries, 28,678 people and 7,356 families remained in shelters, 18,663 buildings sustained damage and 808 schools sustained damage or remained under investigation. On April 17, 2016, former President Correa issued Executive Decree No. 1001, declaring a state of emergency in the provinces of Esmeraldas,

Manabí, Santa Elena, Santo Domingo de los Tsáchilas, Los Rios and Guayas due to the negative impact of the natural disaster.

Significant aftershocks followed the initial earthquake, including eight aftershocks with a magnitude above six on the Richter scale as of the date of this Supplement. While the damage from aftershocks occurring in the five week period following the earthquake was minimal, aftershocks of 6.8, and 6.7 magnitudes which occurred on May 18, 2016 led to one fatality and left an additional 85 people injured.

On October 5, 2017, the Committee for Reconstruction and Productive Recovery reported to President Moreno that as of September 15, 2017, the budget to reconstruct the infrastructure damaged by the Pedernales Earthquake is approximately U.S.\$2,805 million, out of which U.S.\$1,419 million have already been used towards reconstruction efforts. As of July, 2018, the total assigned budget to reconstruct the infrastructure damaged by the Pedernales Earthquake was approximately U.S.\$3.242 billion out of which U.S.\$1.786 billion have already used towards reconstruction efforts. An evaluation conducted by the National Secretary of Planning and Development, INEC and various ministries estimates that, without taking into account the cost of reconstruction, damage from the earthquake had an impact of -0.7% on the growth of Ecuador's GDP in 2016, and, as of December 2016, an impact of -9.8% on the growth of GDP in Manabí, the province in which 95% of the damages caused by the earthquake are concentrated. In response to the earthquake, former President Correa empowered the Ministry of Economy and Finance to reallocate public funds, other than those allocated toward health and education, toward reconstruction efforts through Article 3 of Executive Decree No. 1001 and proposed a series of measures to help finance reconstruction pursuant to his authority under Articles 120 and 140 of the 2008 Constitution.

On May 20, 2016, the Law of Solidarity was published and became effective. The Law of Solidarity includes the following measures:

- increasing the value added tax by 2% (from 12% to 14%) for one year starting June 1st, 2016, of which an additional 2% may be refunded if payments are made with electronic money (i.e. a 4% value added tax ("VAT") reimbursement applies in payments made with electronic money). On June 1, 2017, the rate returned to 12%;
- a one-time contribution by natural persons equal to 0.9% of an individual's total assets for individuals whose total assets exceed U.S.\$1 million;
- a one-time contribution by corporations equal to 3% of their 2015 taxable income; and
- a one-time yearly contribution of a day's salary for those earning between U.S.\$1,000 and U.S.\$2,000 a month; a two-times yearly contribution of a day's salary for those earning between U.S.\$2,000 and U.S.\$3,000 a month; a three-times yearly contribution of a day's salary for those earning between U.S.\$3,000 and U.S.\$4,000 a month; a four-times yearly contribution of a day's salary for those earning between U.S.\$4,000 and U.S.\$5,000 a month; a five-times yearly contribution of a day's salary for those earning between U.S.\$5,000 and U.S.\$7,500 a month; a six-times yearly contribution of a day's salary for those earning between U.S.\$7,500 and U.S.\$12,000 a month; a seven-times yearly contribution of a day's salary for those earning between U.S.\$12,000 and U.S.\$20,000 a month; and an eight-times yearly contribution of a day's salary for those earning more than U.S.\$20,000 a month. People providing services or domiciled in the province of Manabí, canton Muisne and other affected districts of the province of Esmeraldas, and citizens of other provinces that would have been economically affected, according to the conditions established by the Internal Revenue Service, are exempt from making this contribution.

Contingent credit lines with the IDB and the IBRD totaled U.S.\$229 million, credit lines with several international organizations totaled U.S.\$513 million, including a U.S.\$69 million loan from the World Bank, and other financings included a U.S.\$100 million loan with *Corporación Andina de Fomento* (the "CAF"). Additionally, on July 8, 2016, the IMF approved a U.S.\$364 million facility to help Ecuador meet costs related to damages to infrastructure, housing, and agriculture caused by the Pedernales Earthquake. The IMF disbursed the

U.S.\$364 million loan in a single, upfront disbursement with no conditionality. As of the date of this Supplement, contingent credit lines with the IDB and the IBRD have expired.

To date, six sources of financing have been used to address relief and restoration efforts in relation to the Pedernales Earthquake, the General State Budget, proceeds from the Law of Solidarity, contingent lines of credit, other types of credit, national and international donations and a debt exchange between Ecuador and Spain. On August 15, 2016, Fausto Herrera, former Minister of Finance, allocated U.S.\$888 million for immediate attention to relief and restoration efforts in relation to the Pedernales Earthquake.

The Office of the Comptroller General conducted a special audit on the distribution of resources for housing recovery by the Ministry of Urban Development and Housing between April, 2016 and August, 2017. The Office of the Comptroller General issued its report on May 30, 2018, in which it identified certain irregularities in the process of providing such resources.

Historical Background

Until 1553, what is now Ecuador formed part of the northern Inca Empire. Under Spanish rule, Ecuador became a seat of the Spanish colonial government in 1563 and part of the Viceroyalty of New Granada in 1717. The territories of the Viceroyalty (New Granada (Colombia), Venezuela and Quito) gained their independence between 1819 and 1822 and formed a federation known as Gran Colombia. Quito withdrew from the Gran Colombia federation in 1830, and formed what was then known as the “Republic of the Equator.”

The next 150 years were marked by domestic political instability and international border conflicts. Particularly, after the withdrawal from Gran Colombia, Ecuador saw a power struggle between conservatives from Quito and liberals from Guayaquil. Internationally, between 1904 and 1942, Ecuador lost territories in a series of conflicts with its neighbors, including a war with Peru in 1941.

After World War II, Ecuador saw periods of democratic rule juxtaposed with military dictatorships. Despite this instability, Ecuador’s banana industry boomed in the 1950s as it became one of the largest exporters of the fruit in the world. In the 1970s, the discovery of new petroleum fields in the eastern provinces transformed Ecuador into a producer of oil and made oil the Republic’s most important export commodity. The rise in oil exports fuelled economic growth and brought sharp increases to spending and employment, financed mainly by external borrowing and oil revenues.

Although Ecuador marked 25 years of civilian governance in 2004, the period was marked by political instability. Protests in Quito contributed to the mid-term ouster of three of Ecuador’s last four democratically elected Presidents. On April 2, 2017, Lenín Moreno was elected as Correa’s successor. President Moreno assumed the post of President of Ecuador on May 24, 2017 with Jorge Glas as Vice President for a four-year term.

On July 3, 2018, the National Court of Justice of Ecuador accepted the petition from the Office of the Prosecutor General to order the preventive detention of former President Rafael Correa and, as he is known to reside in Belgium, process a red notice through Interpol for his arrest. The arrest warrant followed the failure of former President Rafael Correa to appear before the National Court of Justice in Quito despite an order to do so periodically, as an alternative preventive measure upon the Office of the Prosecutor General had placed former President Rafael Correa under investigation in relation to the 2012 attempted kidnapping in Colombia of Fernando Balda, a former member of the National Assembly.

Form of Government

Ecuador is a republic, with powers divided among five branches of government: executive, legislative, judicial, transparency and social control, and electoral branches. The 2008 Constitution provides for concurrent four-year terms of office for the President, Vice President, and members of the National Assembly. Presidents and legislators may be re-elected immediately. Citizens must be at least 16 years of age to vote.

The President is the head of Government and head of state, and is elected by direct popular vote for a four-year term. The President's duties include the enforcement of the Constitution, the establishment of economic, trade and foreign policy, and the enforcement of domestic law and order. The President is also commander-in-chief of the armed forces and appoints ministers and heads the Government's cabinet. Former President Correa came into office in January 2007 under the previous Constitution, was re-elected in general elections held in February 2013, and finished his second term under the 2008 Constitution on May 23, 2017. President Moreno assumed the post of President of Ecuador on May 24, 2017 with Jorge Glas as Vice President for a four-year term. On October 31, 2017, President Moreno was expelled from his post of president of the Alianza PAIS party by certain officials of the party's national directorate. The party's ethics committee suspended the officials behind this attempt for six months. Additionally, the *Tribunal de Garantías Penales de la Unidad Judicial de Quitumbe* (the "Tribunal of Penal Safeguards of the Quitumbe Judicial Unit") issued an injunction rendering the expulsion of President Moreno as president from his party without effect. On December 3, 2017, officials in favor of President Moreno's expulsion as president of the party held a convention unauthorized by officials in support of President Moreno appointing a new directorate of the Alianza PAIS party and conducted without representatives of the National Electoral Council. On January 15, 2018, the *Tribunal Contencioso Electoral* (the "Adversarial Electoral Tribunal") rejected the legitimacy of the directorate of the Alianza PAIS party composed on December 3, 2017 by officials in favor of President Moreno's expulsion ratifying the legitimacy of the Alianza PAIS party composed by officials supporting President Moreno.

The 2008 Constitution establishes a single chamber national assembly elected through direct popular vote for a four-year period. The National Assembly has 137 representatives, of which 15 are elected at the national level, two are elected per province, one additional provincial representative for every 200,000 inhabitants above 150,000 per province threshold, and six for Ecuadorians living abroad.

On February 19, 2017, a presidential election (the "2017 Election") was held with eight candidates to replace former President Rafael Correa who served for 10 years. Lenín Moreno of former President Correa's Alianza PAIS party came in first with 39.36% of the vote and Guillermo Lasso of the CREO - SUMA party, came in second with 28.09% of the vote. A congressional election was also held on February 19, 2017 with Alianza PAIS preserving control of the legislative assembly by winning the majority of seats with 74 seats, CREO-SUMA with 28 seats and PSC with 15 seats, respectively. Since no candidate gained an outright victory of 50% of the vote or at least 40% of the vote with an additional ten points of advantage over the candidate in second place for the presidential election, a run-off election between President Moreno and Mr. Lasso was held on April 2, 2017. President Moreno was elected with 51.16% of the vote. The CNE declared President Moreno president elect on April 4, 2017. Both the OAS and the UNASUR monitored the elections and recognized the transparency of the electoral process and the election results. On April 13, 2017, CNE approved the recount of approximately 11.2% of the total ballots cast in the run-off election due to a claim of alleged inconsistencies by CREO-SUMA and Alianza PAIS. On April 18, CNE broadcast a live recount of the ballots subject to the claim. International observers, political delegates of Alianza PAIS and representatives of social organizations monitored the recount. The recount ratified President Moreno as the winner of the run-off election with 51.16% of the votes. President Moreno assumed the post of President of Ecuador on May 24, 2017 with Jorge Glas as Vice President for a four-year term. After the election, President Moreno stated, in light of Ecuador's economic climate, that Ecuador's priority is to push for economic and social development through generating employment, equality and social justice, eradicating extreme poverty and reducing inequality while maintaining dollarization.

On May 23, 2017, President Moreno announced the members of his cabinet, composed of 23 ministers, 12 secretaries and 8 managers and directors of state-owned companies. President Moreno named Carlos Alberto de la Torre Muñoz as the Minister of Finance, Pablo José Campana Saénz as the Minister of Foreign Trade and Verónica Artola Jarrín as General Manager of the Central Bank. President Moreno's cabinet includes former ministers under former President Correa's cabinet such as the Minister of Education, the Minister of Health and the Minister of the Interior.

On May 24, 2017, President Moreno merged the *Ministerio de Coordinación y Política Económica* (the "Ministry of Coordination and Economic Politics") and the *Ministerio de Finanzas* (the "Finance Ministry") which became the *Ministerio de Economía y Finanzas* (the "Ministry of Economy and Finance"). President Moreno abolished the following coordinating ministries by executive decree: the *Secretaría del Buen Vivir* (the "Secretariat

for the National Development”), the *Secretaría Nacional de la Administración* (the “National Secretariat of Administration”), the *Ministerio de Coordinación de la Producción, Empleo y Competividad* (the “Ministry for the Coordination of Production, Employment and Competition”), the *Ministerio de Sectores Estratégicos* (the “Ministry of Strategic Sectors”), the *Ministerio de Seguridad* (the “Ministry of Security”) and the *Ministerio del Conocimiento y Talento Humano* (the “Ministry of Knowledge and Human Talent”). In the executive decree, President Moreno established that the coordination for the planning, formulation and implementation of the policy, programs and projects of the ministries and entities that form part of the sectorial councils, corresponding to the abolished coordinating ministries, shall be assumed by the *Consejero de Gobierno* (the “Government Counselor”) or the Minister designated by the President, who will act as president and coordinator of the respective sectorial council and whose responsibilities will be determined by the President. Once the Ministry of Strategic Sectors was abolished, each respective ministry formerly under its oversight assumed those functions of the Ministry of Strategic Sectors within the scope of each ministry. President Moreno created the Ministry of Aquaculture, separating these activities from what was formerly known as the *Ministerio de Agricultura, Ganadería, Acuacultura y Pesca* (the “Ministry of Agriculture, Livestock, Aquaculture and Fishing”), as well as the *Secretaría Técnica del Programa de Toda una Vida* (the “Technical Secretariat for Affordable Housing, Development and Youth Employment”).

In addition, during his inaugural presidential speech and based on his party’s platform, President Moreno set forth the following plans for his administration formalized on September 22, 2017, through a national development plan approved by the *Consejo Nacional de Planificación* (the “National Council for Planning”):

- guarantee a dignified life with equal opportunities for all persons through attaining certain goals by 2021, including reducing extreme poverty measured by income from 8.7% to 3%, increasing the number of individuals between ages 18 to 29 with a high school diploma from 63% to 65% and reducing the rate of juvenile unemployment for those between ages 18 and 29 from 10.4% to 8.39%;
- affirm interculturality and plurinationality, placing greater value on diverse identities with the goal of increasing the percentage of the indigenous population that speaks their native tongue from 67.8% to 79% by 2021;
- guarantee the rights of current and future generations to access nature including maintaining 16% of the national territory under environmental conservation or environmental care by 2021;
- implement a sustainable social and economic system based on solidarity and strengthen dollarization including increasing the number of microcredit loans and decreasing the non-financial public sector deficit by 2021;
- incentivize productivity and competitiveness for sustainable economic growth in a manner that is based on solidarity and redistribution including the pursuit of certain goals to be realized by 2021, for example increasing exports of agricultural and agribusiness products by 33%, increasing the generation of energy through renewable energy resources from 60% to 90% and increasing savings of combustibles through the optimization of the generation of electric and efficient energy;
- develop productive capacities to accomplish food sovereignty and integral rural development including reducing the incidence of poverty measured by income in rural areas from 38.2% to 31.9% by 2021;
- incentivize a participatory society with a Government close to the citizenry including increasing the index of perception of the quality of public services from 6.6 to 9 by 2021;
- promote transparency and joint responsibility for social ethics including improving the index of perception regarding corruption and transparency in the public and private sectors; and
- guarantee peace and sovereignty and strategically position Ecuador in the region and in the world with the goal to eliminate mine pollution in border geographic areas by 2021.

On July 28, 2017, President Moreno set forth the following plans for immediate execution:

- promote legislation intended to foster and improve the construction sector by revising the Law to Eliminate Speculation on Land Values and Tax Fixing in order to disincentive price speculation in real estate;
- incentivize investment and foreign exchange income through a bill that allows repatriation of capital belonging to those who hold capital abroad;
- encourage the use of electronic money in coordination with the national financial system;
- in line with austerity measures, optimize the use of national resources mainly in the hiring of personnel, consulting, publicity, vehicles and travel; and
- channel public investment towards efforts that are strictly necessary.

On June 22, 2017, through Decree No. 50, President Moreno created the Production and Taxation Advisory Council which is headed by the Ministry of Industry and Productivity and establishes a dialogue between the public and private sectors. The Production and Taxation Advisory Council has an executive committee (the “Advisory Council Executive Committee”) in charge of channeling and evaluating the proposals and recommendations developed through dialogue. Six delegates of the executive branch and six delegates of the private and economic and solidarity sectors, the latter of which is composed of the cooperative, associative and community organizations, form the Advisory Council Executive Committee.

Pursuant to Article 149 of the 2008 Constitution, the Vice President performs all functions assigned to the post by the President. On August 3, 2017, President Moreno signed Decree 100 to withdraw all functions previously assigned to the then Vice President Jorge Glas on May 24, 2017 under Decree 9. As part of the revocation of functions assigned to the then Vice President Jorge Glas under Decree 9, Decree 100 removed the then Vice President Jorge Glas as member and official in charge of the Sectorial Council of Production, withdrew his duties to coordinate the execution of policies and projects of the productive sector as developed by ministries, secretariats and other member entities of the Sectorial Council of Production and removed the then Vice President Jorge Glas as member and chair of the Committee for Reconstruction and Productive Recovery in the zones affected by the Pedernales Earthquake. Additionally, Decree 100 removed the then Vice President Jorge Glas as member of the Advisory Council Executive Committee and also repealed all norms of equal or lower priority to a presidential decree assigning functions to the then Vice President Jorge Glas. Otherwise, Jorge Glas then retained the post of Vice President. The then Vice President Jorge Glas was subject to an investigation for allegedly accepting bribes from Odebrecht, a Brazilian conglomerate consisting of diversified businesses in the fields of engineering, construction, chemicals and petrochemicals. Odebrecht admitted as part of its plea agreement with the U.S. Department of Justice that it made and caused to be made more than U.S.\$33.5 million in corrupt payments to government officials in Ecuador and intermediaries working on their behalf between 2007 and 2016. On September 28, 2017, Ecuador’s Attorney General presented charges related to allegations of corruption in Ecuador involving Odebrecht. The charges were presented to Ecuador’s highest court, the National Court of Justice and included the former Vice President, among others. The National Court of Justice decreed that the former Vice President was not allowed to leave Ecuador. On October 2, 2017, the National Court of Justice decreed the preventive detention of the former Vice President and ordered a freeze of his bank accounts. On October 4, 2017, President Moreno appointed the Minister of Urban and Housing Development, María Alejandra Vicuña Muñoz, as interim Vice President. On October 16, 2017, Jorge Glas filed for recusal of the judge overseeing the investigation which led to the postponement of the conclusion of the investigation until the motion for recusal has been resolved. Jorge Glas’s motion for recusal of the judge overseeing his case was denied. On November 10, 2017, Ecuador’s Attorney General accused the former Vice President of unlawful association related to Odebrecht. On November 14, 2017, the National Justice Court ordered the trial of the former Vice President for unlawful association related to Odebrecht and subsequently held the first hearing where the parties presented their opening arguments on November 24, 2017. On December 8, 2017, hearings for this trial concluded. On December 13, 2017, the former Vice President Jorge Glas received a 6-year prison sentence in connection with the unlawful association investigation related to Odebrecht. The former Vice President appealed this sentence. On June 8, 2018, the National Court of Justice denied the former Vice President’s appeal. After confirmation that the former Vice President could no longer retain his post as Vice President on January 6, 2018, the National Assembly elected María Alejandra Vicuña Muñoz as the Vice President of Ecuador until 2021. Separate from the judicial proceeding, on November 7, 2017, certain legislators submitted a request to the Investigative Commission to initiate a political trial (impeachment) against the former

Vice President. On January 7, 2018, the Investigative Commission terminated the political proceedings against the former Vice President concluding that it did not have the authority to impeach a former political office-holder.

On August 7, 2017, President Moreno announced the implementation of austerity measures, including that real property owned by the public company “Inmobiliar” would be offered for sale and the proceeds invested in the “Casa para Todos” project (the “Housing for All Project”) to generate employment and grant access to housing to the poorest families in the country. The Housing for All Project includes the construction of 325,000 houses in the next four years out of which 191,000 will be granted to the public free of cost and 134,000 will be financed at a low cost. Construction of housing under the Housing for All Project is expected to generate more than 136,000 jobs. Following his announcement, on September 1, 2017, President Moreno enacted a decree (the “Austerity Decree”) establishing new optimization and austerity measures focusing on the reduction of labor, goods and services costs. As part of the measures for the reduction of labor costs, the Austerity Decree imposes, among others, a hiring freeze for Government employees, the unification of the salary scales of all public employees (with a 10% reduction in the salary of those with monthly salaries between U.S.\$2,368 and U.S.\$6,261), the creation of a pool of workers that may be reassigned to other public entities and a limitation on overtime wages. Additionally, as part of the measures for the reduction of expenditure in goods and services, the Austerity Decree imposes, among others, a prioritization of hiring local workers, the sale of luxury vehicles, a restriction on the purchase of new vehicles, a limitation on travel expenses and the sale of unproductive real property.

On October 2, 2017, President Moreno presented the following questions to the Constitutional Court for its pronouncement about the constitutionality of the subjects addressed in the questions with the intention of submitting the questions to a national referendum to be convened by the CNE:

- whether those convicted of corruption related offenses should lose their political rights and whether their property should be confiscated;
- whether an election should be held to replace the current members of the *Consejo de Participación Ciudadana y Control Social* (the “National Council for Citizen participation and Social Control”);
- whether to reverse the recent constitutional amendment which allows indefinite reelection, instead limiting officials to a single reelection to the same office;
- whether to eliminate the Law to Eliminate Speculation and Tax Fixing;
- whether to reduce the area in the Yasuni national park under oil exploitation and add 50,000 hectares to the protected area in this park;
- whether to prohibit metal mining in urban and protected areas; and
- whether the statute of limitations should be eliminated for sexual abuse crimes against children and adolescents.

The presidency of the Republic provided additional background on the first question above and stated that the question contemplates whether public servants or public officials convicted of corruption should not only lose their political rights but also whether the companies linked to these cases should be banned from further contracting with the Republic if found responsible. Arguing that the Constitutional Court failed to respond within the time period stipulated by law, President Moreno issued Executive Decrees No. 229 and No. 230 on November 29, 2017, directing the National Electoral Council to convene a plebiscite in which Ecuadorians would vote on the abovementioned questions. Executive Decree No. 229 addresses the first, second, third, sixth and seventh questions and Executive Decree No. 230 addresses the fourth and fifth questions. On December 7, 2017, the National Electoral Council scheduled the national referendum and popular consultation for February 4, 2018. On January 3, 2018, the campaign period for the referendum and popular consultation began. The National Electoral Council has selected 40 organizations for the campaign, 36 of which will promote the “YES” vote and 4 of which will promote the “NO” vote

in relation to some or all of the questions. The results of the vote were published on February 14, 2018 with the “YES” being the most voted option for all of the questions. The votes in favor of questions 1 through 7 of the total votes validly cast were 73.71%, 64.20%, 63.08%, 73.53%, 68.62%, 63.10% and 67.31%, respectively.

For further information on laws that were passed as a result of the national referendum and popular consultation, see “The Ecuadorian Economy–Economic and Social Policies–Organic Law Repealing the Organic Law to Eliminate Speculation on Land Values and Tax Fixing”, “The Ecuadorian Economy–Economic and Social Policies–Organic Law Reforming the Organic Law of the Council for Citizen Participation and Social Control”, and “The Ecuadorian Economy–Economic and Social Policies–The 2008 Constitution.”

On October 11, 2017, President Moreno announced a number of economic measures intended to reactivate the economy, protect dollarization and finance social programs. As a result, on November 29, 2017, the National Assembly approved the *Ley Orgánica para la Reactivación de la Economía, Fortalecimiento de la Dolarización y Modernización de la Gestión Financiera* (the “Organic Law for the Reactivation of the Economy, Strengthening of Dollarization and Modernization of Financial Management”). On December 11, 2017, President Moreno partially objected to the passing of the law. On December 29, 2017, the law was published and became effective after undergoing certain amendments pursuant to President Moreno’s objection. Some of the main measures included in this law are:

- tax incentive measures intended to benefit microenterprises, small businesses, cooperatives, and associations;
- an increase of 3% to the corporate income tax, with corporations that were subject to a 22% tax rate now subject to a 25% tax rate;
- electronic means of payment will be managed by entities of the private financial system with the objective of effectively substituting physical money;
- the elimination of income tax for the first U.S.\$11,290 of the income of small enterprises;
- the elimination of income tax for new microenterprises for the first three years from the date they begin generating operating income;
- the elimination of the land tax;
- the simplification of the procedure to domicile foreign companies to Ecuador; and
- an extension of the prohibition to execute foreign judgments on property located in Ecuadorian territory when those judgments arise from extrajudicial documents for foreclosures of mortgage loans granted abroad.

On April 2, 2018, President Lenín Moreno presented an economic plan containing four general action items: (i) stabilize fiscal outlook, (ii) restructure the government and enact austerity measures, (iii) increase exports and sustain dollarization, and (iv) reinvigorate the economy. This plan includes, among other measures, the merging of certain Ministries.

On August 21, 2018, President Lenín Moreno announced a series of austerity measures that are part of a new “*Plan de Prosperidad*” (the “Plan of Prosperity”), the main purpose of which is to reduce government spending by U.S. \$1.3 billion annually and increase revenue generation, in order to reach fiscal balance by 2021. The Plan of Prosperity focuses on three main areas: (i) fiscal responsibility and public sector, (ii) support for low-income Ecuadorians, and (iii) Central Bank reform. Under the fiscal responsibility and public sector prong, the Plan of Prosperity seeks to (a) reduce the number of government agencies through mergers and closures, (b) reduce government spending on transportation and security of senior officials, (c) reduce public procurement to a minimum, with increased transparency and control, (d) implement a corporate reform with respect to state-owned companies,

with the assistance of the Andean Development Corporation and the Inter-American Development Bank, which will include privatizations, mergers and liquidations, as well as internal changes in public-sector companies to align salaries to those of private sector employees, (e) update the country's legal and institutional framework for public-private partnerships to include major infrastructure projects, (f) continue to enhance Ecuador's credibility in the international capital and financial markets, as well as increase access to funding sources and improve the country's debt profile, (g) maintain the current oil output target of 700,000 bpd and further invest in the mining sector, and (h) continue the discussions regarding allocation of fuel subsidies.

With a portion of the savings derived from the measures discussed above, President Lenín Moreno aims to expand social services to over 103,000 families in need of financial support, and has also designed a U.S.\$1.3 billion credit plan to provide funding for small enterprises such as crafts, small industries, agriculture and construction.

The third prong of the Plan of Prosperity relates to the reform and strengthening of the Central Bank in order to create a reliable and robust monetary authority, with sufficient assets to provide liquidity for the growth of the economy. This reform will include a plan for the full repayment of government debts owed to the Central Bank within the next 5 years, as well as an exchange, for domestic bonds, of certain illiquid shares in public-sector banks that were previously transferred to the Central Bank in lieu of repayment.

On April 19, 2018, by executive decree, President Moreno merged the *Ministerio de Educación* (the "Ministry of Education"), the *Ministerio de Deporte* (the "Ministry of Sport") and the *Instituto de Idiomas, Ciencias y Saberes Ancestrales* (the "Institute of Languages, Sciences and Ancestral Knowledge") which became the *Ministerio de Educación y Deportes* (the "Ministry of Education and Sports"). A 90-day period was established for the implementation of this merger. On June 14, 2018, by executive decree, President Moreno rendered the merging of the Ministry of Education and Sports without effect. Instead, the Ministry of Education merged with the Institute of Languages, Sciences and Ancestral Knowledge to become the Ministry of Education, and converted the Ministry of Sports into the *Secretaría del Deporte* (the "Secretariat of Sports").

On May 15, 2018, by executive decree, President Moreno merged the *Ministerio de Hidrocarburos* (the "Ministry of Hydrocarbons"), the *Ministerio de Electricidad y Energía Renovable* (the "Ministry of Electricity and Renewable Energy"), the *Ministerio de Minería* (the "Ministry of Mining") and the *Secretaría de Hidrocarburos* (the "Secretariat of Hydrocarbons") to become the *Ministerio de Energía y Recursos Naturales No Renovables* (the "Ministry of Energy and Non-Renewable Natural Resources"). A 90-day period was established for the implementation of the merger. On August 8, 2018, President Moreno issued Executive Decree No. 471 extending the term for the implementation of the merger until September 14, 2018.

On August 21, 2018, President Moreno announced a new round of austerity measures, which include a further reduction in the number of Ministries, down to 20 from the original 40 at the inauguration of his administration. Entities to be suppressed include the Ministry of Industry (to be merged with the Ministry of Foreign Trade), the Ministry of Justice, the Secretariat for Risk-Management (to be merged with the Ministry of Defense), the Ecuadorian Space Institute, the Secretariat for Water (to be merged with the Ministry for the Environment), the Secretariat for Internal Boundaries, the Secretariat for National Communication will be downsized to an Undersecretariat within the Presidency, and the National Customs Service will be merged with the Internal Revenue Service.

The following table shows the composition of the National Assembly as of August 2018:

<u>Political Party</u>	<u>August 2018 Number of Members</u>
Alianza PAIS	44
Fuerza EC	1
Independientes	5
Izquierda Democrática	1
Movimiento CREO	32
Movimientos Provinciales	4
Otros Movimientos	28
Pachakutik	5
Partido Social Cristiano	15
Sociedad Patriótica	2
Total	137

Source: National Assembly.

Ecuador is administratively divided into 24 provinces and 221 municipalities. Each province is governed by a prefect who is popularly elected. The Government also designates a governor for each province that coordinates and administers the initiatives of the Government; while mayors, who are elected by popular vote, govern municipalities. Each of the 24 provinces has a popularly elected provincial council headed by a prefect. A municipal council is responsible for the government of each municipality. All provincial and municipal officials are popularly elected to four-year terms.

The judicial system consists of the National Court of Justice; *Cortes Provinciales de Justicia* (“Provincial Courts of Justice”); and *Tribunales Unidades Judiciales* (“First Instance Courts”). The National Court of Justice is composed of 21 judges appointed by the *Consejo de la Judicatura* (“Judiciary Council”), which is in charge of regulating, administering and auditing the judicial branch. The Judiciary Council is comprised of nine standing members with their respective alternates, who perform their duties for a six-year term of office and cannot be reelected. The designation of the standing members of the Judiciary Council and their alternates takes place by a competitive merit-based examination process, subject to citizen oversight. Issues relating to the 2008 Constitution, including the modification or amendment thereof, are reserved to the Constitutional Court. The Constitutional Court is composed of nine members who are selected by a commission composed of eight members appointed from the various branches of government. Each member of the Constitutional Court is appointed to a nine-year term and may be re-elected at the end of their term.

In addition, the 2008 Constitution recognizes the possibility for indigenous communities to exercise their judicial authority in accordance with their traditions and their own sets of rules. The exercise of this authority must comply, and must not conflict with, the rights set forth by the 2008 Constitution and by international treaties ratified by the Republic.

The 2008 Constitution also creates two additional branches of government. *La Función de Transparencia y Control Social* (the “Transparency and Social Control Branch”) is intended to serve as the auditor of the Government and of private entities that contribute to the Republic’s general welfare. It is comprised of the Office of the Comptroller General, the *Consejo de Participación Ciudadana y Control Social* (the “Counsel of Citizen Participation and Social Control”), various superintendent organizations including the *Superintendencia de Bancos* (“Superintendent of Banks”), and the *Defensoría del Pueblo* (the “Public Defender”). The Counsel of Citizen Participation and Social Control appoints the chief executive of each superintendent organization, Office of the Comptroller General, the Public Defender and the Attorney General. It is also the entity principally responsible for corruption investigations and establishing citizens’ committees for public consultation prior to the enactment of laws according to the 2008 Constitution. The purpose of these citizens’ committees is to increase citizen participation and involvement in the democratic process and create an informed population who perform an active role in the enactment of laws.

The purpose of the *Función Electoral* (the “Electoral Branch”) is to provide oversight for the Republic’s political parties and elections. The Electoral Branch is comprised of the National Electoral Council and the *Tribunal Contencioso Electoral* (the “Electoral Dispute Settlement Court”). The National Electoral Council organizes and

oversees elections to ensure transparency and compliance with election law, supervises the activities of political parties, and establishes a civil registry. The Electoral Dispute Settlement Court hears and resolves, among others things, disputes regarding campaign finance violations and settles election results appeals.

Review and Audit by the Office of the Comptroller General

Under the General Comptroller Law, the Office of the Comptroller General has the authority to examine the use of public resources by both public and private institutions. Following the amendment to the 2008 Constitution on December 21, 2015, the Office of the Comptroller General does not have the authority to audit the management of public resources under principles of effectiveness, efficiency and economy (*auditoria de gestión*), but it may still conduct a legality, financial and/or administrative audit. More specifically, according to Article 19 of the General Comptroller Law, the Office of the Comptroller General has the authority to carry out special audits to verify limited aspects of governmental activities under these parameters.

On July 31, 2017, the Office of the Comptroller General headed by Dr. Pablo Celi announced pursuant to *Acuerdo* 024-CG-2017 its intention to conduct a special audit on the legality, sources and uses of all the internal and external debt of the Republic incurred between January 2012 and May 2017. The entities under review were, among others, the Ministry of Economy and Finance, the Central Bank and SENPLADES. The Special Audit was carried out by the Production, Environment and Finance Audit Department of the Office of the Comptroller General, and was led by a Supervisory Auditor. *Acuerdo* 024-CG-2017 also provided that the Office of the Comptroller General could obtain specialized technical advice, in accordance with Article 89 of the General Comptroller Law, and provided for the establishment by invitation of a citizen oversight organization composed of nationally recognised professionals to participate in different stages of the special audit, a possibility not expressly regulated by law.

On January 8, 2018, the Office of the Comptroller General announced the creation of the citizen oversight organization composed of Ecuadorian professionals, including former high-level public officials such as a former Vice-president of the Republic, two former Comptrollers General, and a former Minister of Economy and Finance (the “Citizen Oversight Organization”) to observe the procedures and methodology of the Special Audit. The Comptroller General indicated that, “the observers will be able to look into the findings, conclusions and recommendations” and “contribute with their technical criteria, specialized opinions, analytical perspective and even with complementary information.” The Office of the Comptroller General also declared that the Citizen Oversight Organization does not replace the Comptroller General in its functions and powers, and that its findings will not be binding; rather it is intended that the participation of the Citizen Oversight Organization will promote transparency.

In relation to the Special Audit and the creation of the Citizen Oversight Organization, the Office of the Presidency issued a press release, on January 10, 2018, indicating that the Government “ratifies its respect for the independence and autonomy of the different entities and of control bodies of the State” and that the decision to set up an ad-hoc oversight organization to participate in the Special Audit being conducted by the Office of the Comptroller General on the Special Audit shall be conducted “within the constitutional, legal and current regulations to guarantee its legality and objectivity.” Also, the Office of the Presidency reiterated that the Republic has “the political will and the financial capacity to guarantee the strict compliance with all its international financial commitments under the terms and conditions on which they were contracted.”

The Special Audit concluded on April 6, 2018, when the Office of the Comptroller General issued its CGR Audit Report including: (i) conclusions of the Special Audit conducted; and (ii) recommendations regarding actions related to specific contracts or methodologies (according to the law, these recommendations are mandatory for public entities and cannot be challenged). The Special Audit did not result in the annulment of previous acts, or the invalidation of existing contracts, which may only occur with judicial intervention in a proceeding initiated before Ecuadorian courts.

Among others, the CGR Audit Report concluded that certain rules that clearly defined the methodology to calculate public debt were repealed by the Public Planning and Finance Code when enacted in October 2010 and replaced by laws and regulations that allow a discretionary application and use of certain concepts related to public debt; and, that the amounts of advance payments pursuant to certain commercial agreements providing for the advance payment of a portion of the purchase price of future oil deliveries should have been categorized as public debt and considered for the calculations of the public debt to GDP ratio. The CGR Audit Report also concluded that

Decree 1218 established a methodology for the calculation of the public debt in relation to the GDP (based on the total consolidated public debt methodology set out in the Manual of Public Finance Statistics of the IMF) which was not consistent with Article 123 of the Public Planning and Finance Code and moved away from the historical tradition of using the aggregation public debt methodology for the purpose of establishing whether the total public debt ceiling of 40% had been exceeded, and thus allowed certain debt transactions to be entered into without obtaining the prior approval of the National Assembly despite the fact that, according to the Office of the Comptroller General, the total public debt to GDP ratio would have exceeded the 40% limit established in Article 124 of the Public Planning and Finance Code had Decree 1218 not been in place.

The CGR Audit Report also included some conclusions and recommendations regarding: certain inter-institutional agreements between the Ministry of Economy and Finance and Petroecuador; deficiencies in the filing of debt documentation; the implementation of the agreed joint office for the management and monitoring of certain credit agreements between the Ministry of Economy and Finance and China Development Bank; and, the confidential character of certain finance documents relating to public debt

On April 9, 2018, during the presentation of the CGR Audit Report to the public, the Office of the Comptroller General announced that the Special Audit resulted in (i) indications of administrative liability of public officials, which may lead to the dismissal of public officials; (ii) indications of civil liability of current or former public officials, which may lead to payment of damages by the public officials being due to the Republic if found to have acted in breach of their duties; and (iii) indications of criminal liability of former or current public officials. Civil and administrative indications of liability are reviewed by the Office of the Comptroller General. If the Office of the Comptroller General finds that the former or current officials acted in breach of their duties, it will issue a resolution determining civil and/or administrative liability. A final resolution from the Office of the Comptroller General may be appealed before the district administrative courts, in which case the courts will finally determine whether those officials are civilly and/or administratively liable.

On April 9, 2018, the Office of the Comptroller General delivered to the Office of the Prosecutor General a report regarding the indications of criminal liability of former or current public officials. Based on that report of the Office of the Comptroller General, on April 10, 2018, the Office of the Prosecutor General initiated a criminal investigation against the former President Rafael Correa, three former Ministers of Finance and another seven former or current public officials of the Ministry of Economy and Finance. During the preliminary criminal investigation phase, which may last up to two years, the Office of the Prosecutor General will collect all the evidentiary elements that will serve to determine if a crime has been committed. Once the preliminary investigation is completed, the Office of the Prosecutor General may request the competent judge that an indictment hearing is held. If the judge determines that there are grounds for an indictment, a 90-day period will commence in which the Office of the Prosecutor General will conclude its investigation and issue a final report. The final report will be presented before the competent criminal court before which the hearing to call the alleged offenders to trial will be held. The alleged offenders will not be considered criminally liable until a trial is conducted and a decision determining criminal liability is issued.

The CGR Audit Report recommended that, in order to reconcile amounts comprising public debt, it would be necessary to amend the Public Planning and Finance Code and repeal Decree 1218 with respect to the calculation of the total public debt to GDP ratio for purposes of being able to ascertain the actual value of total public debt and determine if the latter has surpassed the legal limit of 40% debt to GDP set out in Article 124 of the Public Planning and Finance Code. On June 21, 2018, the National Assembly passed the Organic Law for Development, Investment, Employment and Fiscal Stability which became effective on August 21, 2018, which among other things, expressly confirmed that certain activities and instruments are considered a *pasivo contingente* (“contingent liability”), and therefore are not included in the calculation of the total public debt to GDP ratio. See “Public Debt-Decree 1218” and “Public Debt-Organic Law for Development, Investment, Employment and Fiscal Stability.”

The Office of the Comptroller General had previously conducted audits, in 2015 and 2017, of all internal and external debt issued between 2009 and 2015 without finding any illegalities in the process of borrowing or issuing debt.

The Office of the Comptroller General has announced that the Special Audit will result in additional audits. These audits include: (i) an examination finalized on July 4, 2018, regarding the issuance, placement and payment of

CETES by the Republic; (ii) two ongoing examinations, including one examination of the contracts with service providers (including lawyers, banks, financial agents and other firms) involved in public debt transactions; and another examination regarding the GSI Loan Facility, the Gold Derivative Transaction and the Bond Derivative Transaction (see “Public Debt-GSI Loan Facility”); and (iii) three additional audits that are yet to be commenced on the Republic’s use of shares of public banks to pay the Central Bank of Ecuador; and the financial, technical and legal conditions of the public debt.

The CGR CETES Report included, among others, the following conclusions: (i) CETES were renewed and placed for periods longer than the 360-day period allowed by the Public Planning and Financing Code; (ii) CETES were delivered as payment instruments to pay debts, contrary to their purpose of being used to obtain resources to finance deficiencies in the fiscal accounts; and (iii) CETES were delivered to the Central Bank of Ecuador in exchange for other internal debt instruments already due, contrary to the nature of the CETES of being used to obtain resources to finance deficiencies in the fiscal accounts. In the CGR CETES Report, the Office of the Comptroller General recommended, among others, the repeal of Decree 1218 with respect to the short-term securities with a term of up to 360 days which shall not be included in the calculation of the total public debt. On July 4, 2018, the Office of the Comptroller General delivered to the Office of the Prosecutor General a report with findings of criminal liability in respect of former President Rafael Correa, former Ministers of Economy and Finance and former general managers of the Central Bank of Ecuador, among others. Once the Office of the Prosecutor General completes the preliminary criminal investigation, which may last up to two years, it may request that an indictment hearing is held. If the judge determines that there are grounds for an indictment, a 90-day period will commence in which the Office of the Prosecutor General will conclude its investigation and issue a final report to be presented to the competent criminal court. After that, a hearing to call the alleged offenders to trial will be held. The alleged offenders will not be considered criminally liable until a trial is conducted and a decision determining criminal liability is issued.

Any series of notes issued by the Republic (including the Additional Notes) and any other financing transactions (including the GSI Repo Transaction) could in the future be subject to the review of the Office of the Comptroller General.

Since President Lenín Moreno was elected, certain personnel changes have taken place in the Ministry of Economy and Finance. Carlos de la Torre served as Minister of Economy and Finance between May 24, 2017 and March 6, 2018 when he resigned and was replaced by María Elsa Viteri. On May 14, 2018, María Elsa Viteri was replaced by Richard Martínez, the then Chairman of the Ecuadorian Business Committee as the new Minister of Economy and Finance of Ecuador. On May 16, 2018, Richard Martínez took his post and stated that his agenda contains three general action items: (i) adjusting the public finances without affecting social programs; (ii) promoting public-private partnerships; and (iii) honoring the current debts of the Republic while seeking other financing following the recommendations in the CGR Audit Report.

Memberships in International Organizations and International Relations

International Organizations

Ecuador has diplomatic relations with approximately 105 countries, and is a member of a number of international organizations, some of which include the United Nations, OPEC, the OAS, the World Health Organization, the Community of Latin American and Caribbean States (“CELAC”), and UNASUR.

In 2007, Ecuador rejoined OPEC as a full member after 15 years of absence, having left due to OPEC’s membership fee and its increase in production quotas. Ecuador decided to rejoin OPEC due to benefits of the global producer network and the access to information that OPEC provides to its members. In September 2014, Ecuador joined OPEC’s Fund for International Development, a development fund to stimulate economic growth and alleviate poverty in disadvantaged regions of the world.

On July 2, 2009, former President Correa issued a decree declaring that Ecuador was terminating its agreement as a member of the ICSID. The decree stated that the ICSID Convention violated principles of sovereignty enshrined in Article 422 of Ecuador’s 2008 Constitution, which provides the rules for submission to arbitration proceedings by Ecuador as a sovereign. Notwithstanding the foregoing, Ecuador is a member of

UNCITRAL and is still a party to the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards of 1958.

Ecuador continues to be a member of both the IMF and the World Bank. On July 8, 2016, the IMF approved a U.S.\$364 million facility to help Ecuador meet costs related to damages to infrastructure, housing, and agriculture caused by the Pedernales Earthquake. The IMF disbursed the U.S.\$364 million loan in a single, upfront disbursement with no conditionality.

On July 8, 2016, the Executive Board of the IMF concluded its annual Article IV consultation with Ecuador. On September 2016, the IMF published a staff report completed on July 1, 2016, following discussions with Government officials on economic developments and policies underpinning the IMF arrangement under the IMF Rapid Financing Instrument. On November 2017, an IMF delegation comprised of the IMF's Director of the Western Hemisphere Department and the Mission Chief for Ecuador visited Quito to meet and discuss with Government officials economic policies and priorities for the country. The Minister of Economy and Finance stated that the meeting was not held to seek emergency funding from the IMF. From June 20 to July 4, 2018, an IMF delegation under the leadership of Anna Ivanova had meetings to discuss economic developments with Government officials as part of the annual Article IV consultation with Ecuador. The discussions concluded on July 4, 2018 and included topics such as technical support to authorities on the statistical presentation of debt, which is currently under review after the CGR Audit Report recommended the repeal of Decree 1218 with respect to the calculation of the total public debt to GDP ratio for purposes of being able to ascertain the actual value of total public debt and determine if the latter has surpassed the legal limit of 40% debt to GDP set out in Article 124 of the Public Planning and Finance Code. Based on the preliminary findings of the IMF mission, IMF staff will prepare an Article IV report.

On July 5, 2018, in an end-of-Mission press release, the IMF mission team issued, among others, the following statements: "The Ecuadorian authorities have been taking important steps recently to strengthen fiscal institutions and re-establish a competitive private-sector driven economy. The new [Organic Law for Development, Investment, Employment and Fiscal Stability] approved by the National Assembly in June, contains marked improvements in the fiscal policy framework that go in the right direction though further refinements are possible. Efforts are also underway to increase fiscal transparency and adhere to international accounting standards. On the competitiveness front, we are encouraged by the recently adopted measures aimed at softening the rigidity of the labor market in some sectors, improving the legal framework for investors and facilitating trade"; and "[t]he financial system appears sound; it is well-capitalized, with solid credit quality, and high levels of liquidity. Private credit is still growing robustly albeit at a slower pace. The supervision of the cooperatives should be strengthened though the sector doesn't appear to represent systemic risks. Removing barriers to effective financial intermediation, enhancing banks' risk management, and improving oversight and contingency planning could help fortify the system."

Separately, the World Bank has provided several project level financing for projects in infrastructure, irrigation, transport and sanitation. These projects include the Chimborazo Development Investment project in 2007 and the Quito Metro line project in 2012. In June 2018, the World Bank agreed to increase by U.S.\$230 million its financing for the Quito Metro line project. See "The Ecuadorian Economy—Strategic Sectors—Transportation." For more information, see "Monetary System—the Central Bank."

Treaties and Other Bilateral Relationships

Since 1965, Ecuador has negotiated 30 bilateral investment treaties out of which 27 entered into force. The treaties negotiated with Panama and Costa Rica were not executed. Ecuador negotiated a treaty with Russia which Russia did not ratify. The bilateral investment treaty between Ecuador and Egypt terminated in 1995. Following the entrance into force of its 1998 Constitution, Ecuador formally denounced 9 treaties. Those entered into with Uruguay, the Dominican Republic, Guatemala, El Salvador, Cuba, Nicaragua, Honduras, Paraguay and Romania are no longer in force. In accordance with the 2008 Constitution, Ecuador rejected its bilateral investment treaty with Finland.

In the first quarter of 2017, Ecuador was still a party to bilateral investment treaties with Argentina, Bolivia, Canada, Chile, China, France, Germany, Spain, Italy, the Netherlands, Peru, Spain, Sweden, Switzerland, the United Kingdom, the United States, and Venezuela. On May 3, 2017, the National Assembly rejected the bilateral investment treaties with Argentina, Bolivia, Canada, Chile, China, Italy, the Netherlands, Peru, Spain, Switzerland, the United States and Venezuela on the basis that these treaties favored private investors over the interests of the Republic. This rejection initiated a process of withdrawal of Ecuador from these bilateral investment treaties, although the negotiation of new bilateral investment treaties with certain of these countries is under consideration. Investments made during the term of these treaties will still be subject to its protections despite Ecuador's withdrawal which could have an effect on prospective investments following withdrawal. Bilateral investment treaties with the following countries have already either been terminated or expired: Cuba, the Dominican Republic, El Salvador, Finland, Guatemala, Honduras, Nicaragua, Paraguay, Romania and Uruguay.

On May 8, 2017, the president of the *Comisión para la Auditoría Integral Ciudadana de los Tratados de Protección Recíproca de Inversiones y del Sistema de Arbitraje en Materia de Inversiones* ("CAITISA") delivered the final audit report on 27 bilateral investment treaties to former President Correa, which finalized a process initiated in 2008. The audit report concluded that bilateral investment treaties are not useful for attracting foreign direct investment, because Ecuador only received 0.79% of the global foreign direct investment that flowed to Latin America and the Caribbean. The principal sources of foreign direct investment that flow into Ecuador are from Brazil, Mexico and Panama, none of which have a bilateral investment treaty with Ecuador, and of the seven largest foreign investors in Ecuador, only 23% come from a country which has a bilateral investment treaty with Ecuador. The CAITISA report recommended that Ecuador should enter into agreements with direct investors on a case-by-case basis, allowing more flexibility in regards to dispute resolution clauses, better protection for the Republic by tailoring the definition of "investment" more appropriately to the specific circumstances and a new framework for investors' rights and obligations. On May 16, 2017, Ecuador formally denounced and terminated bilateral investment treaties with Argentina, Bolivia, Canada, Chile, China, France, Germany, Peru, Sweden, Switzerland, the United Kingdom, the United States and Venezuela. On May 16, 2017, Ecuador also formally denounced bilateral investment treaties with Italy, the Netherlands and Spain but they still remain in force.

On March 8, 2018, Ecuador officially presented the new bilateral investment treaty model, which will serve as the basis for future negotiations.

On December 12, 2014, representatives from Ecuador's Ministry of Foreign Commerce signed a trade agreement with the European Union for Ecuador's accession to the Multiparty Trade Agreement entered into the European Union and Colombia and Peru on June 26, 2012 (the "Multiparty Trade Agreement"). The agreement is intended to provide expanded access to the European market for Ecuadorian exports and lower tariff duties on European imports into the Ecuadorian market. As part of the agreement reached in 2014, Ecuador was allowed to benefit from the European Union's Generalized Scheme of Preferences Plus program until 2016 or until the trade agreement was in place. This benefit allowed Ecuador to not pay tariffs on exports of Ecuadorian products into the European Union.

On November 11, 2016, Ecuador signed the accession agreement to the Multiparty Trade Agreement with the European Union Council. The trade agreement required the approval of each of the National Assembly, the European Parliament, and the legislatures of the 28 EU member countries in order to be effective. In January 2017, both the European Union and Ecuador implemented the trade agreement on a provisional basis pursuant to Article 3 of the European Council's decision (EU) 2016/2039 with the exception of Articles 2, 202(1), 291 and 292 of the trade agreement. For more information, see "Balance of Payments and Foreign Trade—Foreign Trade—Trade Policy."

The Fourth Meeting of Political Consultations between the European Union and Ecuador took place in November 2017. At this meeting, the European Union and Ecuador discussed the status of political dialogue and of their commercial and bilateral cooperation relationship, the current trade agreement, and human mobility, including Ecuador's interest in obtaining a waiver of the short term visa in the Schengen area for Ecuadorian citizens.

On August 24, 2016, the Central Bank of Ecuador and the Central Bank of Iran (Bank Markazi Jomhuri Islamic Iran) signed a memorandum of understanding and a banking and payment arrangement. The two documents provide for mechanisms to set up accounts, netting of payments and other payment arrangements between the two

central banks to facilitate future payments of exports between Iran and Ecuador. A third document was signed by the *Agencia Ecuatoriana de Aseguramiento de Calidad del Agro de la República del Ecuador* (the “Agency for the Quality Assurance of Agriculture of Ecuador”) and the Plant Protection Organization of the Islamic Republic of Iran.

The document is a memorandum of understanding that establishes a framework for bilateral cooperation in plant quarantine methods in accordance with the International Plant Protection Convention. Ecuador previously entered into two other cooperative agreements with Iran. The first, signed in October 2011, is a memorandum of understanding that establishes a framework for bilateral cooperation on health initiatives. The second, signed in June 2012, is a commercial agreement that establishes a framework for any future commercial trade between Iran and Ecuador.

On June 27, 2018, Mike Pence, the Vice President of the United States of America, visited Ecuador as part of efforts to reinvigorate the bilateral relationships between Ecuador and the United States of America. This visit follows several official visits from the Ecuadorian Minister of Foreign Commerce and the Ecuadorian Minister of Economy and Finance to the United States of America, as well as visits from the Undersecretary of State for Political Affairs, the Deputy Assistant Secretary of Defense for Western Hemisphere Affairs and the Deputy Assistant Secretary in the Bureau of Population, Refugees and Migration, each of the United States of America, to Ecuador. President Moreno and Vice President Mike Pence expressed their intentions to bring a broad bilateral dialogue to further the bilateral agenda and to reactivate the Investment and Commerce Council. They also manifested the importance of increasing the bilateral initiatives to fight organized crime, drug trafficking, and violence, of facilitating bilateral investment and commerce, of implementing close cooperation for mutual legal assistance and extraditions in the fight against corruption, tax evasion and money laundering, and of a commitment to intensify the bilateral dialogue regarding consulate and human mobility issues, including human trafficking.

On July 4, 2018, Ecuador sent notes of protest to the governments of Bolivia and Venezuela regarding certain declarations made by government officials of both nations about the order of preventive detention of the former President Rafael Correa decreed by the National Court of Justice of Ecuador. This order was in connection with the court proceeding over kidnapping and illicit association commenced by the former member of the Ecuadorian National Assembly Fernando Balda against former President Rafael Correa. Ecuador has called the Ambassadors of those countries in Ecuador to meet to discuss their countries’ positions on the matter, but there is not a defined date for these meetings yet. Ecuador has also called its Ambassador to Bolivia for a meeting regarding this matter. In addition, the new Ecuadorian Ambassador to Venezuela has not taken up his post. Since September 2017, the Ecuadorian Embassy in Venezuela has no Ambassador.

Furthermore, on July 5, 2018, the Ecuadorian Parliament voted to approve a debate on the humanitarian crisis in Venezuela. The humanitarian crisis in Venezuela has increased the number of Venezuelan citizens entering Ecuador. According to the Ministry of Interior, as of July 2018, 453,000 Venezuelan citizens have entered Ecuador, whereas 382,628 have exited. On August 4, 2018, the Ministry of Foreign Relations and Human Mobility, in coordination with the Ministries of Interior, Justice and Social and Economic Inclusion signed an interministerial agreement in order to facilitate the entry in Ecuador of undocumented minors.

On August 18, 2018, Ecuador published a requirement that in order for Venezuelan nationals to enter Ecuador legally they have to carry a valid Passport, citing the unreliability of the *cédulas* (identity cards) and as a reaction to the constant and increasing influx of Venezuelan immigrants. In response, the *Defensor del Pueblo* (Ombudsman) filed for an injunction based on legal provisions that allow South American nationals to enter Ecuador with their national identity cards, and the new requirement was suspended by the Judge who heard the case for 45 days.

Regional Organizations

Ecuador also maintains close ties with most of its neighboring countries and participates in several regional arrangements to promote trade, investment and services. As a member of the Latin American Integration Association (“ALADI”), a regional external trade association, Ecuador and the other signatories (Argentina, Bolivia, Brazil, Chile, Colombia, Cuba, Ecuador, Mexico, Panama, Paraguay, Peru, Uruguay and Venezuela) have worked to remove regional trade restrictions among member nations. Ecuador also forms part of the *Comunidad Andina de*

Naciones (“Community of Andean Nations”) along with Colombia, Peru and Bolivia. Among the organization’s greatest achievements is the free flow of merchandise of Andean origin and the free mobility of member state citizens. Ecuador was also a member of the *Alianza Bolivariana para los Pueblos de nuestra América Latina* (“ALBA”) along with Venezuela, Bolivia, Cuba, and other Caribbean nations until August 23, 2018, when Ecuador announced its exit from ALBA. In February 2012, ALBA members signed an agreement to create an *espacio de interdependencia*, a shared economic development zone between all members. Ecuador is also linked to Mercosur (comprised of Argentina, Brazil, Paraguay, Uruguay and Venezuela as party states), as an associate member and has been invited to participate as a full member and is a member of CAF, who has helped Ecuador finance several transportation and infrastructure projects. In November 2016, Ecuador entered into the Protocol of Accession of Ecuador to the Trade Agreement with Colombia and Peru along with the EU, Colombia and Peru.

In 2008, Ecuador, along with eleven other nations (Argentina, Bolivia, Brazil, Colombia, Chile, Guyana, Paraguay, Peru, Uruguay, Venezuela and Suriname) signed a treaty establishing the Union of South American Nations. The organization’s General Secretariat has its permanent headquarters in the city of Quito, while its Parliament will be located in the Bolivian city of Cochabamba. As of 2010, Ecuador forms part of the CELAC. CELAC promotes the integration and development of Latin American nations.

Ecuador is a party to the United Nations Convention on Narcotic Drugs. Since 1990 the *Consejo Nacional de Control de Sustancias Estupefacientes y Psicotrópicas* (the “National Counsel for the Control of Narcotics and Psychotropic Drugs” or “CONSEP”) has dictated policy against drug trafficking. In July 2013, pursuant to CONSEP’s recommendation to decrease the illicit market for narcotics, the Ecuadorian penal code was reformed to decriminalize certain amounts of narcotics, including marijuana and cocaine. In the same month, Ecuador unilaterally rejected further benefits from preferential tariff program provided by the United States government under the Andean Trade Promotion and Drug Eradication Act (the “ATP-DEA”). These benefits bestowed preferential treatment to certain Ecuadorian products in exchange for the Republic’s efforts in combating drug trafficking in Ecuador. The rejection of the tariff program ends tax-free treatment of approximately U.S.\$223 million worth of goods exported by Ecuador into the U.S. per year. The rejection of the ATP-DEA benefits, as well as the penal code reforms, reflect a change in Ecuador’s approach towards narcotics. According to CONSEP, this change is a policy that “criminalizes the drug, but protects the rights of the addict.” The policy reflects the guideline set by Article 364 of the 2008 Constitution, which defines addiction as a public health problem and states that addicts must not be criminalized nor suffer an infringement of their rights due to their addictions. Ecuador and the United States of America have started economic and strategic cooperation lines based on foreign investment, police investigations, and the fight against drug trafficking. On April 25, 2018, both countries signed a memorandum of understanding and a cooperation agreement authorizing the U.S. Drug Enforcement Administration and Immigration Department to operate in Ecuador.

THE ECUADORIAN ECONOMY

Gross Domestic Product

In 2013, the economy of Ecuador grew by 4.9% in real terms, which was mainly driven by continued increases in fixed capital formation and public sector consumption, which increased by 10.4% and 10.3%, respectively. Foreign debt reached U.S.\$12.92 billion, which represented 13.6% of GDP, while the annual year-end inflation for the year was 2.7%.

In 2014, the economy of Ecuador grew by 3.8% in real terms, which increase was mainly due to the continuing growth of the construction and manufacturing sectors of the economy. Year-end external debt for 2014 reached U.S.\$17.58 billion, which represents 17.2% of GDP, while the annual year-end inflation for the year was 3.7%.

In 2015, the economy of Ecuador grew by 0.1% in real terms. This decreased level of growth when compared with prior years was mainly due to decreased revenues resulting from the decline in the price of oil. Year-end external debt for 2015 reached U.S.\$20.23 billion, which represents 20.2% of GDP, an increase of 15.0% compared to 2014. This increase was primarily due to the issuance of the 2020 Notes. The rate of unemployment increased from 3.8% in 2014 to 4.8% in 2015 due to a general slowdown of the economy in 2015 that led to job losses in both the private and public sectors. Inflation for the 12-month period ending in December 2015 decreased from 3.7% in 2014 to 3.4% in 2015 due to a decrease in the price of certain foods, primarily shrimp and chicken.

According to the Central Bank, inflation decreased from 1.12% for the 12-month period ended December 31, 2016 to -0.20% for the 12-month period ended December 31, 2017. This decrease was due to a decrease in the price of domestic goods and services, clothing garments and footwear, food and non-alcoholic beverages. Inflation decreased from 1.1% for the 12-month period ended May 31, 2017 to -1.01% for the 12-month period ended May 31, 2018 primarily due to a reduction in prices of household appliances, agricultural products, clothing and footwear.

On April 10, 2017, the Central Bank published information regarding GDP for 2016. Real GDP for 2016 was U.S.\$69,068 million, compared to U.S.\$70,175 million in 2015, representing a decrease of 1.6% in real terms. This decrease is mainly due to the decline in the price of oil, a stronger dollar and the impact of the Pedernales Earthquake.

Real GDP for 2017 was U.S.\$71,139 million, compared to U.S.\$69,068 million in 2016, representing an increase of 3.0% in real terms. This increase is mainly due to an increase in private consumption and public sector consumption as a result of an increase in imports due to the elimination of safeguard measures on imports and to an increase in non-petroleum activities. In 2017, the nominal GDP reached U.S.\$103,057 million representing an increase from U.S.\$98,614 million in 2016.

Real and Nominal GDP

(in millions of U.S. dollars, except percentages)

	For the Year Ended December 31,				
	2013	2014	2015	2016	2017
Real GDP (in millions of U.S.\$)	67,546	70,105	70,175	69,068	71,139
Real GDP growth	4.9%	3.8%	0.1%	-1.6%	3.0%
Nominal GDP	95,130	101,726	99,290	98,614	103,057

Source: Based on figures from the Central Bank Quarterly National Accounts for the Fourth Quarter of 2017.

Nominal GDP by Economic Sector ⁽¹⁾
(in millions of U.S. dollars, except for percentages)

	For the Year Ended December 31,					
	2015	% of GDP	2016	% of GDP	2017	% of GDP
Manufacturing ⁽²⁾	13,513	13.61	13,622	13.81	13,987	13.57
Construction.....	11,125	11.20	11,871	12.04	11,298	10.96
Petroleum and mining	4,690	4.73	3,824	3.88	4,494	4.36
Trade (commerce)	10,218	10.29	9,637	9.77	10,270	9.97
Agriculture.....	8,406	8.47	8,344	8.46	8,609	8.35
Community services.....	8,499	8.55	8,692	8.81	9,392	9.11
Government services ⁽³⁾	6,660	6.71	6,849	6.95	6,968	6.76
Administrative activity ⁽⁴⁾	6,887	6.94	6,388	6.48	6,627	6.43
Transportation.....	4,773	4.81	5,139	5.21	5,464	5.30
Finance and insurance.....	3,165	3.19	3,094	3.14	3,542	3.43
Telecommunications	1,984	2.00	1,972	2.00	2,128	2.07
Electricity and water	1,509	1.52	1,594	1.62	1,813	1.76
Shrimp.....	445	0.45	499	0.51	562	0.55
Others ⁽⁵⁾	17,427	17.55	17,088	17.33	17,901	17.37
Total GDP.....	99,290	100	98,614	100	103,057	100

Source: Based on information from the Central Bank.

(1) Table measures gross value added by economic sector and corresponding percentage of Nominal GDP.

(2) Includes manufacturing other than petroleum refining.

(3) Includes Public Defense and Social Security Administration.

(4) Includes Professional and Technical Administration.

(5) Includes fishing, petroleum refining, hospitality and food services, domestic services, other services and other elements of GDP.

The following table sets forth Ecuador's real GDP growth by expenditure as a percentage of total real GDP growth for the periods presented.

Real GDP and Expenditure Growth

(Percentage change from previous comparable period based on 2007 prices)

	For the Year Ended December 31,				
	2013	2014	2015	2016	2017
Real GDP Growth	4.9	3.8	0.1	-1.6	3.0
Import of goods & services ⁽¹⁾	7.0	4.8	-8.2	-10.3	9.5
Total Supply of Goods & Services.....	5.4	4.0	-1.9	-3.5	4.3
Public Sector Consumption	10.3	6.7	2.1	-1.7	3.8
Private Consumption.....	3.9	2.7	-0.1	-3.6	4.9
Gross Fixed Capital Formation	10.4	2.3	-6.2	-8.1	-0.5
Exports of goods and services ⁽¹⁾	2.6	6.2	-0.6	2.0	0.6
Total Final Demand	5.4	4.0	-1.9	-3.5	4.3

Source: Based on figures from the Central Bank Quarterly National Accounts for the Fourth Quarter of 2017.

(1) Corresponds to figures from "Real GDP by Expenditure" table.

The following table sets forth Ecuador's per capita GDP statistics for the periods indicated.

Per Capita GDP

	For the Year Ended December 31,				
	2013	2014	2015	2016	2017
Per capita Nominal GDP (current U.S.\$)	6,031	6,347	6,099	5,966	6,143
Per capita Real GDP	4,282	4,374	4,311	4,179	4,240
Population (in thousands) ⁽¹⁾	15,775	16,027	16,279	16,529	16,777

Source: Based on figures from Table 4.3.5 of the Central Bank's Monthly Bulletin for May 2018.

(1) Population figures correspond to projected population annual figures from 2010 census.

The following table sets forth the real GDP growth by expenditure for the periods indicated.

Real GDP by Expenditure (in millions of dollars)					
For the Year Ended December 31,					
	2013	2014	2015	2016	2017
Consumption					
Public Sector Consumption	9,609.8	10,252.3	10,471.8	10,293.4	10,682.0
Private Consumption	41,942.3	43,088.8	43,049.2	41,485.0	43,531.7
Total Consumption	51,552.1	53,341.2	53,521.0	51,778.4	54,213.7
Gross Investment					
Gross Fixed Capital Formation.....	18,214.1	18,626.3	17,465.3	16,049.4	15,961.5
Change in Inventory	261.3	471.2	-123.1	-508.5	794.0
Exports of goods and services ⁽¹⁾	18,210.3	19,342.0	19,218.8	19,610.2	19,736.4
Imports of goods and services ⁽¹⁾	20,691.6	21,675.4	19,907.4	17,861.0	19,566.4
Real GDP	67,546.1	70,105.4	70,174.7	69,068.5	71,139.2

Source: Based on figures from the Central Bank Quarterly National Accounts for the Fourth Quarter of 2017.

(1) The exports and imports figures in this chart are adjusted for inflation and reflect the contribution of exports and imports to GDP. They differ from the nominal exports and imports in the “Balance of Payments” table and stand-alone exports and imports tables in the “Exports-(FOB)” and “Imports-(CIF)” tables in this Supplement.

Economic and Social Policies

During his term, former President Correa sought to reform certain aspects of the Ecuadorian economy in order to comply with constitutional mandates. Certain reforms were undertaken as legislative proposals, which require the National Assembly’s approval. Other reforms were undertaken by the executive branch and do not require legislative approval. The reforms were consistent with the Correa administration’s objective to promote economic growth, while reducing poverty and inequality and fostering social progress. Below is a brief description of the most relevant major economic and financial reform initiatives since 2008.

The 2008 Constitution

One of the most important objectives of the 2008 Constitution was to grant control over the Central Bank to the executive branch. Section 6, Article 303 of the 2008 Constitution states that “the drafting of monetary, credit, foreign exchange and financial policies is the exclusive power of the executive branch and shall be implemented through the Central Bank” hence limiting the autonomy and authority of the Central Bank for the purpose of effective implementation of reforms by the executive branch and its agencies.

Another relevant reform embedded in the 2008 Constitution is the creation of a debt and finance committee (the “Debt and Finance Committee”), tasked with evaluating and approving issuances or incurrence of sovereign debt. The Debt and Finance Committee is comprised of the President or his delegate, the Minister of Finance or his delegate, and the National Secretary of Planning and Development or his delegate. The sub-secretary in charge of public debt, Undersecretary of Public Finance, acts as the secretary for the committee. See “Public Debt—General.” Other important reforms include the establishment of limitations on the proceeds of public borrowing (Article 289) (see “Public Debt—General”), the possibility of the President to be elected to a second consecutive term (Article 144 of the 2008 Constitution) (see “The Republic of Ecuador—Form of Government”), the requirement of an evaluation structure for any public program in conjunction with the National Development Plan (Article 297 of the 2008 Constitution), and the establishment of the Treasury Account or the administration of the general budget (Article 299). In May 2011, certain amendments to the 2008 Constitution were approved by popular referendum. The most debated amendments included the change to the Judiciary Council to its current make up (see “The Republic of Ecuador—Form of Government”), and the prohibition of owners of media companies to own stock in non-media companies. On December 3, 2015, the National Assembly approved certain amendments to the 2008 Constitution, including the elimination of term limits for public officials, allowing indefinite reelection, and a transitory provision providing that such elimination of term limits shall become into effect on May 24, 2017. These amendments were published and became effective on December 21, 2015.

The 2017 Election was held on April 2, 2017, with former President Correa not eligible to run due to the transitory disposition of the 2015 constitutional amendment which delayed the effectiveness of the elimination of term limits to after the date of the 2017 Election. President Moreno was elected with 51.16% of the vote. The CNE declared President Moreno as president elect on April 4, 2017. Both the OAS and Unasur monitored the elections and recognized the transparency of the electoral process and the election results. On April 13, 2017, CNE approved the recount of approximately 11.2% of the total ballots cast in the run-off election due to a claim of alleged inconsistencies by CREO-SUMA and Alianza PAIS. On April 18, 2017 CNE broadcast a live recount of the ballots subject to the claim. International observers, political delegates of Alianza PAIS and representatives of social organizations monitored the recount. The recount ratified President Moreno as the winner of the run-off election with 51.16% of the votes. President Moreno assumed the post of President of Ecuador on May 24, 2017 with Jorge Glas as Vice President for a four-year term. The National Assembly then elected María Alejandra Vicuña Muñoz as the Vice President of Ecuador until 2021.

In February 2018, certain amendments to the 2008 Constitution were approved by national popular referendum. The amendments included, among others, that those convicted of corruption related offenses should lose their political rights, and the reversion of the 2015 constitutional amendment which allowed indefinite reelection, limiting instead officials to a single reelection to the same office.

Budget Reforms

Enacted in April 2008, the *Ley Orgánica para la Recuperación del Uso de los Recursos Petroleros del Estado y Racionalización Administrativa de los Procesos de Endeudamiento* (“Law for the Recovery of the Use of Oil Resources of the State and Administrative Rationalization of Indebtedness” or “LOREYTF”) replaced Ecuador’s then existing budget and transparency regulations. The objectives of the law were (i) to enhance the transparency and flexibility of the budget process by prioritizing investments and improving the management of Government resources and (ii) to terminate any distribution of budgeted amounts based on predetermined uses of resources. To achieve those objectives, the LOREYTF eliminated the *Cuenta Especial de Reactivación Productiva y Social del Desarrollo Científico-Tecnológico y de Estabilización Fiscal* (“Scientific-Technological and Fiscal Stability Social and Productive Reactivation Special Account” or “CEREPS”). Also, pursuant to Article 299 of the 2008 Constitution, LOREYTF established the *Cuenta Única del Tesoro* – a single Central Bank master account for the management of Ecuador’s resources. The *Cuenta Única del Tesoro* is comprised of various sub-accounts where amounts are allocated according to functional purposes. These sub-accounts include a social security account, accounts for public companies, a public banking account, and accounts for municipal and provincial governments (the “Autonomous Decentralized Governments”). The budget and transparency regulations established in LOREYTF were subsequently codified and superseded by the Public Planning and Finance Code.

The Organic Law for Development, Investment, Employment and Fiscal Stability, enacted on August 21, 2018, amended the Public Planning and Finance Code to prevent that a budget with a primary deficit be approved and ensure that any increase in the expenditure by the central government does not exceed the long term growth rate of the economy.

Bank Supervision

Enacted in December 2008, the *Ley de Creación de la Red de Seguridad Financiera* (“Financial Safety Net Law”) created a regulatory framework for Ecuador’s banking sector. The objectives of the law were to strengthen the supervision of the financial sector, create a liquidity fund and a deposit insurance system for the benefit of the Ecuadorian banks and financial institutions, and to establish clear mechanisms for bank dissolutions. For more information on this law, see “Monetary System—Financial Sector.”

Tax Reforms

Enacted in December 2008, the *Ley Reformatoria a la Ley de Régimen Tributario Interno y a la Ley Reformatoria para la Equidad Tributaria del Ecuador* (“Reform Act to the Internal Tax Regime Law and the Reform Act for Tax Equity in Ecuador”) reformed the existing tax system by improving the mechanisms by which the Government collects tax revenues. The objectives of the law were to reduce tax evasion, improve direct and progressive taxation, increase the tax base, and generate adequate incentives for investment in economic activity.

On December 29, 2014, the National Assembly enacted a corporate tax reform relating to the taxation of shareholders of Ecuadorian companies who reside in tax havens. The reform increases the corporate tax rate to 25% from 22% if an Ecuadorian company's owners are tax haven residents who own collectively more than 50% of the company. In addition, the tax reform exempts companies from corporate taxes, for a period of ten years, for profits related to new and productive investments as defined by the *Código Orgánico de la Producción* ("Production Code"). Furthermore, on December 29, 2017, the Organic Law for the Reactivation of the Economy, Strengthening of Dollarization and Modernization of Financial Management was published and became effective, which included, among other measures, tax incentives to microenterprises, small businesses, cooperatives and associations, and an increase of 3% to the corporate income tax (now subject to 25%). The Organic Law for Development, Investment, Employment and Fiscal Stability, enacted on August 21, 2018, expanded some of the tax incentives under the Production Code (including income tax exemption for 8 years instead of 5 for investments in Quito or Guayaquil, for 12 years elsewhere, and for 15 years in basic industries as defined in the Production Code, and for 5 additional years if located in bordering counties). For more information on these laws and other tax reforms, see "Public Sector Finances—Taxation and Customs", "Public Sector Finances—Tax Reforms", "The Republic of Ecuador – Form of Government", and "Public Debt—Organic Law for Development, Investment, Employment and Fiscal Stability."

Mining Law

Enacted in January 2009, the *Ley Minera* ("Mining Law") created norms for the exercise of the Government's rights to manage and control the strategic mining sector. The objective of this law was to establish a sustainable and efficient administrative system to govern the relationship between the Government and domestic, foreign, public, or private individuals or legal entities involved in mining activities. Consequently, the Mining Law contains provisions regarding the attainment, preservation, and termination of mining rights and the performance of mining activities. Specifically, the Mining Law creates administrative agencies for the regulation, supervision and scientific investigation of the mining sector, sets specific geographic limits for mining activities, creates rules for public bids for concessions, and creates rules for concession and service contracts. Oil and other hydrocarbons are exempt from this law.

On June 13, 2013, the National Assembly passed an amendment to the Mining Law, imposing an 8% ceiling on previously open-ended royalties, streamlining the permits required for mining, and eliminating windfall taxes for companies until they have recouped their investments. For more information on the Mining Law, see "The Ecuadorian Economy—Strategic Sectors of the Economy—Mining." In June 2014, former President Correa announced on national radio that the Republic intended to amend its existing mining laws. In an interview, the Minister of Coordination of Strategic Sectors stated that the principal objective of these new laws is to attract investment in the mining sector. On December 29, 2014, the National Assembly passed amendments to the Mining Law that include the recognition of the mining rights in Ecuador of national or foreign natural or legal persons with companies domiciled, constituted or located in tax havens as partners, shareholders or participants. The amendments also eliminate the payment of 1% of the total transaction value for the right to register transfers of stock or equity in a mining concession on the Ecuadorian stock exchange or on foreign stock exchanges. On November 25, 2015, Decree No. 823 established amendments to the *Reglamento General de la Ley de Minería* (the "General Regulation to the Mining Law") which reforms the Mining Law. The amendments to the General Regulation to the Mining Law provide for the following among others: (i) to allow individuals to request the inclusion of open areas not on the list prepared by the mining authority in the bidding process; (ii) exclude the obligation to submit environmental matters in proposals; (iii) eliminates the obligation to provide for a 2% guarantee over the proposed investment amount; (iv) provide that small and medium mining concessionaries are not under the obligation to sign exploitation contracts nor service contracts; (v) provide that the transfer of mining rights does not require the authorization of the Environment Ministry; (vi) eliminate the requirement imposed on concessionaires pay an amount equal to 25 basic unified wages in order to be able to request an extension in the period granted for the defense of concessionaire interests and (vii) establish a calculation of royalties over the net income of principal and secondary minerals received by concessionaires. The Organic Law for Development, Investment, Employment and Fiscal Stability, enacted on August 21, 2018, provided some additional flexibility to the calculation of royalties.

Public Corporations Law

Enacted in October 2009, the *Ley Orgánica de Empresas Públicas* (“Public Corporations Law”) created economic, administrative, financial and management control mechanisms for public companies in accordance with the 2008 Constitution. The objectives of the law were to regulate the formations, mergers, and liquidations of public companies outside the financial sector and that operate in Ecuador or abroad. To achieve those objectives, the Public Corporations Law:

- determines the procedures for the formation of public enterprises that are required to manage strategic sectors of the Ecuadorian economy;
- establishes the means to guarantee that the goals set forth by the Government are met by public companies, in accordance with the guidelines set by the *Sistema Nacional Descentralizado de Planificación Participativa* (“National Decentralized System of Participative Planning”);
- regulates the economic, financial, and administrative autonomy of public companies, in accordance with the principles and norms of the 2008 Constitution and other applicable laws; and
- encourages the integral, sustainable and decentralized development of the Republic by requiring public companies to take socio-environmental and technological update variables into account in their cost and production processes.

Renegotiation of Oil Field Contracts

Enacted in July 2010, the reform to the Hydrocarbons Law replaced the old system of oil revenue profit sharing contracts with a new contract system whereby the Republic owns oil production in its entirety, benefiting from all revenue windfalls that result from price increases. The objectives of the reform were to abide by Articles 1, 317, and 408 of the 2008 Constitution, which state that natural resources, such as oil, are part of the national heritage of Ecuador and that the Government shall earn profits from the exploitation of these resources, in an amount that is no less than the profits earned by the company producing them. Under the renegotiated contracts, contractor’s fees are established in accordance with the level and types of works and services to be performed, production costs, and a reasonable profit margin in relation to the level of risk. Under the old system, the Republic taxed between 17% and 27% of the first U.S.\$15 to U.S.\$17 in revenue for each barrel sold. Under the new system, the Republic taxes up to 80% of the revenue in each barrel sold. For more information on the Hydrocarbons Law, see “Strategic Sectors of the Economy—Oil Sector.” A number of oil companies have sued Ecuador in connection with the modification of their contracts resulting from the reform of the Hydrocarbons Law. The Organic Law for Development, Investment, Employment and Fiscal Stability, enacted on August 21, 2018, established that in “production sharing” contracts (reinstated by President Moreno’s administration), the Republic’s share (percentage) will be adjusted according to reference prices and production volume. See “Legal Proceedings—Windfall Profits Tax Litigation” and “Public Debt—Organic Law for Development, Investment, Employment and Fiscal Stability”.

Public Planning and Finance Code

Enacted in October 2010, the *Código Orgánico de Planificación y Finanzas Públicas* (“Public Planning and Finance Code”) created a new financial regulatory system pursuant to the 2008 Constitution. The objectives of the law, among others, were to develop and coordinate national and regional governmental planning, guarantee the rights of citizens through equitable resource allocation and increased citizen participation in framing public policy, and strengthen national sovereignty and Latin American integration through public policy decisions. To achieve those objectives, the Public Planning and Finance Code:

- allows for more flexibility for the Ministry of Economy and Finance to reallocate and reassign expenditures up to 15% of the approved Government budget without the prior approval of the National Assembly;

- sets an explicit total public debt ceiling of 40% of GDP including Central Government, non-financial public sector and Autonomous Decentralized Governments (see “Public Debt—General”);
- allows the Ministry of Economy and Finance to issue CETES at its discretion, without having to undergo the same approval process required for long-term internal and external sovereign debt;
- allows for the establishment of citizens’ committees for financial public policy consultations;
- determines that all excess cash not spent during a fiscal year will be accounted for as initial cash for the following fiscal year; and
- establishes the functions and responsibilities of the Debt and Finance Committee (See “Public Debt—General”).

The CGR Audit Report recommended that, in order to reconcile amounts comprising public debt, it would be necessary to amend the Public Planning and Finance Code and repeal Decree 1218 with respect to the calculation of the total public debt to GDP ratio for purposes of being able to ascertain the actual value of total public debt and determine if the latter has surpassed the legal limit of 40% debt to GDP set out in Article 124 of the Public Planning and Finance Code. Following these recommendations, on June 21, 2018, the National Assembly passed the Organic Law for Development, Investment, Employment and Fiscal Stability which became effective on August 21, 2018, which among other things, expressly confirms that certain activities and instruments are considered a *pasivo contingente* (“contingent liability”), and therefore are not included in the calculation of the total public debt to GDP ratio, and provides for a waiver of the 40% public debt to GDP ratio ceiling for the period 2018-2021, and until the public debt reaches a level below such 40% debt to GDP ratio. This new law provides that for the period 2018-2021, a fiscal stability plan shall be implemented by the governing body of public finances, for these purposes the Ministry of Economy and Finance, in light of the 40% public debt to GDP ratio ceiling having been exceeded had Decree 1218 not been in place. The new law sets forth that in each subsequent fiscal year after the period 2018-2021, the General State Budget must be presented with a fiscal program aimed at reducing in the long term the amount of total public debt with respect to GDP, until it reaches a level below such 40% debt to GDP ratio. The new law also mandates that the governing body of public finances will issue within 90 days from August 21, 2018, a new regulation implementing a new accounting methodology (which will replace the consolidation methodology established by Decree 1218), which shall be in accordance with Article 123 of the Public Planning and Finance Code (as amended), internationally accepted standards and best practices for the registration and disclosure of public debt (see “Public Debt-Decree 1218” and “Public Debt-Organic Law for Development, Investment, Employment and Fiscal Stability”).

In addition, the Organic Law for Development, Investment, Employment and Fiscal Stability amends Article 124 of the Public Planning and Finance Code providing that in exceptional cases, fiscal rules and the 40% debt to GDP ratio limit may be temporarily suspended when natural catastrophes, severe economic recession, imbalances in the payment system, or national emergency situations occur, for which purpose the approval of the majority of the members of the National Assembly will be required. These rules may also be suspended in the event that the President of the Republic decrees a state of emergency, in accordance with the provisions of the Constitution. In these cases, the organism in charge of public finances shall apply a strengthening plan for public finances with the purpose of achieving and restoring fiscal balance.

The CGR CETES Report included, among others, the following conclusions: (i) CETES were renewed and placed for periods longer than the 360-day period allowed by the Public Planning and Financing Code; (ii) CETES were delivered as payment instruments to pay debts, contrary to their purpose of being used to obtain resources to finance deficiencies in the fiscal accounts; and (iii) CETES were delivered to the Central Bank of Ecuador in exchange for other internal debt instruments already due, contrary to the nature of the CETES of being used to obtain resources to finance deficiencies in the fiscal accounts. In the CGR CETES Report, the Office of the Comptroller General recommended, among others, the repeal of Decree 1218 with respect to the short-term securities with a term of up to 360 days which shall not be included in the calculation of the total public debt. On July 4, 2018, the Office of the Comptroller General delivered to the Office of the Prosecutor General a report with findings of criminal liability in respect of former President Rafael Correa, former Ministers of Economy and Finance

and former general managers of the Central Bank of Ecuador, among others. Once the Office of the Prosecutor General completes the preliminary criminal investigation, which may last up to two years, it may request that an indictment hearing is held. If the judge determines that there are grounds for an indictment, a 90-day period will commence in which the Office of the Prosecutor General will conclude its investigation and issue a final report to be presented to the competent criminal court. After that, a hearing to call the alleged offenders to trial will be held. The alleged offenders will not be considered criminally liable until a trial is conducted and a decision determining criminal liability is issued.

Both the Republic and the Autonomous Decentralized Governments are subject to this law. For more information on the Public Planning and Finance Code, see “Public Sector Finances—Fiscal Policy.”

Production Code

Enacted in December 2010, the Production Code was created to stimulate investment and increase the production of goods and services. The objective of this law was to create fair guidelines that would balance workers’ rights with economic incentives for investors. To achieve that objective, the Production Code:

- provides guidelines for the *Consejo Nacional de Salarios* (“National Council on Wages”) to consider in setting the minimum wage;
- provides guidelines for foreign investments and outlines the rights of foreign investors; and
- creates tax incentives for investors, including a 3% reduction on capital gains tax and the elimination of up-front taxes on any new investment.

Law for Market Power Control and Regulation

Enacted in October 2011, the *Ley Orgánica de Regulación y Control del Poder de Mercado* (“Law for Market Power Control and Regulation”) was created to avoid, reform and penalize the abuse of market power. The objectives of the law were to prevent, prohibit and penalize collusive deals and other restrictive practices; control and regulate economic concentration operations; and prevent, prohibit and penalize disloyal practices, thereby seeking market efficiency as well as individual and collective well-being.

Environmental Improvement and State Resources Optimization Law

In November 2011, the Republic published and made effective the *Ley de Fomento Ambiental y Optimización de los Recursos del Estado* (“Environmental Improvement and State Resources Optimization Law”) to strengthen the environmental regulatory framework of the country. The law establishes, among others:

- an increase of the *Impuesto a la Salida de Divisas* (“Currency Outflow Tax”), from 2% to 5% (for more information regarding the Currency Outflow Tax see “Balance of Payments and Foreign Trade—Foreign Trade—Trade Policy”);
- a tax increase on cigarettes and alcoholic beverages;
- the creation of a two-cent tax on plastic bottles; and
- the creation of a vehicle pollution tax.

Law Reforming the Financial Institutions Law and the Restructuring Financial Taxes Law

Enacted in March 2012, the *Ley Reformativa a la Ley General de Instituciones del Sistema Financiero y a la Ley de Reordenamiento en Materia Económica en el área Tributario Financiero* (“Law Reforming the Financial Institutions Law and the Restructuring Financial Taxes Law”) was created to strengthen prior legislation related to mutual savings and housing credit associations. The objective of the law was to incorporate the concept of social

capital and the framework of economic sustainability to mutual savings and housing credit associations. The law provides mutual savings and housing credit associations with political, economic and property rights to promote the social well-being of its members.

Comprehensive Law for the Regulation of Housing and Automobile Loans

Enacted in June 2012, the *Ley Orgánica para la Regulación de los Créditos para Vivienda y Vehículos* (“Law for the Regulation of Housing and Automobile Loans”) was created to protect debtors in housing and automobile loan transactions. The law contains provisions, among others, that establish that collateral in these loans may only consist of the asset acquired through the loan and that the debtor of the loan may not use the acquired asset as collateral in other loan transactions.

Comprehensive Law of Redistribution of Income for Social Expenditures

Enacted in December 2012 and became effective in January 2013, the *Ley Orgánica de Redistribución de los Ingresos para el Gasto Social* (“Comprehensive Law of Redistribution of Income for Social Expenditures”) was created to direct economic resources towards the financing of certain key social expenditures that generate economic activity. For more information on this law, which includes tax reforms, see “Public Sector Finances—Taxation and Customs.”

Law to Strengthen and Optimize the Corporate and Securities Sector

Enacted by the National Assembly in May 2014, the *Ley Orgánica para el Fortalecimiento y Optimización del Sector Societario y Bursátil* (“Law to Strengthen and Optimize the Corporate and Securities Sector”) was created to regulate the establishment and operation of securities firms and stock exchanges. The law created the *Junta de Regulación del Mercado de Valores* (the “Committee for Securities Market Regulation”), a new regulatory agency that is responsible for establishing public policy for Ecuadorian insurance and stock markets and to make rules for their operation and control. The agency consists of governmentally appointed members, one of which is the delegate for the President. This new regulatory body replaces the *Consejo Nacional de Valores* (the “National Services Commission”) in formulating securities policies. The purpose of creating this new regulatory body was to ensure that the regulation of this market was in the hands of public servants as opposed to public and private individuals, as was the case with the National Services Commission.

Monetary and Financial Law

In September 2014, the National Assembly enacted the Monetary and Financial Law in order to address weaknesses of the Republic’s financial system stemming from the banking crisis in 2000. To achieve its objectives, the Monetary and Financial Law creates a new regulatory body, the Committee of Monetary and Financial Policy Regulation, to oversee and regulate the execution of monetary, foreign exchange, financial, insurance, and securities policies of the country. The committee is comprised of delegates from Ecuador’s Ministry of Economy and Finance, the Ministry of Production and Industrialization, the National Secretary of Planning and Development, the Ministry of Economic Policy, and a delegate appointed by the President. The principal function of the committee is to oversee and monitor the liquidity requirements of Ecuador’s financial system, ensuring that liquidity remains above certain levels (to be determined by the Committee of Monetary and Financial Policy Regulation). The law also creates a separate internal auditor for the Government’s financial entities, establishes certain norms for the Central Bank and the Superintendent of Banks regarding their budget, purpose, and their supervision, and sets forth reporting requirements to the Committee of Monetary and Financial Policy Regulation. The law also explicitly establishes that certain accounts in the Central Bank, including the accounts used for the deposits of the COSEDE and the Liquidity Fund, are subject to sovereign immunity and cannot be subject to attachment of any kind.

The law further establishes that all transactions, monetary operations and accounts in the Republic of Ecuador will be expressed in U.S. dollars. Other sections of the law make reference to an electronic payment system to facilitate payments to vendors. Through this voluntary electronic payment system, Ecuadorians will be allowed to make online payments to participating vendors through a payment system managed by the Government. Payments made through the system will be deducted or credited directly from accounts that vendors can establish

with the Central Bank. Each dollar in the electronic payment system is backed by a physical dollar at one time deposited or credited to an individual user, and will be backed by liquid assets in the Central Bank. On August 7, 2014, mobile phone carrier Movistar signed an agreement with the Central Bank to establish accounts to use the electronic payment system. In December 2014, the electronic payment system began operating. According to the Central Bank, as of November 2017, approximately U.S.\$10.2 million was in circulation in Ecuador in electronic currency. The law further established that further details regarding this payment system may be set forth by the Committee of Monetary and Financial Policy Regulation in regulations and laws. The Committee of Monetary and Financial Policy Regulation drafted various laws issued by the National Assembly, including the Law to Balance Public Finances and the Law of Solidarity, both of which are described herein, incentivizing and further regulating the use of electronic money. For more information regarding the Monetary and Financial Law, see “Monetary System—Supervision of the Financial System.”

On November 24, 2016, the Monetary and Financial Policy and Regulation Board issued Resolution No. 302-2016-F, amending Resolution No. 273-2016-F by increasing from 2% to 5% the reserves that financial institutions with more than U.S.\$1.0 billion in assets are required to hold at the Central Bank. This resolution is expected to reduce the liquidity of these financial institutions’ Central Bank deposits by approximately U.S.\$809 million.

Telecommunications Law

Enacted by the National Assembly in February 2015, the *Ley Orgánica de Telecomunicaciones* (“Telecommunications Law”) was created to improve access to quality telecommunications services and to increase the use of information technology in rural sectors. The objective of the law was to foster competition among telecommunication providers in order to increase the quality of telecommunication services in the country. The law applies to all companies that provide or facilitate the transmission of voice, video, data or any other type of signal via physical or wireless means. Under the Telecommunications Law, companies whose market share exceeds certain thresholds must pay a corresponding tax to the Government, which tax increases depending on the percentage of market share held. For example, companies that hold a market share higher than 75% must pay the government a tax equal to 9% of their total revenues for the year. In addition, the law provides that telecommunications companies must provide their services in Shuar and Quechua as well as in Spanish.

Labor, Justice and Home Maker Recognition Law

Enacted in April 2015, the *Ley Orgánica para la Justicia Laboral y Reconocimiento del Trabajo en el Hogar* (the “Labor Justice and Home Maker Recognition Law”) amends certain laws related to Ecuador’s social security system. Under the Labor Justice and Home Maker Recognition Law, homemakers previously ineligible to receive social security benefits can now enroll and receive benefits as a result of disability or old age. In addition, the law eliminates mandatory contributions to the social security system by the Government. Instead, the law establishes a Government guarantee to finance the social security system only when the contributions from employers and employees are insufficient to meet the resources required in a particular year.

Law for the Remission of Interest, Penalties and Surcharges

On May 5, 2015, the *Ley Orgánica de Remisión de Intereses, Multas y Recargos* (the “Law for the Remission of Interest, Penalties and Surcharges”) was published and became effective. This law provides a rebate of 100% or 50% of the interest, penalties and any other charges applicable to outstanding tax-payer obligations, provided such obligations are paid by July 28, 2015 or September 9, 2015, respectively. This law also provided new exemptions to the 5% Currency Outflow Tax including credits granted to Ecuadorian financial institutions by qualifying international financial institutions or specialized non-financial institutions, intended for purposes of financing housing, microcredits or productive investments.

Civil Procedure Code

On May 12, 2015, a new *Código Orgánico General de Procesos* (the “Civil Procedure Code”) creating a new homologation process involving additional court procedures for the enforcement of foreign arbitration awards

in Ecuador, were approved and enacted by the National Assembly. Under the new Civil Procedure Code, any judgment rendered by a properly constituted arbitral tribunal would be enforceable against the Republic after an homologation process before a Provincial Civil Court of Justice, without re-examination of the issues, provided it complies with the requirements established in the treaty between Ecuador and the country in which such judgment has been rendered, or in the absence of such treaty, when the formalities set forth in Articles 104, 105 and 106 and other relevant provisions of the General Code of Procedure are met.

Law on Incentives for Public-Private Joint Ventures and Foreign Investment

On December 18, 2015, the National Assembly enacted the *Ley Orgánica de Incentivos para Asociaciones Público-Privadas y la Inversión Extranjera* (“Law on Incentives for Public-Private Joint Ventures and Foreign Investment”) with the purpose of establishing incentives for the development of public projects by public-private joint ventures. According to the law, joint ventures that provide socially desirable and environmentally responsible goods to the country in accordance with Article 285 of the 2008 Constitution will be entitled to certain tax benefits such as a ten-year income tax exemption, among others. This law also provided new exemptions to the 5% Currency Outflow Tax including foreign payment transactions made by public-private partnerships established or structured for purposes of developing and implementing public projects.

Law to Balance Public Finances

On April 29, 2016, the *Ley Orgánica para el Equilibrio de las Finanzas Públicas* (the “Law to Balance Public Finances”) was published and became effective with the purpose of strengthening dollarization and correcting abuses in tax benefits and redistributions. According to a March 19, 2016 announcement by former President Correa, the law would also generate additional revenue needed to offset the decline in oil prices. In order to achieve its goals, the law regulates and discourages excessive consumption of cigarettes, alcoholic beverages and sweetened beverages through a special consumption tax. Additionally, the law promotes the use of electronic money and credit cards issued by entities that are part of the national financial system by refunding 2% and 1% of payments made with electronic money and credit card, respectively, directly to consumers. The law also seeks to halt currency outflows by discouraging the transfer of large amounts of cash and encouraging instead the use of electronic means of payment.

Law of Solidarity

On May 20, 2016, the *Ley Orgánica de Solidaridad y de Corresponsabilidad Ciudadana para la Reconstrucción de las Zonas Afectadas por el Terremoto de 16 de Abril de 2016* (the “Law of Solidarity”) was published and became effective in an effort to reallocate public funds other than those for health and education, toward reconstruction effort resulting from the Pedernales Earthquake. The Law of Solidarity includes the following measures:

- increasing the value added tax by 2% (from 12% to 14%) for one year from June 1, 2016, of which an additional 2% may be refunded if payments are made with electronic money (i.e. a 4% VAT reimbursement applies in payments made with electronic money). On June 1, 2017, this rate returned to 12%;
- a one-time contribution by natural persons equal to 0.9% of an individual’s total assets for individuals whose total assets exceed U.S.\$1 million;
- a one-time contribution by corporations equal to 3% of their 2015 taxable income; and
- a one-time yearly contribution of a day’s salary for those earning between U.S.\$1,000 and U.S.\$2,000 a month; a two-times yearly contribution of a day’s salary for those earning between U.S.\$2,000 and U.S.\$3,000 a month; a three-times yearly contribution of a day’s salary for those earning between U.S.\$3,000 and U.S.\$4,000 a month; a four-times yearly contribution of a day’s salary for those earning between U.S.\$4,000 and U.S.\$5,000 a month; a five-times yearly contribution of a day’s salary for those earning between U.S.\$5,000 and U.S.\$7,500 a month; a six-times yearly contribution of a

day's salary for those earning between U.S.\$7,500 and U.S.\$12,000 a month; a seven-times yearly contribution of a day's salary for those earning between U.S.\$12,000 and U.S.\$20,000 a month; and an eight-times yearly contribution of a day's salary for those earning more than U.S.\$20,000 a month. People providing services or domiciled in the province of Manabí, canton Muisne and other affected districts of the province of Esmeraldas, and citizens of other provinces that would have been economically affected, according to the conditions established by the Internal Revenue Service, are exempt from making this contribution.

Law to Eliminate Money Laundering and the Financing of Crimes

On July 21, 2016, the *Ley Orgánica de Prevención, Detección y Erradicación del Delito de Lavado de Activos y del Financiamiento de Delitos* (the "Law to Eliminate Money Laundering and the Financing of Crimes") was published and became effective. This law is intended to prevent, detect, and eliminate money laundering and the financing of crimes by creating a registry of "unusual" and "unjustified" financial operations and transactions. In addition to the institutions that are part of the financial and insurance systems of Ecuador, the law requires certain other entities and institutions to report to the Financial and Economic Analysis Unit, the Government entity responsible for compiling information and producing reports relating to money laundering.

Law on Tax Incentives

On October 12, 2016, the *Ley Orgánica de Incentivos Tributarios para Varios Sectores Productivos e Interpretativa del Artículo 547 del Código Orgánico de Organización Territorial, Autonomía y Descentralización* (the "Law on Tax Incentives") was published and became effective. The Law on Tax Incentives is intended to encourage productivity by extending tax incentives to additional sectors of the economy. The law establishes income tax deductions for micro, small and medium sized businesses that provide private health insurance to their employees and income tax deductions for public and commercial transport operators equal to the value of the vehicles owned by such operators.

Law to Regulate Companies that Finance Pre-paid Health Services and Health Insurance Companies

On October 17, 2016, the *Ley Orgánica que Regula a las Compañías que Financien Servicios de Atención Integral de Salud Prepagada y a las de Seguros que Oferten Cobertura de Seguros de Asistencia Médica* (the "Law to Regulate Companies that Finance Pre-paid Health Services and Health Insurance Companies") was published and became effective. The law is intended to regulate health service companies and health insurance companies and to provide clear legal requisites for the establishment and operation of those entities.

Law to Strengthen the Social Security System of the Armed Forces and National Police

On October 21, 2016, the *Ley de Fortalecimiento a los Regímenes Especiales de Seguridad Social de las Fuerzas Armadas y de la Policía Nacional* (the "Law to Strengthen the Social Security System of the Armed Forces and National Police") was published and became effective. The law is intended to make the national system of social security more sustainable over time by making adjustments and improvements to the pensions of public servants from Ecuador's Armed Forces and National Police.

Decree 1218

On October 25, 2016, pursuant to Article 147, Clause 13 of the 2008 Constitution, former President Correa exercised his presidential authority to issue implementing regulations and signed Decree 1218, which modified Article 135 of the General Rules to the Public Planning and Finance Code. Decree 1218 changed the methodology that the Ministry of Economy and Finance uses to calculate the 40% total public debt to GDP ceiling established in Article 124 of the Public Planning and Finance Code. This change in methodology effectively reduces the amount of internal public debt taken into account for purposes of calculating the 40% total public debt to GDP ceiling. For a further discussion of the impact of Decree 1218, see "Public Debt." Additionally, for a description of the risks of any action by the Government in relation to the 40% total public debt to GDP ceiling and related accounting methodologies, see "Risk Factors—Risk Factors relating to Ecuador—The Republic may incur additional debt

beyond what investors may have anticipated as a result of a change in methodology in calculating the public debt to GDP ratio for the purpose of complying with a 40% limit under Ecuadorian law, which could materially adversely affect the interests of Noteholders” and “Risk Factors—The Office of the Comptroller General has issued a report with conclusions from its audit to the Republic’s internal and external debt” in this Supplement. Since the Office of the Comptroller General issued its CGR Audit Report, the Ministry of Economy and Finance has only been releasing public debt to GDP ratio information applying the aggregation methodology, even though Decree 1218 has not been repealed through official procedures.

Following the recommendations made by the Office of the Comptroller General in the CGR Audit Report, on June 21, 2018, the National Assembly approved the Organic Law for Development, Investment, Employment and Fiscal Stability (submitted by President Moreno), which became effective on August 21, 2018, which among other things, provides certainty as to the nature of certain activities as *pasivo contingente* (“contingent liability”) for purposes of the calculation of the debt to GDP ratio, and provides for a waiver of the 40% public debt to GDP ratio ceiling for the period 2018-2021, and until the public debt reaches a level below such 40% debt to GDP ratio. This new law provides that for the period 2018-2021, a fiscal stability plan shall be implemented by the governing body of public finances, for these purposes the Ministry of Economy and Finance, in light of the 40% public debt to GDP ratio ceiling having been exceeded had Decree 1218 not been in place. The new law sets forth that in each subsequent fiscal year after the period 2018-2021, the General State Budget must be presented with a fiscal program aimed at reducing in the long term the amount of total public debt with respect to GDP, until it reaches a level below such 40% debt to GDP ratio. The new law also mandates that the governing body of public finances will issue within 90 days from August 21, 2018, a new regulation implementing a new accounting methodology (which will replace the consolidation methodology established by Decree 1218), which shall be in accordance with Article 123 of the Public Planning and Finance Code (as amended), internationally accepted standards and best practices for the registration and disclosure of public debt (see “Public Debt- Organic Law for Development, Investment, Employment and Fiscal Stability” below).

Law to Eliminate Speculation on Land Values and Tax Fixing

On December 13, 2016, the *Ley Orgánica para evitar la Especulación sobre el Valor de las Tierras y Fijación de Tributos* (the “Law to Eliminate Speculation on Land Values and Tax Fixing”) was published and became effective. This law is intended to create a more equal distribution of wealth and resources in Ecuador. This law imposes a tax of 75% on capital gains obtained from the sale of real estate in excess of an amount equal to 24 basic unified wages, or U.S.\$9,000 as of the time the minimum wage for the year 2017 went into effect. The Law to Eliminate Speculation on Land Values and Tax Fixing also imposes more stringent property record keeping obligations on the Autonomous Centralized Governments. This law was repealed on March 22, 2018. For more information, see “The Ecuadorian Economy—Economic and Social Policies—Organic Law Repealing the Organic Law to Eliminate Speculation on Land Values and Tax Fixing.”

Law to Reform the Organic Law of Public Service and Labor Code

On December 20, 2016, the *Ley Orgánica Reformatoria a la Ley Orgánica de Servicio Público y al Código de Trabajo* (“Law to Reform the Organic Law of Public Service and Labor Code”) was published and became effective. Under this law, a public servant who ceases to work for a public institution receives full remuneration up until the last day worked on the last month of work without receiving payment for the remaining days not worked on that month. The aim is not to overcompensate those employees partially working during a month as opposed to those who work the full month.

Organic Code for the Environment

On April 12, 2017 the *Código Orgánico del Ambiente* (the “Organic Code for the Environment”) was published and will become effective on April 12, 2018. This code will regulate activities that impact and damage the environment as well as allocate oversight of these activities to the *Autoridad Ambiental Nacional* (the “National Environmental Authority”), the *Sistema Único de Manejo Ambiental* (the “Office for Environmental Management”) and the Autonomous Decentralized Governments upon certification. This code’s general principles include sustainable development, clean technology, alternative energies, and production costs for measures to prevent, avoid

or reduce polluting activities. This code also provides for studies of environmental impact, environmental management plans as well as sanctions and infractions due to violations of environmental norms.

Law to Restructure Debt of Public Banks and Closed Banks

On April 18, 2017, the *Ley para la Restructuración de Deudas de Banca Pública, Banca Cerrada y Gestión del Sistema Financiero Nacional y Régimen de Valores* (the “Law to Restructure Debt of Public Banks and Closed Banks”) was published and became effective. This law is intended to restructure and forgive debt (the “Debt”) arising from the 1999 financial crisis in Ecuador which prompted the closure of seventeen banks. The Law to Restructure Debt of Public Banks and Closed Banks forgives Debt of up to U.S.\$150,000 that is owed by surviving spouses and surviving cohabiting partners of deceased debtors as well as by debtors who are incapacitated. In addition, the Law to Restructure Debt of Public Banks and Closed Banks forgives expenses, surcharges, and interest payments of debtors of the BNF so long as the debtors make payment of at least 5% of the principal owed to BNF.

Organic Law for the National System of Road Infrastructure for Ground Transportation

On May 5, 2017, the *Ley Orgánica del Sistema Nacional de Infraestructura Vial del Transporte Terrestre* (the “Organic Law for the National System of Road Infrastructure for Ground Transportation”) was published and became effective. The law establishes a regime for the design, planning, execution, construction, maintenance, regulation and control of infrastructure for ground transportation and complementary services. The law classifies roads by type to facilitate the approval of projects for the construction of road infrastructure, requires these projects to include studies of environmental and social impact as well as of security of the road, and allocates responsibility to the central Government and the Autonomous Decentralized Governments to maintain the infrastructure of ground transportation.

Organic Law for the Citizenship Security and Public Order Entities

On June 21, 2017, the *Código Orgánico de las Entidades de Seguridad Ciudadana y Orden Público* (the “Organic Law for the Citizenship Security and Public Order Entities”) was published. This law governs the organization, institutional activities, professional development and administration of citizenship security and public order entities.

Organic Administrative Code

On July 31, 2017, the *Código Orgánico Administrativo* (the “Organic Administrative Code”) was published and will become effective on July 31, 2018. This law will unify the procedures, defenses, penalties and statutes of limitations applicable in connection with administrative proceedings other than tax proceedings. Additionally, this code will repeal the *Ley de Modernización del Estado, Privatizaciones y Prestación de Servicios Públicos por parte de la Iniciativa Privada*.

Organic Law for the Application of the Referendum

On September 8, 2017, the *Ley Orgánica para la Aplicación de la Consulta Popular Efectuada el 19 de Febrero de 2017* (the “Organic Law for the Application of the Referendum”) was published and became effective. The law establishes that those who hold posts by popular election and those who are candidates for those posts, as well as public servants and those who apply to be public servants, cannot own goods or capital in territories considered tax havens. Any elected officials or public servants who own goods or capital in tax havens must comply with this law, left their positions by March 6, 2018 or face removal.

Organic Law to Reform the Organic Law of Public Service

On September 13, 2017, the *Ley Orgánica Reformativa a la Ley Orgánica del Servicio Público* (the “Organic Law to Reform the Organic Law of Public Service”) was published and became effective. This law establishes a mechanism to regulate the temporary contracting of public servants in public entities in order to

prevent public servants in temporary positions from becoming permanent public servants, in practice, without being subject to merit-based competitions.

Organic Law to Reform the Organic Law of Public Service and the Labor Code to Prevent Labor Harassment

On November 9, 2017, the *Ley Orgánica Reformatoria a la Ley Orgánica del Servicio Público y al Código del Trabajo para Prevenir el Acoso Laboral* (the “Organic Law to Reform the Organic Law of Public Service and the Labor Code to Prevent Labor Harassment”) was published and became effective. The law intends to prevent harassment in the workplace. The law establishes a definition of harassment in the workplace, a procedure to deal with workplace harassment claims, and the potential effects of behavior constituting harassment in the workplace.

Organic Law for the Reactivation of the Economy

On November 29, 2017, the National Assembly approved the *Ley Orgánica para la Reactivación de la Economía, Fortalecimiento de la Dolarización y Modernización de la Gestión Financiera* (the “Organic Law for the Reactivation of the Economy, Strengthening of Dollarization and Modernization of Financial Management”). On December 11, 2017, President Moreno partially objected to the passing of the law. On December 29, 2017, the law was published and became effective after undergoing certain amendments pursuant to President Moreno’s objection. The law alters applicable deductions and tax rates with the intention of increasing revenues through progressive taxes that do not affect the poorest in society. The 2018 Budget did not consider the impact of this law on tax considerations. This impact remains under analysis.

Integral Organic Law to Prevent and Eradicate Violence Against Women

On February 5, 2018, the *Ley Orgánica Integral para Prevenir y Erradicar la Violencia Contra las Mujeres* (the “Integral Organic Law to Prevent and Eradicate Violence Against Women”) was published and became effective. This law strengthens the protections provided to women by the government against domestic violence. Measures include appointing several government entities to oversee a registry of abusers of women.

Organic Law Repealing the Organic Law to Eliminate Speculation on Land Values and Tax Fixing

On March 22, 2018, the *Ley Orgánica Derogatoria de la Ley Orgánica para Evitar la Especulación Sobre el Valor de las Tierras y Fijación de Tributos, de Conformidad con la Consulta Popular del 4 de Febrero de 2018* (“Organic Law Repealing the Organic Law to Eliminate Speculation on Land Values and Tax Fixing”) was published and became effective. This law was enacted as a result of the referendum and popular consultation held on February 4, 2018, where over 63% voted in favor of repealing the Organic Law to Eliminate Speculation on Land Values and Tax Fixing.

Organic Law Reforming the Organic Law of the Council for Citizen Participation and Social Control

On March 23, 2018, the *Ley Orgánica Reformatoria a la Ley Orgánica del Consejo de Participación Ciudadana y Control Social para Aplicación de la Pregunta 3 del Referéndum Celebrado el 04 De Febrero de 2018* (“Organic Law Reforming the Organic Law of the Council for Citizen Participation and Social Control”) was published and became effective. This law was enacted due to a 63.08% vote in favor to question 3 of the consultation and popular consultation held on February 4, 2018. This law changes the requirements and mechanism for election of members to the National Council for Citizen Participation and Social Control. The Council is charged with sponsoring the participation and social control of the general public, fighting corruption, and designing processes to ensure authorities comply with the Constitution.

Organic Law of Border Development

On May 17, 2018, the *Ley Orgánica de Desarrollo Fronterizo* (the “Organic Law of Border Development”) was published and became effective. This law aims to develop the areas around Ecuador’s borders by creating

mechanisms by which the central government and the autonomous decentralized governments can provide help. It prescribes tax incentives as well as preferential lines of credit to help develop these areas.

Organic Law for the Integral Planning of the Special Amazon Territorial Circumscription

On May 21, 2018, the *Ley Orgánica para la Planificación Integral de La Circunscripción Territorial Especial Amazonica* (the “Organic Law for the Integral Planning of the Special Amazon Territorial Circumscription”) was published and became effective. The purpose of this law is to regulate the Integral Planning of the Special Amazon Territorial Circumscription and its territorial order, observing social, economic, cultural and environmental aspects. The law establishes several committees to oversee the projects. It also establishes two funds for the financing of the Special Amazon Territorial Circumscription: one from the sale of petroleum from the region and the other from the sale of minerals, hydroelectric power, hydrocarbons, and profits from state-owned enterprises in the region.

Law Reforming the Civil Aviation Law

On June 11, 2018, the *Ley Reformatoria a la Ley de Aviación Civil* (the “Law Reforming the Civil Aviation Law”) was published and became effective. The law provides for investigations of any accidents involving airplanes by a specialized committee. The law also prescribes a timeframe for the committee to detail and finalize its reports.

Law Reforming the Social Security Law

On June 18, 2018, the *Ley Reformatoria a la Ley de Seguridad Social* (the “Law Reforming the Social Security Law”) was published and became effective. The law increases social security payments to retirees who belong to the Rural Social Security from U.S.\$65 to U.S.\$100. It is retroactive from January 1, 2018. The law also provides for automatic increases consistent with those of the minimum wage.

Law Reforming the Organic Law on Higher Education

On August 2, 2018, the *Ley Orgánica Reformatoria a la Ley Orgánica de Educación Superior* (the “Law Reforming the Organic Law on Higher Education”) was published and became effective. The law provides that the academic trajectory, socioeconomic status, location and other factors will be taken into account in addition to the Ser Bachiller exam in order to evaluate the admission of a student to a public university. The law also provides for the creation of two public universities in the Amazon region and another in Santo Domingo de los Tsáchilas. Furthermore, the law aims to provide more autonomy to universities and to guarantee greater student and academics participation in the decision making process, and includes sanctions for bullying, discrimination and gender violence.

Organic Law for the Development, Investment, Employment and Fiscal Stability

On June 21, 2018, the National Assembly approved the *Ley Orgánica para el Fomento Productivo, Atracción de Inversiones, Generación de Empleo, y Estabilidad y Equilibrio Social* (the “Organic Law for Development, Investment, Employment and Fiscal Stability”) and, after a Presidential partial veto, it became effective upon its publication on August 21, 2018. The law aims to provide tax incentives for small and medium sized companies and to promote new investments in the country. The law provides for a 12 year income tax exemption (8 years if the investment is in Quito or Guayaquil and 15 years for investments in the industrial, agricultural and agro-associative sectors in the border regions of the country) for new productive investments in priority sectors, such as food production, forestry and agroforestry chain, metal-mechanic, petrochemical, pharmaceutical, tourism, renewable energy, foreign trade logistical services, biotechnology and import replacement and export promotion and a 15 year income tax exemption (20 years if the investment is in one of the border regions of the country) for productive investments the industrial, agricultural and agro associative sectors and any other basic industries determined by Ecuadorian law in the future. It also provides for remittances of interests, fines and charges over, among others, declared delayed tax payments, social security contributions and amounts owed to state-owned utilities as well as under student loans and grants. Finally, it provides for a simplified administrative process for social housing projects, which will also benefit from all the incentives in the law.

The Organic Law for Development, Investment, Employment and Fiscal Stability also includes other incentives, such as the option for investors to agree to settle disputes with the Republic through national or international arbitration under UNCITRAL rules (before the Permanent Court of Arbitration), under the rules of the International Chamber of Commerce in Paris, or under the rules of Inter American Commercial Arbitration Commission at the choice of the investor, and amends the Civil Procedure Code so that an international arbitration award will be enforced without further review as would a domestic award.

The Organic Law for Development, Investment, Employment and Fiscal Stability reforms Article 123 of the Public Planning and Finance Code by expressly confirming that a *pasivo contingente* (“contingent liability”) may originate from the activities listed below, and therefore will not be included in the calculation of total public debt to GDP ratio. These activities are:

- When the Central Government grants a sovereign guarantee for the benefit of public sector entities that enter into public debt, containing those provisions that are required for their payment,
- The issuance of notes that are linked to duly documented payment obligations,
- The execution of guarantees to secure the proper use of non-reimbursable contributions received by any applicable entity, and
- Contingent liabilities taken by the public sector, in accordance with applicable law, or other liabilities taken within the context of agreements with international credit agencies.

The above provides legal certainty as to which transactions should not be included within the calculation of the debt to GDP ratio as, pursuant to Article 123 of the Public Planning and Finance Code, contingent liabilities should only be considered public debt in such amount and to the extent the obligation is due and payable.

For further information regarding amendments to certain provisions of the Public Planning and Finance Code, see “Public Debt--Organic Law for Development, Investment, Employment and Fiscal Stability.”

Anti-Corruption Measures in Ecuador

Since President Lenín Moreno was elected, the Government of Ecuador has been putting in place several initiatives to fight against corruption in the country and several alleged cases of corruption against current or former public officials of state-owned companies are being investigated. In February 2018, certain amendments to the 2008 Constitution were approved by national popular referendum, including, among others, that those convicted of corruption related offenses should lose their political rights. In March 2018, Petroecuador and the *Unidad de Análisis Financiero y Económico* (the “Financial and Economic Analysis Agency”) entered into an inter-institutional agreement to work together in the prevention, detection and eradication of money laundering and financing of crimes within Petroecuador. On June 11, 2018, the Office of the Prosecutor General and the *Servicio Nacional de Contratación Pública* (the “National Service for Public Procurement”) entered into a framework agreement for cooperation between both institutions to allow joint operations in the fight against corruption. On August 21, 2018, President Moreno, in his efforts to fight corruption, announced that his administration was going to submit a new law proposal to the National Assembly aimed at providing protection to whistle blowers of proven corruption. As of the date of this Supplement there are several law proposals under review by the National Assembly aimed at fighting corruption and enabling the recovery of the defrauded amounts.

Strategic Sectors of the Economy

The Ministry for Environment (to be merged with the Secretariat of Water), the Ministry of Telecommunications and the Ministry of Energy and Non-Renewable Natural Resources (which will result from the merger of the Ministry of Electricity and Renewable Energy, the Ministry of Mines and the Ministry of Hydrocarbons) are in charge of the water, telecommunications, electricity, and natural resources (oil and mining) sectors of the economy, respectively.

The Republic considers these sectors as the most important aspects of its economy. Consequently, public investment in these segments has grown at a rapid rate. Historically, the Government has considered the water, telecommunications, natural resources, and electricity sectors to be the most important sectors of the economy. In 2014, the Government invested U.S.\$7,017 million in these strategic sectors, compared to U.S.\$6,536 million in 2013. In 2015, investment in Ecuador's principal economic sectors decreased by 18% to U.S.\$5,736 million. This decrease was due to the Government's decision to decrease investment in the oil sector in 2015 as a result of expected lower revenues from oil sales. Investment in the oil and mining sector decreased from U.S.\$3,014 million in 2015 to U.S.\$2,533 million in 2016. In 2016, the Government invested U.S.\$4,386 million in the strategic sectors, compared to U.S.\$5,736 million in 2015. In 2016, the Government invested in water, telecommunications, natural resources and electricity, including investments made by the state-owned company that administered all infrastructure projects carried out by the *Ministerio Coordinador de Sectores Estratégicos* (the "Ministry of Coordination of Strategic Sectors" or "MICSE") ("Ecuador Estratégico"), which was abolished on May 24, 2017, and other areas of investments including those made by Environment Ministry and the Public Enterprise Administrator of the Special Economic Development Zone Eloy Alfaro ZEDE.

The total aggregate investment amount in the strategic sectors from 2012 to 2016 was U.S.\$28,024 million. For more information regarding the 2017 budget please see "Public Sector Finances - 2017 and 2018 Budgets."

The following chart sets forth accumulated investment in strategic sectors since 2013:

Strategic Sector Investment⁽¹⁾ (in millions of U.S.\$)				
	2013	2014	2015	2016⁽²⁾
Water.....	201	363	485	234
Telecommunications	425	296	321	240
Natural Resources (oil and mining)	3,915	4,339	3,014	2,533
Electricity.....	1,730	1,777	1,801	1,348
Ecuador Estratégico.....	191	175	57	28
Other investment ⁽³⁾	67	66.12	56.31	26
Total Investment	6,536	7,017	5,736	4,386

Source: MICSE Information available as of December 2016.

(1) Strategic sector investment figures are no longer published.

(2) Includes preliminary information. Public companies have yet to adjust their budgets.

(3) Includes investments made by the Environment Ministry and the Public Enterprise Administrator of the Special Economic Development Zone Eloy Alfaro (ZEDE).

Ecuador Estratégico

Ecuador Estratégico's main functions were to evaluate project proposals submitted by municipalities, administer and distribute funds towards approved projects, and supervise the completion and progress of each project. According to *Ecuador Estratégico*, the Mirador is the first mining project on a large-scale. The Fruta del Norte project is a gold and silver mineral deposit with expected benefits considering the current prices of those metals. Before MICSE was abolished, financing for infrastructure projects was procured through a selection process where competing financing offers were compared to determine the offer with the most favorable terms. The process, undertaken by Ministries under the supervision of *Ecuador Estratégico*, in consultation with the Ministry of Economy and Finance, assigned a percentage value to different aspects of an offer (price, experience of the financing entity in the type of project, and overall experience, among others). Projects with high levels of financing emphasized the price offered by the financing entity and assigned a large percentage value to price. Then, competing offers were granted points depending on their qualifications. The financing entity with the most points would then be chosen to finance the project. Financing was also procured through joint venture contracts and direct investment through a grant of a concession and service contracts.

On February 13, 2015, former President Correa signed Decree 578 ("Decree 578"), which creates the *Ministerio de Minas* ("Ministry of Mines") and renames the Ministry of Non-Renewable Resources as the *Ministerio de Hidrocarburos* ("Ministry of Hydrocarbons"). Decree 578 was signed with the purpose of establishing one ministry to supervise and regulate geological, mineral, and metallurgical activities in the country, which were

formerly undertaken by the Ministry of Natural Resources and the Vice-Ministry of Mines. On May 15, 2018, by executive decree, President Moreno merged the Ministry of Hydrocarbons, the Ministry of Electricity and Renewable Energy, the Ministry of Mining and the Secretariat of Hydrocarbons to become the Ministry of Energy and Non-Renewable Natural Resources. A 90-day period was established for the implementation of the merger. On August 8, 2018, President Moreno issued Executive Decree No. 471 extending the term for the implementation of the merger until September 14, 2018.

Oil Sector

Ecuador's oil reserves are managed directly by state-owned oil companies Petroecuador and Petroamazonas and through service contracts with other Ecuadorian and foreign companies. Oil exploitation operations are conducted under the supervision and regulation of the Ministry of Hydrocarbons acting through the Hydrocarbons Regulation and Control Agency and the Secretariat of Hydrocarbons (now to become the Ministry of Energy and Non-Renewable Natural Resources).

The Secretariat of Hydrocarbons also provides technical, economic and legal support in service contract origination and public bidding processes. In November 2012, former President Correa signed decree 1351-A (the "Consolidation Decree"), which consolidated the operations of Petroecuador and Petroamazonas allocating exploration and exploitation of hydrocarbon resources to Petroamazonas and transportation, refining and commercialization activities to Petroecuador.

While revenues from oil exports (including oil derivatives) decreased from 2012 to 2016, non-petroleum sources of revenue in the non-financial public sector increased during that time period. As a result, the percentage of oil revenues with respect to GDP has declined in relation to the percentage of GDP of non-petroleum revenues during the time period. According to data from the Central Bank of Ecuador, Ecuador's crude oil exports reached U.S.\$13,016 million in 2014, a 3.0% decrease from U.S.\$13,412 million in 2013. Additionally, crude oil exports in 2015 reached U.S.\$6,355 million, a 51.2% decrease from U.S.\$13,016 million in 2014. In 2016, crude oil exports reached U.S.\$5,054 million, a 20.4% decrease from U.S.\$6,355 million in 2015. This decrease was due to a decrease in the average price of Ecuadorian petroleum per barrel from U.S.\$45 in 2015 to U.S.\$34 in 2016. The Esmeraldas refinery underwent a period of preventative maintenance through the end of 2015. In 2016, the fully-operational Esmeraldas refinery processed larger quantities of refined petroleum, temporarily reducing the average price of petroleum per barrel up to the third quarter of 2016, when the price of petroleum began to increase. In 2017, crude oil exports reached U.S.\$6,190 million, a 22.5% increase from U.S.\$5,054 million in 2016. This increase was due to an increase of 30% in the average price of petroleum per barrel from U.S.\$35.25 in 2016 to U.S.\$45.84 in 2017. In the first five months of 2018, crude oil exports totaled U.S.\$3,136 million compared to U.S.\$2,539 million in the first five months of 2017. This increase was due to an increase of 53.3% in the average price of petroleum per barrel from U.S.\$41.4 in May of 2017 to U.S.\$63.5 in May of 2018. In contrast, revenues from non-petroleum sources in the non-financial public sector increased in both 2014 and 2015, reaching U.S.\$23,939 million in 2014 and U.S.\$25,937 million in 2015. Both increases were due to increased tax revenues for both years. In 2016, revenues from non-petroleum sources in the non-financial public sector reached U.S.\$24,294 million, which is a decrease from the U.S.\$25,937 million in 2015. This decrease was due to certain factors including a reduced collection in taxes mainly in specific consumption taxes and value added tax which decreased by 26% and 17% respectively from 2015. In 2017, revenues from non-petroleum sources in the non-financial public sector reached U.S.\$25,473 million, which is an increase from the U.S.\$24,294 million in 2016. This increase was primarily due to the recovery of investment through the sale of shares in 2017. In the first three months of 2018, revenues from non-petroleum sources in the non-financial public sector totaled U.S.\$6,358 million, a 1.6% decrease from U.S.\$6,460 million in the first three months of 2017.

In 2017, Central Government oil revenues represented 1.6% of GDP and 9.2% of Central Government revenues and non-petroleum revenues represented 16.0% of GDP and 90.8% of Central Government revenues. For more information on Central Government revenues, see "Public Sector Finances - Central Government Revenues and Expenditures." In the same year, oil revenues for the non-financial public sector represented 5.7% of GDP and 17.7% of non-financial public sector revenues and non-petroleum revenues represented 24.7% of GDP and 77.3% of non-financial sector revenues. In 2017, Central Government oil revenues reached U.S.\$1,676 million, which is a decrease from the U.S.\$2,003 million in 2016. This decrease was due to a decrease in oil production in 2017. For

more information on revenues of the non-financial public sector, see “Public Sector Finances - Non-Financial Public Sector Revenues and Expenditures.”

In January 2015, in response to the decline of oil prices in the last quarter of 2014, Ecuador reduced its 2015 budget by U.S.\$1.4 billion, resulting in a modified budget of U.S.\$34.9 billion for 2015. In August 2015, in response to the continuing decline of oil prices, Ecuador further reduced its 2015 budget by U.S.\$800 million, resulting in a modified budget of U.S.\$34.1 billion. In November 2015, the National Assembly approved a budget of U.S.\$29.8 billion for 2016, a decrease of 17.9% as compared to the original budget for 2015. The 2016 budget assumed an average crude oil price of U.S.\$35 per barrel, which represents a 56% decrease from the U.S.\$79.7 per barrel assumption of the original 2015 budget. The actual average crude oil price per barrel at the end of 2016 was U.S.\$34.96, which represents a 16.52% decrease from the actual U.S.\$41.88 average crude oil price per barrel at the end of 2015.

Petroecuador and Petroamazonas are state-owned companies and are legal entities with their own assets and budgetary, financial, economic and administrative autonomy. The Secretariat of Hydrocarbons of Ecuador is a Governmental institution under the management of the Ministry of Hydrocarbons, with its own assets and administrative, technical, economic, financial and operational autonomy. It conducts the management of non-renewable hydrocarbon resources and is tasked with executing activities such as the administration of oil fields and the execution and modification of oil field contracts.

Exploitation

Under the 2008 Constitution, all subsurface natural resources are property of the state, and in the case of petroleum, following the Consolidation Decree, its exploitation is undertaken directly by Petroamazonas. The 2008 Constitution, however, permits the Government to contract with the private sector for the development of these natural resources.

The 2008 Constitution, the Hydrocarbons Law, the Consolidation Decree, decree 315 (“Decree 315”) and decree 314 (“Decree 314”) set out the following reforms which clearly define the public sector oil entities’ functions as follows:

- the Ministry of Hydrocarbons implements the hydrocarbon policies defined by the Republic’s president;
- the Secretariat of Hydrocarbons of Ecuador conducts the public tender process for specific service contracts to develop oil fields, and executes and administers such contracts;
- the Hydrocarbons Control and Regulation Agency controls and oversees hydrocarbon activity in all its phases;
- Petroecuador is involved in the refining, and industrialization of hydrocarbon activities, as well as their internal and external marketing; and
- Petroamazonas is involved in the exploration and production of hydrocarbons.

For more information on the formation of the Ministry of Energy and Non-Renewable Natural Resources through the merger of the Ministry of Hydrocarbons, the Ministry of Electricity and Renewable Energy, the Ministry of Mining and the Secretariat of Hydrocarbons, see “The Republic of Ecuador–Form of Government.”

Under the new framework established by the National Development Plan and the 2008 Constitution, Ecuador allows foreign investment in its hydrocarbon resources, which, under the 2008 Constitution and Hydrocarbons Law are exclusively owned by the state. In November 2010, the Government completed its contract renegotiations with foreign oil companies under the Hydrocarbons Law, which, as mentioned above, replaced production-sharing agreements for private companies with a fixed per-barrel fee for their exploration and production activities.

Production

Petroleum Production

(in thousands of barrels per year, except where noted)

	For the year ended December 31,					January – May,	
	2013	2014	2015	2016	2017	2017	2018
Petroleum ⁽¹⁾	526	557	543	548	531	533	514
Public Companies ⁽²⁾⁽³⁾	144,921	157,976	154,308	158,118	152,092	63,705	59,937
Other operators	47,198	45,166	43,922	42,593	41,837	16,727	17,651
Total	192,119	203,142	198,230	200,711	193,929	80,432	77,588
Natural Gas Production ⁽⁴⁾	18,052	20,410	17,550	18,633	16,337	7,080	5,682

Source: Petroleum data is based on figures from the Central Bank May 2018 Monthly Bulletin (Table 4.1.1).

(1) Petroleum information is displayed in thousands of bpd.

(2) Petroecuador and Petroamazonas until 2012. After January 1, 2013, only Petroamazonas is involved in petroleum production.

(3) Public company numbers include the production of Rio Napo.

(4) Natural Gas Production information is displayed in millions of cubic feet.

According to the Central Bank's Monthly Bulletin for May 2018, oil field crude production, including that of private and state-owned companies, reached 200.7 million barrels for the year 2016, averaging 548,000 bpd. This represents a 1.2% increase from the 198,230 million barrels produced for the year 2015, or an average production of 543,000 bpd. This increase was principally due to the commencement of operations at new oilfields, such as ITT. In the year 2016, state-owned companies were responsible for 78.8% of production, compared to 77.8% of production for the year 2015. According to the May 2018 monthly bulletin, oil field crude production, including that of private and state-owned companies, reached 193.9 million barrels for the year 2017, representing a 3.4% decrease from the 200.7 million barrels produced in the first ten months of 2016 (and a decrease of 3.1% in barrels per day ("bpd")). In 2017, state-owned companies were responsible for 78.4% of production, compared to 78.8% of production in 2016. This decrease was principally due to the Republic's compliance with the OPEC Agreement under which the Republic agreed to reduce its crude production by 26,000 barrels per day beginning on January 1, 2017. According to the May 2018 monthly bulletin, oil field crude production, including that of private and state-owned companies, reached 77.6 million barrels in the first five months of 2018, representing a 3.5% decrease from the 80.4 million barrels produced in the first five months of 2017 (and a decrease of 3.5% in barrels per day ("bpd")). In the first five months of 2018, state-owned companies were responsible for 77.2% of production, compared to 79.2% of production in the first five months of 2017. This decrease was principally due to delays in production schedules due to delays in acquisitions and temporary limitations in works and facilities. These gaps are expected to be overcome in the second semester of 2018.

The vast majority (95%) of Ecuador's oil blocks are located onshore. The most productive oil blocks are located in the northeastern part of the country, with Shushufindi and Auca as two of the oldest and most productive fields. Crude oil production has increased in the last ten years with the opening of the *Oleoducto de Crudos Pesados* (the "OCP") pipeline (see "Transportation" below), which removed a chokepoint on heavy crude oil transportation in the country. Production in existing fields has leveled off in recent years as the result of the natural decline in the productivity of existing blocks, particularly older blocks such as Shushufindi, which has been in operation for over forty years. In January of 2012, in order to boost production, Petroecuador signed incremental production contracts with two oil company consortiums. *Consorcio Shushufindi*, currently composed of oil field services companies Schlumberger, through its subsidiary Shushufindi Holdings B.V. and Tecpetrol, through its subsidiary Tecpetrol Servicios, S.L. was awarded the contract for the Shushufindi field. The company Pardaliservices S.A., which comprises Tecpetrol, Canada's Canacol Energy, Schlumberger and Ecuador's Sertecpet, will work on the Libertador-Atacapi field. The Pardaliservices S.A. consortium, which comprises of Tecpetrol, Canada's Canacol Energy, Schlumberger and Ecuador's Sertecpet, will work on the Libertador-Atacapi field. These companies will invest more than U.S.\$380 million to extract more than 14 million barrels of oil over the course of 15 years.

Despite the decrease in production in 2015, the Republic expects production to increase significantly through the development and inauguration of new fields. In 2010, Petroamazonas began production in the Pañacocha field in the Ecuadorian Amazon. On November 28, 2012, former President Correa officially launched the 11th round of tenders for oil exploration of thirteen oil blocks in southeast Ecuador. Ecuador earmarked three

additional fields for Petroamazonas, which will enter into exploration agreements with foreign state-owned oil companies. The first agreement was a joint-venture agreement signed in September 2014 with Chile's Sipetrol S.A. and Belarus' Belorusneft. Under the agreement, Sipetrol S.A. and Belorusneft plan to invest U.S.\$400 million to explore and develop a 175,250 hectares concession in Block 28 in southeastern Ecuador for approximately 20 years. Petroamazonas expects to own a 51% stake in the project, while Sipetrol S.A. and Belorusneft expect to own 42% and 7%, respectively. Exploration activities began on April 2015 for a four-year period. As of the date of this Supplement, Ecuadorian law permits the Government to evaluate the proposals of possible foreign state-owned oil companies for future joint venture contracts.

In August 2013, former President Correa signed a decree authorizing the exploitation of oil from exploratory blocks 31 and 43, which include the ITT field in Yasuní National Park. As of December 31, 2016, Petroamazonas estimated that exploratory block 43 has proven crude oil reserves of approximately 78.96 million barrels and proven, probable and possible crude oil reserves of approximately 630 million barrels. This decree reversed a moratorium imposed since 2007 on the extraction of oil from ITT, which was created to protect biodiversity and avoid dislocation of isolated indigenous cultures with support from international donors to partially offset the opportunity costs of not developing the ITT fields. However, considering the low levels of support from international donors as well as the potential gains from the extraction of oil for this initiative, former President Correa issued the decree allowing development of the ITT fields. Following the issuance of the decree in August 2013, environmental and indigenous groups have announced their opposition to the removal of the moratorium and the Presidential decree authorizing the development of the ITT fields; however, the National Assembly has approved the use of the ITT fields and, as of May 2014, the Environment Ministry has issued permits allowing Petroamazonas to develop the fields. Ecuador expects that the output from the ITT fields will offset the decline from existing oil fields and increase overall production. On September 7, 2016, Petroamazonas began extracting oil from the ITT fields. Since then, the production has grown to 73,600 bpd in July 2018, and it is expected to surpass the level of 200,000 bpd by 2022. As of December 31, 2017, the following platforms were in operation: Tiputini A with 16 drilled wells and an average production of 21,949.16 bpd; Tiputini B with 0 drilled wells and no production; Tiputini C with 8 drilled wells and an average production of 21,187.91 bpd; and, Tiputini D with 7 drilled wells and an average production of 1,073.41 bpd. . As of May 31, 2018, the following platforms were in operation: Tiputini A with 20 drilled wells and an average production of 15,920.1 bpd; Tiputini B with 2 drilled wells and no production; Tiputini C with 31 drilled wells and an average production of 18,606.1 bpd; Tiputini D with 13 drilled wells and an average production of 10,697.08 bpd; Tambococha A with 2 drilled wells and an average production of 1,282.06 bpd; and Tambococha D with 8 drilled wells and an average production of 7,829.75 bpd. As of May 31, 2018, 32 domestic companies provide services and 80 domestic companies provide supplies in the development of the ITT project.

In December 2015, Shaya Ecuador S.A. ("Shaya"), a subsidiary of Schlumberger B.V., entered into an oilfield servicing contract with Petroamazonas. The 20-year agreement commits Shaya to spend U.S.\$4.9 billion between investments and operative expenditures in production-enhancing measures at Block 61, located in the Ecuadorian Amazon. The primary part of Shaya's investment will be spent on improving upstream production. However, the company assumes the block's operational costs for an amount of U.S.\$1.8 billion and invests U.S.\$2.1 billion during the term of the contract.

In December 2017, Petroamazonas successfully concluded the negotiations of Ronda de Campos Menores 2017. SEA Ecuador, CNPC, Vincler C.A. and Cementaciones Petroleras Venezolanas were awarded with the contracts for 7 blocks in the regions of Orellana and Sucumbío, and four service contracts, with a WTI-indexed tariff, were entered into. The total investment between 2018 and 2020 is expected to be U.S.\$696 million and it is estimated to produce 104.46 million of barrels during the 10 years of its term.

In May 2018, Petroamazonas started the public procurement of the "Oil & Gas" round for the awarding of specific performance contracts for the exploitation of the crude fields of Cuyabeno-Sansahuari, Yuralpa, Oso and Blanca-Vitina, and the gas field of Amistad, as a result of which four service contracts, with a WTI-indexed tariff, were entered into for the exploitation of the crude fields of Cuyabeno-Sansahuari, Yuralpa, Oso and Blanca-Vitina. Petroamazonas estimates that the total investment between 2019 and 2021 will be approximately U.S.\$728 million.

Exports

Crude oil exports as measured in U.S. dollars steadily increased from 2011 to 2013. Ecuador's crude oil exports in 2015 reached U.S.\$6,355 million, a 51.2% decrease from U.S.\$13,016 million in 2014. The decrease was due to the decrease in the price of oil beginning in late 2014 and continuing through 2015 and 2016. In 2016, crude oil exports reached U.S.\$5,054 million, a 20.5% decrease from U.S.\$6,355 million in 2015. This decrease was due to a decrease in the average price of Ecuadorian petroleum per barrel from U.S.\$45 in 2015 to U.S.\$34 in 2016. The Esmeraldas refinery underwent a period of preventative maintenance up through the end of 2015. In 2016, the fully-operational Esmeraldas refinery, processed larger quantities of refined petroleum, temporarily reducing the average price of petroleum per barrel up to the third quarter of 2016, when the price of petroleum began to increase. In 2017, crude oil exports reached U.S.\$6,190 million, a 22.5% increase from U.S.\$5,054 million in 2016. This increase was due to an increase of 30% in the average price of petroleum per barrel from U.S.\$35.25 in 2016 to U.S.\$45.84 in 2017.

In 2015, 95.4% of the value of oil exports was crude oil and 4.6% was oil derivatives. In 2016, 92.6% of the value of oil exports was crude oil and 7.4% was oil derivatives. In 2015, 62.5% of oil exports were exported to the United States, followed by Chile, Peru, Panama, and Japan with 13.2%, 10.1%, 6.1%, and 2.4%, respectively. In 2016, 51.8% of oil exports were exported to the United States, followed by Chile, Peru, Panama and China with 16.2%, 12.3%, 11.4%, and 4.3%, respectively. In 2017, 55.1% of oil exports were exported to the United States, followed by Peru, Chile and others with 15.5%, 15.4%, and 14%, respectively. As of May, 2018, 44.6% of oil exports were exported to the United States, followed by Peru, Chile and others with 19.2%, 14.8%, and 21.4% respectively.

PetroChina, a wholly-owned subsidiary of China National Petroleum Corporation ("CNPC"), has made prepayments to Petroecuador in connection with crude oil supply agreements, including an agreement providing for prepayments of U.S.\$2 billion entered into in August 2013, and Unipac Asia Co., Ltd ("Unipac"), a wholly-owned subsidiary of China Petrochemical Corporation, has also made prepayments to Petroecuador in connection with crude oil supply agreements, including an agreement providing for prepayments of U.S.\$2.4 billion, entered into in May 2014.

In June 2015, PTT Public Company Limited, a Thai state-owned oil and gas company, entered into an agreement providing for prepayments of U.S.\$2.5 billion to Petroecuador in connection with a crude oil supply agreement.

On December 1, 2016, Petroecuador signed a crude oil sale and purchase contract with PTT International, pursuant to which Petroecuador will receive initial prepayments of U.S.\$600 million shortly after signing for crude oil to be delivered during the five-year term of the contract. On December 6, 2016, Petroecuador signed a fuel oil sale and purchase contract with OTI, pursuant to which Petroecuador will receive an initial prepayment of U.S.\$300 million shortly after signing for fuel oil to be delivered to OTI during the 30-month term of the contract. In connection with each contract, the Republic has agreed to refund to the purchasers any amounts of the prepayments and related surcharges for advance payment which are not otherwise satisfied through the delivery of crude oil or fuel oil, respectively, or refunded by Petroecuador in accordance with the contracts. In 2018, Petroecuador reached an agreement with Petrochina, Unipac and PTT Public Company Limited and PTT International in order to amend each of crude oil supply agreements between Petroecuador and each of these companies. On May 1, 2018, the new amendments came into effect.

Transportation

Ecuador has two major oil pipelines. Most of Ecuador's crude oil production is transported through the Trans-Ecuadorian Pipeline System (the "SOTE"), which links Lago Agrio in the Oriente region to the Balao export terminal on the Pacific coast. The SOTE was built by Texaco (now Chevron) and was transferred to Petroecuador in 1998. The SOTE has a capacity of approximately 360,000 bpd. In 2013, the SOTE transported 131.9 million barrels, averaging 361,568 bpd, an increase of 2.3% compared to 2012. In 2014, the SOTE transported 132.5 million barrels, averaging 363,097 bpd, an increase of 0.4% compared to 2013. In 2015, the SOTE transported 133.7 million barrels, averaging 366,215 bpd, an increase of 0.9% compared to 2014. In 2016, the SOTE transported 132.89 million barrels, averaging 363.09 thousand bpd, a decrease of 0.6% compared to 2015. In 2017, the SOTE

transported 131.1 million barrels, averaging 359.1 thousand bpd. In the first quarter of 2018, the SOTE transported 31.5 million barrels, averaging 349.7 thousand bpd.

On May 31, 2013, a rain-caused landslide ripped up a tranche of the SOTE near the Reventador volcano in the north-east region of Ecuador, near Peru and Brazil. It is estimated that approximately 11,500 barrels of oil were lost. Much of the oil spilled affected the waters of the Quijos, Coca and Napo rivers, and it is estimated that the oil may have reached the Amazon river and other territories or waters in Peru and Brazil. The Republic is in the process of analyzing the incident and is working closely with the governments of Peru and Brazil to contain any environmental damage that the accident may have caused. The Republic is not aware of any pending or threatened lawsuit or claim arising from this incident.

In June 2001, Ecuador awarded the construction and operation contract for its second pipeline, the OCP heavy crude oil pipeline, to Oleoducto de Crudos Pesados Ecuador S.A., a consortium of domestic and foreign oil companies. The OCP pipeline was constructed at a cost of U.S.\$1.4 billion, all of which was paid by the consortium. Construction was completed in September 2003, and operations began the same month. The contract for the operation of the OCP has a duration of twenty years and ends in 2023. At the end of the contract, the OCP pipeline will become national property. The Ministry of Energy and Mines and Petroleum (now the Ministry of Hydrocarbons) oversaw the construction of the OCP pipeline, and now oversees its operation. The OCP pipeline is made up of two sections, the largest of which was designed to transport a maximum of 517,300 bpd and has a sustainable transportation rate of 450,000 bpd of crude oil of 18° to 24° American Petroleum Institute degrees. In 2014, the OCP pipeline transported 59.1 million barrels, averaging 161,929 bpd, an increase of 10.8% compared to 2013. In 2015, the OCP pipeline transported 62.1 million barrels, averaging 170,025 bpd, an increase of 5.0% compared to 2014. In 2016, the OCP pipeline transported 61.2 million barrels, averaging 167,171.29 bpd, a decrease of 1.40 % compared to 2015. In 2017, the OCP transported 59.9 million barrels, averaging 164.1 thousand bdp. In the first quarter of 2018, the OCP pipeline transported 14.30 million barrels, averaging 159.15 thousand bpd.

Refining

Following the Consolidation Decree, Petroecuador is the only company that conducts refining activities in Ecuador. Petroecuador owns three refineries in Ecuador (Esmeraldas, La Libertad and Shushufindi) with processing capabilities of 110,000, 45,000 and 20,000 bpd, respectively. Petroecuador also owns one associated gas processing plant (Shushufindi), which has a processing capacity of 637.8 million barrels of liquefied petroleum gas (“LPG”) and average production of 1,747.6 bpd.

In the first six months of 2018, the three main refineries produced 39,939,579 barrels of oil derivatives including gasoline, diesel, fuel oil, jet fuel and liquefied petroleum, which represented an increase of 10.04% compared to the 36,296,775 barrels of oil derivatives produced in the first six months of 2017. This increase is due mainly to the increase in the production of fuel oil (60.68%), oil refuse (21.07%) and diesel (17.23%).

During 2016, the domestic consumption of oil derivatives was 87.6 million barrels, which represents a decrease of 5.5% compared to the 92.7 million barrels in 2015. During 2017, the domestic consumption of oil derivatives was 86.6 million barrels, which represents a decrease of 1.1% compared to the 87.6 million barrels in 2016. It is important to note that Ecuadorian refineries do not produce sufficient oil derivatives to meet internal demand. Ecuadorian refineries meet approximately 60% to 65% of the national demand. Accordingly, Ecuador is a net importer of oil derivatives, even though it is a net exporter of crude oil. During the first five months of 2018, the domestic consumption of oil derivatives was 4.9 million barrels, which represents a 4.3% increase compared to the 4.7 million barrels during the first five months of 2017.

In February 2013, Petroecuador announced that the Esmeraldas refinery would be undergoing a project of preventative maintenance, which resulted in reduced operations until year-end 2015, when all maintenance was completed. Reduced production by the Esmeraldas refinery during the preventative maintenance project required Ecuador to import additional oil derivatives to meet domestic demand. Upon completion, improvements to the refinery included, among other things, the expansion of the Fluid Catalytic Fractionation Unit (the “FCC”), and replacement of the FCC’s reactor and regenerator which increased processing capacity and improved the quality of finished products. Ecuador estimates that the preventative maintenance project at Esmeraldas will allow Ecuador to

reduce imports of gasoline by 17%, diesel by 15%, and liquefied petroleum gas by 10%, resulting in annual savings of approximately U.S.\$305 million in fuel import costs for the country. The cost of the project, contracted with several international companies including SK Engineering, was approximately U.S.\$1.2 billion.

Operations at the Esmeraldas refinery were temporarily halted to allow for technical inspections of the facility following the earthquake on April 16, 2016 but resumed on April 18, 2016 and returned to full operating rates as of April 23, 2016 and intermittently halted for inspections following aftershocks. After the end of the project of preventative maintenance at Esmeraldas both its refining capabilities and production of oil derivatives increased. Esmeraldas' refining capabilities increased from 59,990 average bpd in 2015 to 105,677 average bpd in 2016. Esmeraldas' production of oil derivatives increased from 74,817 average bpd in 2015 to 120,520 average bpd in 2016. Esmeraldas' production of oil derivatives increased from 120,520 average bpd in 2016 to 122,919 average bpd in 2017. For 2018, an oil derivatives production of 44,803,229 barrels is estimated. In the fourth quarter of 2016, the Esmeraldas refinery suffered technical problems that prevented the operation of its plants at its maximum capacity. As a result, a new contract for the maintenance of tanks was expected to be entered into, an emergency declaration was declared to make up for the electricity deficit and contracts were entered into for the supply of electric power. In March 2018, Petroecuador announced that the Esmeraldas refinery will be undergoing a project of maintenance that will last three years. During this period, different parts of the Esmeraldas refinery will be temporarily halted to allow for maintenance.

As of August 2018, there was no private sector participation in the production of oil derivatives. However, on July 15, 2008, Petroecuador and PDVSA Ecuador formed a new entity called RDP in which Petroecuador was the majority shareholder (51%) and PDVSA Ecuador was the minority shareholder (49%). RDP was formed to develop a refinery project with the same name to be built in the municipality of Manta, Manabí Province, with a total nameplate capacity to be determined. The land rights and environmental licenses necessary to develop RDP were obtained, and a preliminary detailed feasibility study of the project was completed.

Although the project was initially going to be implemented by Petroecuador and PDVSA, the Republic is currently working on liquidating PDVSA's participation in the project. The refinery project in Manabí, currently known as Refinería de Manabí, will be granted in concession for a term between 20 and 25 years to a private investor via a public tender. The total estimated investment for Refinería de Manabí is approximately between U.S.\$8 billion and U.S.\$10 billion. According to the Minister of Foreign Trade, there are several conglomerates interested in the project of Refinería de Manabí.

Domestic Fuel Distribution

In 1993, the Government implemented a free market in domestic fuel distribution, which has led to a rapid modernization of distribution facilities. The price at which gasoline is sold to domestic distributors is fixed by an executive decree of the President in accordance with the Hydrocarbons Law, and set according to variables such as domestic demand and the impact of the price on public finances. Until 1998, the Government had fixed the maximum profit level for distributors at 18%. In 1999, the fixed margin was eliminated. In early 2000, the Government reinstated a 15% fixed margin for regular gasoline and diesel fuels (distributors remained free to set any margin for premium gasoline). Since 2003, the fixed margin has been determined in cents per gallon. In 2005, the margin increased to U.S.\$0.71 per gallon of regular gasoline and to U.S.\$0.137 per gallon of diesel. These margins were set by Presidential decree 338 ("Decree 338"), which was issued in August 2005, and as subsequently modified. Any future change to the profit margin would require a new Presidential decree.

Decree 338 also regulates the sales price of consumer petroleum derivatives, and sets the price for consumers for gasoline and diesel products. The price of gasoline (net of value-added taxes) sold to consumers is fixed at U.S.\$1.689 per gallon for gasoline and at U.S.\$0.8042 per gallon for diesel. On August 23, 2018, President Lenín Moreno enacted Presidential decree No. 490 which provides that from August 27, 2018, the final price to consumers of high-octane gasoline ("super") is fixed at U.S.\$2.98.

Several private multinational petroleum companies, including ExxonMobil and PDVSA Ecuador, have established service stations in Ecuador. As of December 31, 2016, Petroecuador maintains a network of 49 service stations of its own and 203 affiliate stations.

Natural and Liquefied Petroleum Gas

An important part of Petroecuador's commercial strategy includes the distribution of natural gas to southern Ecuador in order to reduce the consumption of LPG, the replacement of gasoline use with LPG for taxis and the creation of a network of service stations in order to compete in quality, service and price with private oil companies. As of December 31, 2016, Ecuador had approximately 184,470 million cubic feet of proven natural gas reserves and 358,463 million cubic feet of proven and probable natural gas reserves. As of May 31, 2018, Ecuador had approximately 160,032 million cubic feet of proven natural gas reserves and 334,025 million cubic feet of proven and probable natural gas reserves. As of the date of this Supplement, CELEC consumes an average of approximately 39 million cubic feet of natural gas per day in the plant Termogas Machala and the Ecuadorian industry consumes an average of approximately 6 million cubic feet of natural gas per day. Their consumption of natural gas will define its future demand.

The natural gas platform at the Amistad field in the bay of Guayaquil was previously operated by the U.S. Company Energy Development Corp. Ecuador Ltd. and then managed by Petroecuador. It is currently operated by Petroamazonas. In 2017, 2016, 2015 and 2014 Petroamazonas produced approximately 44.77 million standard cubic feet per day ("mmscfd"), 50.9 mmscfd, 48.1 mmscfd and 55.9 mmscfd of natural gas, respectively, at the Amistad field and at Petroamazonas' three satellite platforms which also produce natural gas. In the first five months of 2018, Petroamazonas produced approximately 37.6 million standard cubic feet per day of natural gas at the Amistad field and at Petroamazonas' three satellite platforms which are also producers of natural gas.

In August 2013, Petroecuador began tests at the Monteverde LPG terminal. The terminal is a new facility, built as part of a combined LPG storage, transport and distribution project in the Guayas and Santa Elena provinces. Ecuador has invested U.S.\$550 million in the combined project, which also includes the Monteverde-El Chorrillo pipeline. This new terminal replaced the floating LPG storage units and related maritime transport to Tres Bocas terminal, thereby generating expected annual savings of U.S.\$40 million and easing congestion in the access canal to the Port of Guayaquil. The new facilities, which became operational in 2014, have a capacity to store 76,700 tons of LPG and have storage tanks for diesel and petroleum.

In February 2014, Petroecuador signed a long-term propane and butane requirement contract with Petredec Limited, a liquefied petroleum shipping company. Under the agreement, Petroecuador will buy up to 2,470,000 metric tons (plus or minus 20% at the option of Petroecuador) to be made in monthly deliveries of 72,500 metric tons per month. Petroecuador may also request for up to an additional 30,000 metric tons per month. The first monthly delivery of butane and propane occurred in March 2014 for 72,500 metric tons. According to Petroecuador, the contract is valued at approximately U.S.\$2 billion.

Mining

The mining sector represents an important source of potential resources for the development of the Republic. According to information from *MICSE* as of April 2017, Ecuador had potential copper reserves valued at approximately U.S.\$127 billion, potential gold reserves valued at U.S.\$48.9 billion, molybdenum reserves valued at U.S.\$5.7 billion, and silver reserves valued at U.S.\$3.7 billion. In total, the nation estimated reserves valued at U.S.\$185 billion.

The Mining Law establishes norms for the exercise of the Government's rights to manage and control the mining sector, in accordance with the principles of sustainability, precaution, prevention and efficiency. It provides that it is the Government's responsibility to oversee all aspects of the mining process, such as exploration, development, industrialization and marketing and authorizes the Republic to invest directly or through joint ventures with domestic or foreign private sector entities. In addition, it authorizes the Republic to both hire and grant licenses and concessions to wholly owned private entities to conduct all phases of development. However, the Republic cannot grant ownership rights in the soil and subsoil mineralogical wealth to entities that are not controlled by state entities.

The mining sector represents a small portion of GDP (1.55% in 2017, 0.35% in 2016, 0.35% in 2015, 0.33% 2014, 0.32% in 2013 and 0.33% in 2012). In the first nine months of 2017, the mining sector represented

0.47% of GDP, compared to 0.45% of GDP for the first nine months of 2016. In 2013, most production from mining was generated by domestic artisan and jeweler businesses. However, Ecuador expects mining exports to continue to increase as a result of an expansion of the Republic's mining projects in 2014 and 2015. Currently, there are five projects in advanced stages of completion – two copper mines and three gold mines.

Project Mirador is the largest copper project in Ecuador. The copper mine in the Zamora Chinchipe province is expected to finalize its construction at the end of 2018 and begin production in the second half of 2019. Project Mirador is financed in part through a concession to Ecuacorriente S.A., a joint-venture owned by the Chinese companies China Railway Construction Corporation ("CRCC") and Tongling Nonferrous Metals Group. From 2010 to the first semester of 2018, the executed investment was U.S.\$911 million and Ecuacorriente S.A. is planning an investment of approximately U.S.\$2,015 million (exploration, economic evaluation, CAPEX, OPEX, and mine closure). The expected life cycle of the mine is 27-30 years from the start of production. The Government estimates that the project will produce 30,000 tonnes of copper per day during the first three years, increasing afterwards to 60,000 tonnes of copper per day. The Republic expects that the project will generate approximately U.S.\$5.79 billion in revenue for the Republic.

The Fruta del Norte Project, located in the Zamora Chinchipe Province, is a gold and silver ore deposit owned by the Lundin Gold group, which is expected to start operations in the fourth quarter of 2019. From 2007 to the first semester of 2018 the executed investment was U.S.\$669 million, Lundin Gold is planning an investment of approximately U.S.\$1.24 billion (exploration, economic evaluation, CAPEX, OPEX, and mine closure) that will be made over a 13-15-year period. The gold and silver ore deposit in the Zamora Chinchipe Province began construction in the second quarter of 2017. The Government estimates that the project will produce 3,500 tonnes of ore and silver per day. The Republic expects that the project will generate approximately U.S.\$1,523 million.

The Rio Blanco project is mainly a gold mining project located in the Azuay Province owned by Junfield Resources S.A. which began construction in August 2016 and is expected to start production in the third quarter of 2018. This project is classified as medium mining as it is expected to produce and estimated 800 tonnes per day. From 2010 to the first semester of 2018 the executed investment was U.S.\$18 million, Junfield Resources S.A. is planning an investment of approximately U.S.\$89 million (exploration, economic evaluation, CAPEX, OPEX, and mine closure) that will be made over an 11-year period. Benefits to the Republic considering current metal prices amount to U.S.\$173 million.

The Loma Larga project, located in the Azuay Province, is a gold, silver, and copper deposit owned by INV Metals INC that is expected to begin construction in the first quarter of 2019 and start production by the first quarter of 2021. From 1999 to the first semester of 2018 the executed investment was U.S.\$61 million. The Loma Larga is expected to generate around U.S.\$511 million of revenue to the Republic with an investment of over U.S.\$432 million (exploration, economic evaluation, CAPEX, OPEX, and mine closure).

The San Carlos Panantza project, located in Morona Santiago Province, is a copper deposit owned by CRCC with an expected life cycle of the mine of 25 years from the start of production. From 2010 to the first semester of 2018 the executed investment was U.S.\$23 million and the expected investment is approximately U.S.\$3 billion.

There are also 6 projects in an initial exploration stage which have been identified as having high mining potential: Cascabel, Llurimagua, Ruta del Cobre, Crangrejos, La Plata and Curipamba. The Government expects that the executed investment for these projects by the end of 2018 will be U.S.\$30.27 million.

Since 2016, 275 concessions have been granted through a mining concession request process, with a commitment of a 4-year investment totaling U.S.\$1,299 million, with the participation of internationally recognized companies (BHP, Newcrest, Sold Gold, Aurania, Lumina, Anglo America, Lundin Gold and Hancock, among others).

Electricity and Water

As of 2006, hydroelectric plants supplied approximately 53% of the power in Ecuador. In 2014, 2015, 2016 and 2017 hydroelectric plants supplied approximately 46%, 58%, 66% and 85% of the power in Ecuador,

respectively. The increase in power supplied by hydroelectric plants is due to the development of a matrix of hydroelectric plants built throughout Ecuador. Ecuador's objective in developing this matrix is to reduce its consumption of oil through oil based generators, thereby decreasing oil imports and electric energy imports and improving energy independence. Ecuador also plans to replace household oil-based consumption (for cooking and heating as further described below) with electricity-based consumption through the hydroelectric power grid, with the goal of eliminating the need for a gas subsidy.

The Santiago hydroelectric project is located at the Morona Santiago province and has a 3,600 MW capacity expected to generate approximately an average of 15.060 GWh per year. The required investment for the Santiago hydroelectric project is U.S.\$2,590 million. The Cardenillo hydroelectric project is located at the Azuay province, and has a 596 MW capacity expected to generate approximately an average of 3.356 GWh per year. The required investment for the Cardenillo hydroelectric project is U.S.\$1,050 million. The 1,500 MW Coca Codo Sinclair plant was inaugurated on November 18, 2016. It is expected to generate an average of 8.73 GWh per year and supply approximately 30% of the country's electricity needs. In November 2016, all eight turbines in the plant became operational, each generating 187.5 MW and a total of 1,500 MW of power, or 30% of Ecuador's electricity needs.

The plant is set to reduce 3.5 million tons of carbon emissions per year and replace oil energy consumption for domestic purposes such as cooking and water heating. The plant will join the existing infrastructure of hydroelectric plants that include the 21 MW Mazar plant in the Azuay province, the 1,075 MW Paute-Molino plant near Cuenca, the 270 MW Minas San Francisco plant, the 50 MW Quijos plant, and the 487 MW Sopladora and Cardenillo plants planned along the Paute River. Many of these hydroelectric projects are financed through agreements with bilateral lenders, including the China Exim Bank, which has provided U.S.\$1,700 million to finance the Coca Codo Sinclair project, U.S.\$571 million to finance the Sopladora hydroelectric project and U.S.\$313 million to finance the Minas San Francisco hydroelectric project, the Brazilian National Economic and Social Development Bank which has provided U.S.\$90.2 million to finance the Manduriacu hydroelectric power plant project near Quito, and Société Générale and Deutsche Bank which in April 2014 committed to provide together an additional U.S.\$50 million to finance the Manduriacu hydroelectric power plant.

Construction on the new line of hydroelectric plants continued in 2016 including the 180 MW Delsitanisagua hydroelectric plant and the 254 MW Toachi Pilaton hydroelectric plants, and the construction of a reservoir in the Minas San Francisco project. The construction of these hydroelectric plants is due to an enhanced effort by the Government to invest in the sector.

In March 2014, former President Correa announced a new program to substitute electricity use for gas use. Under this program, beginning in November 2014, the Government began to sell subsidized stoves to replace gas stoves. Former President Correa stated that the use of electric stoves would enable the Government to terminate the gas subsidies in 2017 and the net effect on the Government budget will be positive due to the elimination of the subsidies, with savings of approximately U.S.\$800 million a year. As of the date of this Supplement, the goal of elimination of gas subsidies continues in place.

The Government has also increased investment in the water sector in order to alleviate flood conditions and access to potable water in various parts of the country. Ecuador's national water authority, *Secretaria de Agua*, currently has invested U.S.\$1,233 million out of U.S.\$1,560 million for six multi-purpose projects to improve flood control and irrigation. One of the most important projects in the water sector is the Multipropósito Chone project in the Manabí province. Financed by the Government and private partners, the U.S.\$168.4 million project built a dam to alleviate the flood conditions of the region. The project also built a drain system, which serves for irrigation purposes and provides a drinking water supply for Chone city. The cost of this project includes mitigation costs of U.S.\$41.7 million in the surrounding areas to compensate inhabitants in those areas.

Other water projects include: (i) the Cañar project at a cost of U.S.\$360.5 million to protect approximately 40,000 hectares along the Cañar River and its adjoining streams through a system of levees, including a 24-kilometer bypass, (ii) four new bridges, (iii) a flood regulatory system and 173 km of dyke walls, (iv) the U.S.\$372.7 million Daule-Vinces project that redirects water from the Daule River and transports it along a 38.73 kilometer

canal to dry farmlands and (v) the Naranjal project at a cost of U.S.\$181.7 million to protect approximately 44,000 hectares, seven new bridges and 158 km of dyke walls.

These flood control projects reduce the social and economic damage caused by floods in the winter season, allowing the Government to reallocate resources previously used to repair the damage to other projects. To repair the damage, the Government spent U.S.\$312 million in 2012 and U.S.\$415 million in 2013. The Government did not spend any funds in 2014 and 2015 due to the mild winter conditions for those years.

In 2017, the electric and water sectors contributed a total of U.S.\$1,813 million to GDP, an increase compared to U.S.\$1,594 million in 2016. Since 2013, the sectors represent an average of approximately 1.4% of GDP per year.

Telecommunications

In 2012, 22.5% of Ecuadorian households were connected to the Internet. As of May 2018, 41.2% of Ecuadorian households were connected to the Internet. While only 20 of Ecuador's 221 municipalities had access to the national fiber optic network in 2007, this number increased to 200 by 2015.

In 2012, the telecommunications sector accounted for U.S.\$1,914 million of GDP. This amount increased steadily through 2014, when the telecommunication sector accounted for U.S.\$2,171 million of GDP to then decrease in 2015, when the telecommunications sector accounted for U.S.\$2,039 million. In 2016, the telecommunications sector decreased again and accounted for U.S.\$1,972 million. From 2012 through 2016, the telecommunications sector represented an average of approximately 2.07% of GDP per year. In 2016, the Government invested U.S.\$217 million in the sector, a decrease compared to U.S.\$322 million in 2015. In 2017, the telecommunications sector accounted for U.S.\$2,128 million of GDP, an increase of 7.9% compared to U.S.\$1,972 million in 2016.

In 2008, Ecuador granted Spain's Telefónica (currently operating in Ecuador as "Movistar") and Mexico's América Móvil (currently operating in Ecuador as "Claro") 15-year concession contracts to provide the country with telephone and 3G services. The concessions are extensions of previous agreements both companies had with Ecuador and are expected to generate U.S.\$840 million in revenues for Ecuador over the course of the term of the concessions. In February 2015, Ecuador amended the concession to provide the country with 4G services.

In February of 2015, the National Assembly enacted the Telecommunications Law as a means to improve access to quality telecommunications services and to increase the use of information technology in rural sectors. For more information on the Telecommunications Law, see "The Ecuadorian Economy – Economic and Social Policies – Telecommunications Law."

Other Sectors of the Economy

Agriculture

Before the discovery of petroleum fields in provinces of the Orient region in the 1970's, the agriculture sector had traditionally been the largest contributor to Ecuador's GDP. Of Ecuador's total 27.1 million hectares, 7.8 million are devoted to agriculture and livestock. Ecuador's diverse climatic conditions, varying altitudes and rich volcanic soil are well suited to tropical and subtropical agriculture. Ecuador's primary product from this sector, which is also the Republic's most significant non-oil export, is bananas. According to data from the Food and Agricultural Organization of the United Nations ("FAO"), Ecuador has represented approximately 25% to 30% of banana world exports for the ten years ending in December 31, 2013. Ecuador also exports significant amounts of coffee, flowers, and cacao. The agricultural sector constituted an average of 8.01% of GDP per year for the years 2012 through 2016. In 2017, the agricultural sector represented 8.35% of GDP, a decrease compared to 8.46% in 2016.

Between 2012 and 2016, the volume of Ecuador's banana exports increased by 21.8%. In 2012, the value of Ecuador's banana exports decreased by 7.5%, primarily as a result of difficult growing conditions for that year.

However, the value of these exports increased by 11.8% in 2013 when growing conditions returned to normal and 10.9% and 9.0% in 2014 and 2015, respectively. In 2016, banana exports totaled U.S.\$2,734 million, a 2.6% decrease from U.S.\$2,808 million in 2015 primarily due to the decrease in quality of the banana supply during the first trimester due to climate conditions, and the oversupply of Central American bananas in the global marketplace which reduced the overall price. In 2017, banana exports totaled U.S.\$3,035 million, a 11.0% increase from U.S.\$2,734 million in 2016 primarily due to a 6.6% increase in the quantity exported from 6,166 metric tons in 2016 to 6,573 metric tons in 2017 and a 4.1% increase in the unit price per metric ton from U.S.\$443.4 to U.S.\$461.6. In the first five months of 2018, banana exports totaled U.S.\$1,448 million, a 4.1% increase from U.S.\$1,391 million in the first five months of 2017 primarily due to a 3.0% increase in the quantity exported from 2,979 metric tons in the first five months of 2017 to 3,067 metric tons in the first five months of 2018 and a 1.1% increase in the unit price per metric ton from U.S.\$467.0 in the first five months of 2017 to U.S.\$472.1 in the first five months of 2018.

Ecuador also exports significant amounts of cacao. In 2012, cacao exports were U.S.\$345 million. Exports increased to U.S.\$423 million in 2013 when growing conditions returned to normal. With continued normal growing conditions, cacao exports reached U.S.\$576 million in 2014 and increased to U.S.\$693 million in 2015. In 2016, cacao exports reached U.S.\$621 million, a 10.4% decrease from 2015 primarily due to the oversupply of cacao, especially from Ivory Coast and Ghana which affected the overall price and a general decrease in the consumption of chocolate. In 2017, cacao exports reached U.S.\$588 million, a 5.3% decrease from 2016 primarily due to a 24.3% decrease in the unit price per metric ton from U.S.\$2,736.3 in 2016 to U.S.\$2,070.3 despite the 25.1% increase in the quantity exported from 227 thousand metric tons in 2016 to 284.2 thousand metric tons in 2017. In the first five months of 2018, cacao exports totaled U.S.\$198 million, a 16.6% decrease from U.S.\$237 million in the first five months of 2017 primarily due to a decrease in the quantity exported from 107 thousand metric tons in the first five months of 2017 to 87 thousand metric tons in the first five months of 2018.

Flowers and flower products are among one of the newest, but fastest growing exports for Ecuador, making up 4.8% of Ecuador's total exports in 2016. Flower exports were U.S.\$714 million in 2012, U.S.\$830 million in 2013 and U.S.\$918 million in 2014. In 2015, flower exports decreased by 12% to U.S.\$820 million primarily as a result of the strengthening of the dollar which made Ecuador's flowers more expensive compared to Colombian flowers. In 2016, flower exports decreased by 2.2% to U.S.\$802 million primarily due to exchange rate changes, particularly the strengthening of the U.S. dollar which reduced sales principally to the Russian market as well as political problems affecting sales to Ukraine. In 2017, flower exports increased by 9.8% from U.S.\$802 million in 2016 to U.S.\$881 million in 2017 primarily due to a 11.0% increase in the quantity exported from 143 thousand metric tons in 2016 to 159 thousand metric tons in 2017, despite a 1.1% decrease in the unit price per metric ton from U.S.\$5,604.3 in 2016 to U.S.\$5,543.5 in 2017. In the first five months of 2018, flower exports totaled U.S.\$406.8 million, a 4.7% decrease from the U.S.\$427.0 million in the first five months of 2017 primarily due to a 2.6% decrease in the quantity exported from 73 thousand metric tons in the first five months of 2017 to 71 thousand metric tons in the first five months of 2018 and a 2.2% decrease in the unit price per metric ton.

Fishing

Another important aspect of Ecuador's agriculture is its fishing exports. Ecuador exports significant amount of tuna and other fish, but its predominant fishing export is shrimp. Ecuador is the largest shrimp producer in the Americas, and one of the largest shrimp producers in the world. According to the FAO, over the ten years ending December 31, 2013, Ecuadorian shrimp exports have represented approximately 2% of worldwide shrimp exports.

The amount of shrimp exports steadily rose in the period from 2011 to 2014, growing from U.S.\$1,178 million in 2011 and reaching U.S.\$2,513 million in 2014. In 2015, shrimp exports totaled U.S.\$2,280 million, a 9.3% decrease from 2014. This decrease is due to the phenomenon of El Niño, which took place in 2015, as well as a decrease in exports to Asia. In 2016, shrimp exports totaled U.S.\$2,580 million, an increase of 13.2% from 2015. This increase was due to the recovery of the price of shrimp and to the export of shrimp of greater weight, which have a higher price. In 2017, shrimp exports totaled U.S.\$3,038 million, an increase of 17.7% from 2016. This increase was due to a 18.1% increase in the quantity exported from 371 thousand metric tons in 2016 to 438 thousand metric tons in 2017, despite a 0.3% decrease in the unit price per metric ton from U.S.\$6,959 in 2016 to U.S.\$6,936 in 2017. In the first five months of 2018, shrimp exports totaled U.S.\$1,387 million compared to

U.S.\$1,190 million in the first five months of 2017 primarily due to a 20.6% increase in the quantity exported from 172 thousand metric tons in the first five months of 2017 to 207 thousand metric tons in the first five months of 2018 despite a 3.4% decrease in the unit price per metric ton.

Fishing exports, other than shrimp, decreased from U.S.\$324 million in 2012 to U.S.\$244 million in 2016. In 2016, fishing exports, other than shrimp, decreased by 5.4% from U.S.\$258 million in 2015. This decrease was due to the impact of the phenomenon of el Niño in the Ecuadorian coast which reduced the supply and raised prices. In 2017, fishing exports, other than shrimp, decreased by 0.7% from U.S.\$244.3 million in 2016 to U.S.\$242.5 million in 2017. This decrease was due to a 6.9% decrease in the unit price per metric ton from U.S.\$3,566.7 in 2016 to U.S.\$3,321.7 in 2017. In the first five months of 2018, fishing exports, other than shrimp, totaled U.S.\$146.2 million, a 48.1% increase from U.S.\$98.7 million in the first five months of 2017. This increase is due to a 25.1% increase in the quantity exported from 29 thousand metric tons in the first five months of 2017 to 37 thousand metric tons in the first five months of 2018 and due to a 18.3% increase in the unit price per metric ton.

Manufacturing

Manufacturing, excluding petroleum products, is dominated by consumer products such as food, beverages, textiles, and paper, with a concentration of imported intermediate and capital goods. The manufacturing sector contributed, 12.59%, 13.48%, 13.61%, 13.81% and 13.57% to the GDP, per year for the years 2013, 2014, 2015, 2016 and 2017 respectively.

Ecuador's main manufactured non-petroleum exports are canned seafood, automobile assembly, processed cocoa, and processed coffee. The manufacturing sector has grown an average of 10.27% per year between 2011 and 2015. During 2012, 2013 and 2014, manufacturing grew by 11.1%, 11.5%, and 15.9%, respectively. In 2015, manufacturing decreased by 0.5%, reaching U.S.\$13,815 million. In 2016, manufacturing decreased by 1.4% reaching U.S.\$13,628 million. The decrease in growth of the manufacturing sector was due to the general slowdown of the economy in Ecuador for those periods. In 2017, manufacturing reached U.S.\$13,987 million, an increase of 2.7% compared to U.S.\$13,622 million in 2016.

Ecuador's membership in international trade organizations and its status as a party to various multilateral agreements such as ALADI, CELAC, and the Community of Andean Nations have contributed to the opening of new markets for the sale of Ecuadorian goods abroad and challenged domestic manufacturers to operate more competitively. On December 12, 2014, representatives from Ecuador's Ministry of Foreign Commerce signed a trade agreement with the European Union. For more information, see "Balance of Payments and Foreign Trade - Foreign Trade -Trade Policy." In the first five months of 2018, 24.9% of Ecuador's non-petroleum exports were sold in the European Union.

Construction

The construction sector accounted for 11.20% of GDP in 2015, 10.71% of GDP in 2014 and 10.53% of GDP in 2013. In 2017, the construction sector accounted for 10.96% of GDP, compared to 12.04% of GDP in 2016. In 2015, construction activity decreased by 0.8% in real terms compared with 2014. In 2014, construction activity grew by 4.7%, compared to 7.4% in 2013. These decreases in construction activity were due to a decrease in residential and non-residential buildings as well as a decrease in civil engineering projects. In 2016, construction activity decreased by 5.2% in real terms compared with 2015. In 2016, U.S.\$413 million worth of raw materials used for construction were imported, a decrease of 37% from the U.S.\$658 million worth of raw materials used for construction imported in 2015. This decrease in construction activity was primarily due to a decrease in imports of construction materials. The steady increase in construction and the large percentage of GDP that it represents is a result of the construction activity in connection with the Republic's infrastructure projects, particularly the development of new oil fields, and the hydroelectric and flood control projects of the past seven years. In 2017, construction activity decreased by 5.9% in real terms compared with 2016.

Science and Technology

The Government has begun development of a very large education and research center north of Quito, known as “Yachay-the City of Knowledge” (“Yachay”). Construction of Yachay began in 2012 and is expected to continue for the next 10 years. Yachay is a 18-square-mile planned community that is expected to house a large university and a dozen technology and innovation parks. The university opened its doors to 187 enrolled students in April 2014.

The goal of Yachay is to create a culture of scientific research in Ecuador and promote a long-term state-of-the-art site for technological research. Developers have mentioned that there will be an emphasis on nanotechnology, but add that Yachay will be multi-disciplinary. Long-term goals include the development of knowledge-based products to diversify the Ecuadorian economy and the development of new technologies for the country’s well-being. Ecuador estimates that it will spend U.S.\$20 billion over the course of 16 years to complete the project.

In February 2016, the Republic entered into a U.S.\$198 million loan agreement with The Export-Import Bank of China to finance the first phase of Yachay.

Tourism

Ecuador’s tourism industry grew steadily from 2012 to 2014, slightly decreasing in 2015 and again in 2016. In 2012, 1.27 million tourists visited the country, 1.36 million in 2013, 1.56 million in 2014, 1.54 million in 2015 and 1.41 million in 2016. In 2016, the largest number of tourists came from Colombia accounting for 21% of tourists, followed by the United States and Peru, both in second place, accounting for 12% of tourists each. Based on the 2010 census, 2,546 foreign retirees and foreign pensioners have been residing in Ecuador for 15 years or more.

The steady increase in tourism from 2012 to 2014 was largely due to promotional campaigns instituted by the Ministry of Tourism. In 2010, the “Ecuador loves life” campaign was launched in England, Germany, France and the United States. A second campaign, the “I discovered” campaign, was launched in 2011, and a third campaign, the “All you need is Ecuador” campaign, was launched in 2014. As part of this campaign, Ecuador became the first government to advertise during the Super Bowl, airing a thirty second spot during the 2015 event. The Ministry also provides financing and logistics advice to local businesses that cater to tourists such as tours and adventure companies. The decrease in tourism from 2015 to 2016 was due to the Pedernales Earthquake. The initial 2016 annual budget allocated U.S.\$36 million to the Ministry of Tourism for tourism promotional campaigns and other initiatives to promote tourism. The 2016 budget for tourism was modified to U.S.\$22.7 million while being used as the provisional budget for 2017. The 2017 Budget allocated U.S.\$24.2 million for tourism. The initial 2018 Budget allocated U.S.\$20.16 million for tourism and was later modified to U.S.\$21.50 million.

Transportation

In 2015, the Government invested a total of U.S.\$1,119 million in roads and highways, a decrease of 20% from the previous year, when total investment was U.S.\$1,400 million. The most significant road projects in Ecuador are the Manta (Ecuador)-Manaus (Brazil) road network, linking the Pacific Ocean with the Atlantic and the Troncal-Amazonica road, which runs from north to south, linking the Colombian and Peruvian borders. The Troncal-Amazonica road was completed in early 2016 with the construction of the El Tigre bridge and a portion of the Manta-Manaus road network. The Manta-Manaus road-network is currently under construction, although there is no definitive completion date. Both projects are not toll roads and were financed by oil revenues and financing from CAF.

Two recent significant projects have recently been financed along with the municipality of Quito. In February of 2013, a new international airport opened in the suburbs of Quito. The airport cost was U.S.\$700 million and was financed by Quiport S.A., an international consortium led by AECON Construction Group and HAS Development Corporation. The new airport features the largest control tower and the longest runway of any international airport in Latin America. Phase 2 of the airport, which includes the expansion of the passenger terminal, new jet bridges, and the expansion of the shopping areas was financed by Quiport S.A. and cost U.S.\$70.5

million. Construction of Phase 2 of the airport was completed in 2015, and began operating as a passenger terminal in May of that year. A new road and bridge to reduce congestion from the previous single bridge and highway that led to the airport have been completed.

Construction of a subway system in Quito based on the Metro of Madrid has been under way since 2012. As of December, 2017, 68% of construction of the subway system in Quito has been completed. This metro system is expected to connect the northern business and resident areas of Quito to Quito's historic city center. The project will consist of 22.5 km of subway lines and 15 stations serving approximately 400,000 daily passengers. The project is budgeted to cost U.S.\$2,009 million through completion and is expected to commence operations in 2019. This project was financed, in part, by a U.S.\$205 million loan from the World Bank which agreed to increase it by U.S.\$230 million in June 2018, a U.S.\$259 million loan from the European Investment Bank guaranteed by the Republic of Ecuador, which was increased by U.S.\$44,152,000 in November 2016, a U.S.\$200 million loan from the IDB, which was increased by U.S.\$250 million in May 1, 2018, and a U.S.\$250 million loan from CAF, which the CAF agreed to increase by U.S.\$152.2 million on July 18, 2018. In February 2014, the municipality of Cuenca began construction of the *Tranvía Cuatro Ríos*, a 21.4-kilometer tram system with 27 stations. The project is planned to connect the airport and city-center to the outlying suburbs of the city. The project is estimated to cost U.S.\$232 million and was financed, in part, by a 15-year loan entered into in January 2013, pursuant to the French government's Emerging Country Reserve Loan program.

Employment and Wages

The National Council on Wages sets the minimum wage for workers in the private sector on an annual basis. The monthly minimum wage for a job in the private sector has increased from U.S.\$318 for 2013 to U.S.\$386 for 2018. Public sector employee wages are based on the wage scale determined by the *Ministerio de Trabajo* ("Ministry of Employment"). The following table shows the increase in minimum wage from 2014 to 2018.

Monthly Minimum Wage (1)
(in U.S.\$)

<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
340	354	366	375	386

Source: Ministry of Employment.
(1) Minimum wages set annually.

Private employee salaries received a boost with the introduction of the "Living Wage" into the Labor Law. Enacted in December 2010, this law dictates that any company that generates a profit shall distribute it amongst its employees until their total income has risen to the level of the living wage. The value of the living wage is determined annually by INEC on the basis of the cost of living and the number of family members in each family unit.

The following table shows certain labor force and employment data for the periods indicated:

Labor Force and Employment
(in thousands of persons, except percentages)

	As of December 31,					March 31,
	2013	2014	2015	2016	2017	2018
Total Population ⁽¹⁾	15,775	16,027	16,279	16,529	16,777	17,023
Labor Force ⁽²⁾	11,200	11,159	11,399	11,696	11,938	11,985
Labor Force Participation ⁽³⁾	6,953	7,195	7,499	7,874	8,086	8,164
Labor Force Participation Rate.....	62.08%	64.47%	65.78%	67.32%	67.73%	68.12%
Employed Labor Force.....	6,664	6,921	7,141	7,464	7,712	7,802
Unemployed Labor Force	289	273	357	410	374	362
Unemployment Rate ⁽⁴⁾	4.15%	3.80%	4.77%	5.20%	4.62%	4.43%

Source: Based on figures from INEC as of March 2018.

(1) Total population numbers based on yearly projections from 2010 census.

(2) Refers to population above minimum working age (15 years old), irrespective of employment status.

(3) Also referred to as economically active population.

(4) As a percentage of economically active population.

In 2009, in order to reduce unemployment, the Ministry of Employment established the *Red Socio Empleo* ("Employment Partner Network"), a government agency designed to assist with employment searches and provide educational opportunities abroad for future work in Ecuador. The agency provides scholarships and allows individuals looking for work to post resumes, create their own web pages, and schedule interviews with potential employers online.

From 2012 to 2016, the unemployment rate increased by 1.08%. Underemployment, or individuals who are unable to obtain full-time work to receive a salary meeting the official minimum wage, decreased from 49.29% to 48.09% during this time as well but increased to 53.39% as of 2016. In 2013, unemployment increased slightly to 4.15% from 4.12% in 2012, decreasing to 3.80% in 2014 due to increased job creation in the services and commerce industries. In 2015, the unemployment rate increased to 4.77% due to a general slowdown of the economy in 2015 that led to job losses in both the private and public sectors. The rate of unemployment increased to 5.20% as of December, 2016 due to an increase in the labor force participation rate as previously economic inactive members attempted to join the labor force. The rate of unemployment decreased from 5.71% as of March 31, 2017 to 4.43% as of March 31, 2018.

The rate of individuals who are unable to obtain full-time work to receive a salary meeting the official minimum wage, or underemployment, increased from 47.15% in 2012 to 47.77% in 2013, then decreased to 46.69% in 2014 but increased in 2015 to 48.09% and increased again in 2016 to 53.39%. In 2017 that rate decreased to 52.95% from 53.39% in 2016.

The sectors that registered the greatest reduction in employment in the period from 2011 to 2015 were the agriculture sector with 2.89%, and the commerce sector with 1.52%. The labor force participation rate of the Ecuadorian economy increased by an aggregate of 5.65% from 2013 to 2017 and unemployment increased by 0.47% for that same period. Underemployment increased by 5.18% in the same time period.

The following table sets forth information regarding the unemployment and underemployment rates, and real minimum wages for the periods presented:

Wage and Unemployment

	For the Year ended December 31,					May 31,
	2013	2014	2015	2016	2017	2018
Unemployment rate (% of economically active population) ⁽¹⁾	4.15	3.80	4.77	5.20	4.62	4.43
Underemployment rate (% of economically active population) ⁽²⁾	47.77	46.69	48.09	53.39	52.95	54.22

Source: Based on figures from INEC as of March 2018.

- (1) Refers to population at or above the minimum working age that is not employed and is willing to work (even if not actively seeking work) as a percentage of the total labor force.
- (2) Refers to individuals who are unable to obtain full-time work to receive a salary meeting the official minimum wage.

Average Wages by Economic Sector⁽¹⁾ (in U.S. dollars)

	As of December 31,				
	2012	2013	2014	2015	2016
Average wage	498.52	594.08	583.03	619.27	598.78
Agriculture, livestock, forestry, hunting and fishing	244.94	278.16	301.50	304.58	289.40
Petroleum and mining	675.18	1,074.47	1,106.95	981.08	992.07
Manufacturing (includes petroleum refining)	422.08	451.24	473.87	509.00	476.64
Electricity and water	654.27	621.79	509.36	742.46	834.68
Construction	387.30	416.89	448.72	485.98	463.22
Commerce	400.50	410.13	447.40	470.17	455.50
Accommodation and food services	351.97	363.68	396.46	388.04	380.30
Transportation	448.29	489.32	494.31	532.10	453.22
Telecommunications	554.78	638.95	613.58	797.13	563.28
Financial services activities	702.79	1,159.31	931.50	1,000.91	941.85
Professional, technical and administrative activities ⁽²⁾	491.03	592.96	555.32	557.29	576.96
Teaching and social and health services	692.56	747.78	782.20	785.75	781.36
Public administration, defense and social security plans	865.40	977.52	1,026.66	1,072.81	1,099.32
Domestic service	264.54	269.76	316.05	320.46	322.04
Other services	322.20	419.26	341.55	341.31	351.92

(1) Based on CIIU, Rev. 4, International Uniform Industrial Classifications of Economic Activities.

(2) Includes activities from tourism operators.

Poverty

In recent years, Ecuador has seen decreases in levels of urban and rural poverty. The urban poverty rate decreased from 17.6% to 13.2% between 2013 and 2017, while the rural poverty rate decreased from 42.0% to 39.3% across the same time frame. Extreme poverty rates have also decreased, from 4.4% of all urban households in 2013 to 3.3% of all urban households in 2017, and from 23.3% of all rural households in 2012 to 17.9% of all rural households in 2017. At the same time, the total extreme poverty rate decreased from 11.2% in 2012 to 7.9% in 2017. As such, in spite of the general economic conditions in 2016 due to the Pedernales Earthquake, the income for households in extreme poverty has not been affected mainly as a result of an increase in the number of household members receiving income. The rate of poverty decreased from 22.9% as of December 31, 2016 to 21.5% as of December 31, 2017.

The Republic believes this decrease in poverty is partially the result of a significant expansion of the *bono de desarrollo humano* ("BDH"), a cash transfer program for those in the lower 40% of income distribution who are either representatives of households (preferably women who are listed as heads of households or spouses) mothers of children under the age of 16, persons above the age of 65 who are not affiliated to a social security system, or persons with 40% or more of a disability who are not affiliated to a social security system. In December 2017, President Lenín Moreno issued Decree No. 253, whereby the BDH was enhanced from U.S.\$50 up to U.S.\$150 depending on the number and age of dependent children.

The following table shows the percentage of households in poverty for the periods indicated.

Percentage of Households in Poverty

	Poverty Based on Income ⁽¹⁾			Extreme Poverty Based on Income ⁽²⁾			Poverty Based on Lack of Basic Necessities ⁽³⁾		
	Urban	Rural	Total	Urban	Rural	Total	Urban	Rural	Total
December 2013.....	17.6	42.0	25.6	4.4	17.4	8.6	25.7	65.7	38.7
December 2014.....	16.4	35.3	22.5	4.5	14.3	7.7	24.8	57.8	35.4
December 2015.....	15.7	39.3	23.3	4.4	17.0	8.5	22.0	55.8	32.9
December 2016.....	15.7	38.2	22.9	4.5	17.6	8.7	22.3	52.6	32.0
December 2017.....	13.2	39.3	21.5	3.3	17.9	7.9	20.5	56.1	31.8

Source: Based on figures from INEC as of December 2017.

(1) Persons whose income is below the poverty line. As of December 2017, the poverty line, as determined by Ecuador, is U.S.\$84.49/month, per person.

(2) As of December 2017, the extreme poverty line is U.S.\$47.62/month per person.

(3) This number is based on information taken at the census regarding the lack of availability of basic necessities. Variables considered in this figure include literacy rates and access to potable water, sewage systems and hygienic services, electricity, running water, telephone lines, doctors and hospital beds per 1000 persons.

Social Security

The social security system in Ecuador is administered by the IESS, as well as by the *Instituto de Seguridad Social de las Fuerzas Armadas* and the *Instituto de Seguridad Social de la Policía Nacional* (the Social Security programs of the Armed Forces or “ISSFA” and the Ecuadorian Police Department or “ISSPOL,” respectively). The Ecuadorian Social Security System is a trans-generational model where the current work force funds the benefits of those who are no longer in the work force and permits retirees to also make on-going contributions to their retirement fund.

Social security benefits are a constitutional right for all workers and their families, designed to protect the insured in case of illness, maternity, unemployment, disability, old age and death. The social security system also provides financing for workers’ housing. Ecuador’s social security system is financed by contributions from the Government, employers and employees. The level of employee contribution is based on an employee’s income. The monthly pension is based on a percentage of the insured’s average monthly earnings in his or her five highest years of earnings. The minimum monthly pension for retirees who contributed to the IESS is U.S.\$193.00 for 10 years of contribution, U.S.\$231.60 for 11-20 years of contribution, U.S.\$270.20 for 21-30 years of contribution, U.S.\$308.80 for 31-35 years, U.S.\$347.40 for 36-39 years of contribution and U.S.\$386.00 for 40 or more years of contribution.

Retirees benefit from the IESS system once they have left employment. As of December 2015, IESS, ISSFA and ISSPOL had 9.2 million, 1.1 million and 0.2 million beneficiaries, respectively. As of June 2018, ISSFA had 44,596 pensioners and ISSPOL had 23,078 pensioners. As of June 2018, ISSFA had 40,740 contributors and ISSPOL had 49,359 contributors.

In 2016, total non-financial public sector contributions to social security were U.S.\$4.7 million, or 4.8% of GDP, a decrease from U.S.\$5.0 million, or 5.0% of GDP in 2015. In 2015, IESS’s beneficiaries included 3.1 million affiliates, 0.4 million pensioners, 4.4 million dependents, 1.1 million people covered through rural social security and 0.03 million people that receive benefits related to work related risks. For 2016, IESS’s expenditures totaled approximately U.S.\$6.3 billion.

Under Article 372 of the 2008 Constitution, the *Banco del Instituto Ecuatoriano de Seguridad Social* (“BIESS”) is responsible for channeling investments and managing public pension funds. Resolution JB-2009-1406 enacted in July 2009 sets the parameters for the types of investments allowed. Investments in real estate are only allowed in the long-term (over five years), investments in trusts are not allowed in the short-term (less than three years), and investments in public sector securities cannot exceed 75% of the market value of the fund. A risk committee must approve all investments. Investments must be rated by an approved rating agency, and no

investment may be rated lower than specific thresholds set for that type of investment, as determined by the risk committee. As of May 31, 2018, BIESS was the largest holder of Government securities, with 43.1% of its portfolio investment, or U.S.\$7,483 million, in Government holdings.

The primary functions of the BIESS are, among others, the provision of different financial services such as mortgages, pledge-backed loans and unsecured credits. Additional services include portfolio re-discount operations for financial institutions and other financial services in favor of retirees and other affiliates of the IESS by means of direct operations or through the national financial system. Additional bank functions are investment in infrastructure projects that generate financial profitability, added value and new sources of employment, as well as investments in fixed and variable income securities through the primary and secondary markets.

On October 21, 2016, the Law to Strengthen the Social Security System of the Armed Forces and National Police was published and became effective. The law is intended to make the national system of social security more sustainable over time by making adjustments and improvements to the pensions of public servants from Ecuador's Armed Forces and National Police.

On June 18, 2018, the Law Reforming the Social Security Law was published and became effective. The law increases social security payments to retirees who belong to the Rural Social Security from U.S.\$65 to U.S.\$100. It is retroactive from January 1, 2018. The law also provides for automatic increases consistent with those of the minimum wage.

As of the date of this Supplement, the Office of the Comptroller General is carrying out 27 special audits to verify compliance by the IESS with the recommendations of previous exams, audit the administrative management of main IESS funds (e.g., reserve funds, mortgage liens, farmer social insurance, health insurance, IBM) and to make an actuarial examination. These special audits are expected to conclude within 60 days. These audits are part of the annual examinations that the Office of the Comptroller General conducts within its authority to carry out special audits to verify certain limited aspects of governmental activities.

Education

In 2011, the Government implemented the *Ley Orgánica de Educación Intercultural* (the "Intercultural Education Law"). The law created a standardized curriculum for all high schools, consolidated school systems to eliminate single-teacher schools, created a stringent evaluation system for teachers and schools, and launched a nation-wide literacy program. Under the reform, students were to receive free medical attention, school lunches, and uniforms.

The 2016 annual budget allocated U.S.\$4.9 billion for Government education and other education initiatives. The 2016 budget for education was modified to U.S.\$5.0 billion while being used as the provisional budget for 2017. The 2018 Budget initially allocated U.S.\$5,718.51 million for Government education and other education initiatives and was later modified to U.S.\$5,462.98 million. Education initiatives include the construction of Yachay which is expected to continue for the next 10 years (See "The Ecuadorian Economy—Other Sectors of the Economy—Science and Technology"), the use of outside consultants to improve English education, the granting of scholarships to exceptional students for study in elite foreign universities, the inspection of Ecuador's universities to ensure that they meet a high standard quality, and various other projects administered by individual municipalities.

Education is mandatory in Ecuador until the age of 14. The literacy rate for adults over 15 years of age was 94.2% in 2015, and has been above 90% since 2004.

Health

The initial 2016 annual budget allocated U.S.\$2.3 billion for Ecuador's health sector. The 2016 budget for health was modified to U.S.\$2.4 billion while being used as the provisional budget for 2017. The 2018 Budget initially allocated U.S.\$3,573.12 million for Ecuador's health sector and was later modified to U.S.\$3,158.81 million. Recent reforms include a mandatory increase in hours and pay for medical professionals, and the creation of

mobile clinics intended to ensure vaccinations in the most remote areas of the country. The Government has also signed various agreements with private companies to produce generic drugs in the country.

LEGAL PROCEEDINGS

The Republic is involved in certain litigation and administrative arbitration proceedings described below. Some of the proceedings described below are conducted pursuant to the mandatory arbitration provisions contained in the U.S.-Ecuador Bilateral Investment Treaty and the Canada-Ecuador Bilateral Investment Treaty, as applicable. These treaties aim to protect investors of both nations in the other country. An unfavorable resolution of some of these proceedings could have a material adverse effect on the Republic.

Chevron

In 2006, Chevron brought arbitration proceedings against the Republic under the arbitration rules of the UNCITRAL alleging the Republic's breach under certain "denial of justice" provisions under the U.S.-Ecuador Bilateral Investment Treaty. In August 2011, the arbitral tribunal established that Ecuador had breached such treaty and should pay Chevron U.S.\$96 million plus compound interest calculated from September 1, 2011 until the date of payment. The tribunal accepted the position of Ecuador that any amount received by Chevron should be subject to the payment of a tax at a rate of 87.31% (the preliminary arbitral award was approximately U.S.\$700 million) and deducted the tax amount due to Ecuador from the preliminary arbitral award of U.S.\$700 million. Consequently, Ecuador filed a petition to annul the arbitral award before the District Court of The Hague, which was denied on May 2, 2012. Ecuador presented an appeal to the District Court decision, and on May 13, 2013, the Appellate Court of The Hague heard the arguments of the parties on appeal and rejected Ecuador's appeal on June 19, 2013. In September 18, 2013, Ecuador presented an appeal to the Supreme Court of the Netherlands, which held hearings on February 28, 2014 and denied Ecuador's appeal on September 26, 2014.

On July 27, 2012, Chevron filed a claim before the District Court of the District of Columbia (Washington, DC) seeking recognition and enforcement of the arbitral award. On March 25, 2013, Ecuador filed its brief in opposition with the court, and on April 25, 2013, Chevron filed its response. On June 6, 2013 the District Court confirmed the award in favor of Chevron. Ecuador filed an appeal on July 1, 2013, to which Chevron filed an opposition brief on August 19, 2013.

On September 6, 2013, because Ecuador did not have substantial assets in the District of Columbia, Chevron filed a motion to enable it to register the district court award "in any other district" in the United States. Ecuador objected, arguing that Chevron should be permitted to register the award only in "those districts for which Chevron has provided sufficient evidence that Ecuador has substantial assets." On October 29, 2013, the District Court of the District of Columbia granted Chevron's motion to register the award in any other district. On June 11, 2014, Ecuador appealed the District Court decision. Chevron filed a response to this appeal on July 18, 2014 and Ecuador filed a reply on August 8, 2014. On August 4, 2015, the United States Court of Appeals for the District of Columbia Circuit affirmed the District Court decision. On February 25, 2016, Ecuador filed a petition for a writ of certiorari requesting that the United States Supreme Court review the decision of the Court of Appeals. On June 6, 2016, the United States Supreme Court denied the Republic's writ of certiorari.

On October 9, 2015, the United States Court of Appeals for the District of Columbia Circuit affirmed the District Court decision. Accordingly, the arbitral award granted to Chevron became due and payable in the United States with the same force and effect as a judgment in a judicial action. The total amount due under the award, (U.S.\$96.4 million plus U.S.\$16.4 million in interest) was paid by Ecuador to Chevron in satisfaction of the arbitral award.

On a separate matter, in September 2009, Chevron filed an UNCITRAL arbitration claim against Ecuador for an undetermined amount. The claim seeks indemnification for claims brought by indigenous communities in Lago Agrio, Ecuador, against Chevron for environmental damages. In 2011, an Ecuadorian court ruled in favor of the Lago Agrio community, ordering Chevron to pay U.S.\$19 billion in damages. This amount was reduced to U.S.\$9.5 billion in November 2013. Chevron argues that Ecuador and Petroecuador should be solely responsible for any judgments arising from claims resulting from the Lago Agrio litigation because of "hold harmless" provisions of a 1995 settlement agreement ("1995 Settlement") between Chevron and the Republic and also claims breach of the 1995 Settlement and the U.S.-Ecuador Bilateral Investment Treaty. On the other hand, Ecuador argues that it has not assumed any obligation to indemnify, protect, or defend Chevron from third party claims. On January 25, 2012, the arbitral tribunal issued an interim award that ordered Ecuador to take all available measures to suspend the

enforcement or recognition of the claims in the Lago Agrio case in Ecuador and abroad. On February 16, 2012, the tribunal issued a second interim award ordering Chevron to compensate Ecuador for the costs Ecuador incurs in performance of its obligations under the interim awards, and ordered Chevron to post a bond in the amount of U.S.\$50 million to secure payment of the same. The plaintiffs for the Lago Agrio case, in November 2012, obtained the seizure of certain bank accounts of Chevron in Argentina and the seizure of Chevron's interests in its Argentine subsidiaries. On June 5, 2013, this seizure was revoked. In a third interim award dated February 27, 2012, the arbitral tribunal held that it had jurisdiction to hear the claim. In a fourth interim award dated February 7, 2013, the arbitral tribunal resolved that Ecuador has not complied with the decisions from the previous awards, and that each party shall argue whether Ecuador must reimburse Chevron for any expenses related to the enforcement proceedings.

The arbitration tribunal has divided the merits of the case into 3 tracks. Track 1 will decide issues relating to the 1995 Settlement and the obligation of Ecuador to indemnify Chevron from third party claims. Track 2 will decide issues relating to denial of justice claims by Chevron and the alleged breach of the U.S.-Ecuador Bilateral Investment Treaty. Once Tracks 1 and 2 have been decided on the merits, Track 3 will determine any monetary damages that resulted from the alleged breaches and will assess the monetary value of the environmental damage in the Lago Agrio community. On September 17, 2013 the arbitral tribunal issued a partial Track 1 award (Track 1A) where it agreed with the Republic in that the 1995 Settlement did not preclude the Lago Agrio plaintiffs from asserting claims "in respect of their own individual rights."

According to the arbitral tribunal, the 1995 Settlement bars claims that Ecuador might raise in the exercise of their own rights, but does not bar claims by third parties acting independently from the state in the exercise of their individual rights. It also held that the 1995 Settlement did not contain an indemnity provision that required the Republic to be held liable for any costs or any judgment rendered against Chevron. However, the arbitral tribunal held that Chevron was a "released party" under the 1995 Settlement. The arbitration tribunal did not decide on the claims of breach of the 1995 Settlement. In response, on January 7, 2014, Ecuador filed a writ of summons in the District Court of the Hague requesting an order setting aside the September 17, 2013 partial award and of the previous interim awards. The District Court of the Hague held a hearing regarding Ecuador's writ of summons on November 2015 and rejected Ecuador's request in a decision issued on January 20, 2016. On April 20, 2016, Ecuador presented its petition for appeal. It presented its memorial on August 16, 2016. On October 11, 2016, Chevron submitted its response. A hearing regarding Ecuador's request to set aside the partial award and the previous interim awards was held on May 9, 2017. On July 18, 2017, the courts of the Hague denied Ecuador's request to set aside the September 17, 2013 partial award and the previous interim awards. Ecuador submitted a cassation appeal on October 17, 2017.

On March 12, 2015, the arbitral tribunal issued a second Track 1 (Track 1B) decision in favor of Ecuador, holding that the initial pleading brought by the Lago Agro plaintiffs qualified as an "individual rights" claim not barred by the 1995 Settlement.

On May 9, 2014, Chevron submitted a supplemental brief regarding the Track 2 issue of the alleged violations of the Ecuador-U.S. Bilateral Investment Treaty, explaining the relevance of certain prehearing exhibits.

On November 7, 2014, Ecuador filed a written response to Chevron's supplemental brief on Track 2, to which Chevron replied on January 14, 2015. Ecuador in turn filed a supplemental rejoinder brief on March 17, 2015. A telephone conference regarding procedural matters took place on March 27, 2015. Hearings on the Track 2 issues relating to the supplemental briefs took place in Washington, D.C. from April 21 to May 8, 2015. The result of the Track 2 hearing is pending. The parties submitted briefs on the final report of a forensic computer expert on August 12, 2016 and August 26, 2016 and presented their positions on the relevance of the August 8, 2016 decision of the Southern District of New York Court of Appeals on the RICO action: *Chevron v. Donziger et. al.* on August 16, 2016 and August 18, 2016. On August 29, 2016, the arbitral tribunal issued an order concluding that the legal issues presented before it and those presented in the August 8 decision of the Southern District of New York Court of Appeals are materially different. Accordingly, due to lack of sufficient privity under international law, the arbitral tribunal held that there can be no issue estoppel or *res judicata* applicable before it arising from the outcome of the U.S. legal proceedings. The tribunal has indicated that it will issue a decision with respect to Track 2 after the submission of such briefs. The tribunal is expected to issue a decision on July of 2018.

On a separate matter, in October of 2013, a provincial court of Ecuador ordered the *Instituto Ecuatoriano de la Propiedad Intelectual* (the “Ecuadorian Institute for Intellectual Property” or “IEPI”) to place an embargo on 50 trademarks of Chevron in Ecuador as a result of the Ecuadorian verdict against Chevron in the Lago Agrio case. According to IEPI, the embargo was placed in order to guarantee the payment of the verdict amount by redirecting the revenues from the trademarks to Ecuador, as opposed to Chevron.

Windfall Profits Tax Litigation

A number of foreign oil companies have sued Ecuador in connection with the application of Ecuadorian law 42-2006, which levied a 99% tax on the windfall profits of a number of foreign oil companies. For a description of the windfall profits tax, see “The Ecuadorian Economy—Renegotiation of Oil Field Contracts.” As a result of the implementation of the windfall profits tax law, Ecuador is a defendant in the following arbitration proceedings:

Perenco Ecuador Limited

On April 30, 2008, Perenco Ecuador Limited (“Perenco”) filed an ICSID arbitration claim against Ecuador seeking compensation of U.S.\$440 million plus costs and interest for alleged changes to its contracts for the development of Blocks 7 and 21 in Ecuador imposed by Ecuadorian law 42-2006. The amount of the claim remains subject to adjustment. Perenco argued that law 42-2006 modified the participation of Perenco under contracts for the development of Blocks 7 and 21 in Ecuador and that the unilateral modification of the contracts resulted in an expropriation of the blocks that Perenco was operating. On July 18, 2014, the tribunal decided the claim in favor of Perenco and considered the schedule for the assessment of damages. The hearing for the assessment of damages took place from November 9, 2015 to November 13, 2015 in Paris. On April 21, 2016, the parties presented their final arguments. The decision on the assessment of damages is pending.

On December 5, 2011, Ecuador filed two counterclaims against Perenco for environmental damage and failure to maintain the facilities of Blocks 7 and 21, in an approximate amount of U.S.\$2 billion. On March 13, 2013, the parties presented their respective memoranda to the arbitral tribunal. Hearings took place from September 9 to September 17, 2013. On August 11, 2015, in an interim decision, the tribunal held that contamination exists in Blocks 7 and 21. However, the tribunal held that a third environmental expert is needed in order to determine if the contamination was caused by Perenco. On November 25, 2016, the independent environmental expert appointed by the tribunal visited Blocks 7 and 21 but has not released any findings yet. On April 18, 2017, Perenco filed an application for dismissal of Ecuador’s counterclaims on *res judicata* grounds arising out of the decision of the arbitral tribunal in the Burlington arbitration (see above). On August 18, 2017, the arbitral tribunal denied that application, thereby allowing Ecuador’s counterclaims to proceed. On September 2017, the independent environmental expert returned to Ecuador to gather soil and groundwater samples in order to assess the amount of damages to be paid by the French petroleum company. On December 18, 2017, the environmental expert finished collecting soil samples at sites and initiated the process of sample analysis. On January 31, 2018, Perenco requested to the tribunal the dismissal of Ecuador’s counterclaims based on the settlement agreement signed between Ecuador and Burlington on December 1, 2017. The tribunal ordered the parties to provide their replies. Perenco presented its reply on April 5, 2018 and Ecuador presented its reply on April 26, 2018. On July 30, 2018, the tribunal denied Perenco’s claim for the dismissal of Ecuador’s counterclaims. Following such decision, the environmental expert notified the parties that his report will be delivered to the parties in October 2018.

Murphy Ecuador Oil Company, Ltd.

Murphy Ecuador Oil Company, Ltd. (“Murphy”) has claimed that law 42-2006 modified its contracts for exploration and production of crude oil in Ecuador, resulting in an expropriation and a violation of the U.S.-Ecuador Bilateral Investment Treaty. Murphy filed its ICSID arbitral claim against Ecuador on September 30, 2011. In November 2013, the arbitral tribunal rejected Ecuador’s objection to jurisdiction. Ecuador submitted its response to merits and jurisdiction to the arbitral tribunal on May 4, 2014. Hearings on the matter took place during November 17-21, 2014 in Washington, D.C. The post-hearing briefs were submitted by both parties on January 9, 2015. At the request of the arbitral tribunal, both parties submitted their briefs regarding costs on January 15, 2016. A partial final award against Ecuador was rendered on May 6, 2016, ordering the payment of U.S.\$19 million in damages and the arbitration cost of 5 million Euros. The tribunal also held that the parties must submit their calculation of the fair market value of Murphy’s property in Ecuador for the tribunal’s consideration. On July 29, 2016, the parties in the

case of Murphy Ecuador Oil Company, Ltd. presented their briefs on the fair market value of Murphy's property in Ecuador. The tribunal informed the parties that no additional briefs may be submitted and that it will issue its decision in September 2016. On February 10, 2017, the arbitral tribunal issued its final decision confirming its May 2016 decision from the partial final award rendered in May 2016. In the same decision, the tribunal determined that the market value of Murphy is zero. As a result, Ecuador must pay U.S.\$19.7 million in addition to U.S.\$7 million in interests. At the same time, the tribunal rejected Murphy's attempt to obtain an additional indemnity for breach of the bilateral investment treaty clause for which it was requesting compensation of up to U.S.\$187 million. On May 16, 2017, Ecuador filed a petition before the District Court of The Hague requesting the annulment of the arbitral tribunal's final decision with respect to the partial final award and the final award in favor of Murphy. On March 9, 2018, the District Court of The Hague scheduled the annulment hearing for June 28, 2018. On June 26, 2018 Ecuador and Murphy entered into a settlement agreement after which Ecuador withdrew its request for the annulment of the arbitral tribunal's final decision.

William and Roberto Isaías Dassum

In 2009, Ecuador commenced an action against William and Roberto Isaías, who were the President and Executive Vice-President, respectively, of Filanbanco S.A, Ecuador's largest bank at the time of its bankruptcy in 2001. Arguing before a Florida circuit court, Ecuador alleged that the defendants embezzled funds and forged financial statements thereby resulting in losses suffered by the *Agencia de Garantía de Depósitos* (the "Deposit Guarantee Agency" or "AGD"), in the amount of U.S.\$661.5 million. On May 30, 2013, the trial court granted summary judgment against Ecuador. On August 28, 2013, Ecuador filed for appeal in the District Court of Appeal of Florida, Third Circuit. On July 2, 2014, the District Court of Appeal ruled in favor of Ecuador, reversing the trial court's decision and finding the defendants liable for the losses of Filanbanco S.A. The defendants petitioned the Third Circuit for a hearing to review the July 2, 2014 decision, which the Third Circuit rejected. On August 6, 2014, the defendants submitted their brief in support of their petition, which was denied by the Third Circuit court on September 16, 2014.

Upon remand, the Eleventh Judicial Circuit Court of Florida, in an October 15, 2015 decision, held that the ten-year statute of limitations on the action had expired. On November 12, 2015, Ecuador notified the District Court of Appeals for the Third District of Florida that it would appeal this decision. On November 16, 2015, the defendants filed a motion for costs and fees. On January 11, 2016, the District Court of Appeals for the Third District of Florida issued an order deferring the decision regarding costs and fees until after a decision on the appeal. Ecuador presented its motion to appeal on March 11, 2016. The defendants presented their response to Ecuador's appeal on October 8, 2016. Ecuador filed its brief in response on January 6, 2017. The District Court of Appeals for the Third District of Florida held the hearing on April 3, 2017. On December 27, 2017, the District Court of Appeals for the Third District of Florida reversed the October 15, 2015 decision in favor of William and Roberto Isaías. The case was remanded to the trial court to determine damages in favor of Ecuador.

Copper Mesa

On January 21, 2011, Ecuador was notified of an UNCITRAL arbitration proceeding under the auspices of the Permanent Court of Arbitration by Copper Mesa for a breach of the Canada-Ecuador Bilateral Investment Treaty based on the termination of the Junin, Chaucha and Telinbela concessions. Copper Mesa claimed indemnification for no less than U.S.\$120 million. Hearings to determine jurisdiction were held in September 2013. The proceedings were concluded on March 12, 2014.

On March 15, 2016 the arbitration tribunal concluded that Ecuador breached the Canada-Ecuador Bilateral Investment Treaty by expropriating certain assets of Copper's Mesa in Ecuador. The arbitration tribunal, however, reduced the total indemnification owed to Copper Mesa to U.S.\$11,184,595 for the Junin concession and U.S.\$8,262,899 for the Chauca concession. The arbitration tribunal rejected Copper Mesa's argument regarding the Telinbela concession.

On June 16, 2016, Ecuador filed before the District Court of The Hague its request to set aside the arbitral tribunal's grant of the indemnification award to Copper Mesa. On February 22, 2017, Copper Mesa filed its response to Ecuador's request to set aside the indemnification award and Ecuador filed its reply on May 23, 2017. The hearing took place on March 19, 2018. Due to the possibility that the parties will reach an agreement, the parties

requested the tribunal to defer the decision. The tribunal has indicated that it will issue a decision on or before July 25, 2018.

On March 3, 2017, Copper Mesa filed a petition in the U.S. District Court for the District of Columbia for recognition and enforcement of the arbitration award. On January 30, 2018, the Republic of Ecuador was served with this petition. On May 7, 2018, Ecuador filed a motion to dismiss the petition for recognition and enforcement of the arbitral award for lack of jurisdiction. The parties anticipate reaching a negotiated settlement of the dispute by July 2018 and therefore requested the district court to extend the deadlines for the parties to file their responsive filings to the motion to dismiss. On June 29, 2018, the district court granted that request and granted Copper Mesa an extension to file its opposition to the motion to dismiss until July 31, 2018 and an extension to Ecuador to file any reply to August 17, 2018.

On August 2, 2018, Copper Mesa announced that it has reached a binding settlement agreement with Ecuador to receive payments for a total amount of U.S.\$20 million by November 20, 2018. Under the terms of the binding settlement, both parties have agreed to withdraw pending proceedings in the Netherlands and the United States regarding the award. Copper Mesa's petition before the U.S. District Court for the District of Columbia to obtain recognition and enforcement of the award will be dismissed if the final payment due from Ecuador is received by November 20, 2018.

Zamora Gold

On July 7, 2011, Ecuador was notified of an arbitration proceeding for allegedly depriving Zamora Gold of its investments in violation of the Canada-Ecuador Bilateral Investment Treaty. Since then, the plaintiff has not taken further action. The amount of the claim has not yet been determined.

RSM Production Corporation

On May 13, 2010, Ecuador was notified of an UNCITRAL arbitration proceeding for allegedly cancelling a mining license held by RSM Production Corporation in violation of the U.S.-Ecuador Bilateral Investment Treaty. Since then, there has not been further action by the plaintiff. The amount of the claim has not yet been determined.

Merck Sharp & Dohme

On February 2, 2011, Merck Sharp & Dohme ("Merck") commenced an UNCITRAL arbitration against Ecuador alleging denial of justice for not having provided judicial guarantees in Ecuadorean court proceedings which returned a judgement against Merck by the Ecuadorian company NIFA S.A. (currently "PROPHAR, S.A.") in violation of the U.S.-Ecuador Bilateral Investment Treaty.

On February 5, 2016, Merck filed a petition requesting that the arbitration tribunal set forth certain measures to protect Merck from an unjust final judgment in Ecuador. On May 7, 2016, the arbitration tribunal accepted Merck's petition and ordered Ecuador to guarantee that no final judgment will be enforceable in Ecuador until the arbitration tribunal issues its final decision on the matter.

On August 4, 2016, the National Court of Justice ordered Merck to pay U.S.\$42 million with respect to the Ecuadorian judgment initiated against Merck by NIFA S.A. On September 6, 2016, the arbitral tribunal ordered that Ecuador ensure that all proceedings and actions for the enforcement of that judgment be suspended pending the delivery by the tribunal of its final award. On September 16, 2016, the National Court of Justice enforcement judge suspended the enforcement proceeding pending the arbitral tribunal's final award. This decision was constitutionally challenged by PROPHAR, S.A. Resolution of the challenge by the Ecuadorian Constitutional Court is pending.

The arbitral tribunal held a hearing on October 12, 2016. On November 16, 2016, the parties presented their post-hearing briefs. On December 2, 2016, the parties presented comments to their post-hearing briefs in the arbitration. On January 25, 2018, the arbitral tribunal issued a final partial award in which it held Ecuador liable for denial of justice and violation of fair and equitable treatment. As a result, the arbitral tribunal initiated a new phase for the determination of damages. On February 21, 2018, the arbitral tribunal issued an order providing the schedule

for the damages phase. The parties filed their briefs on damages on June 21, 2018 and shall file their replies prior to September 21, 2018.

Hutchison Port Investments Ltd

In 2012, the Manta Port Authority (the “APM”) represented by the Attorney General (*Procuraduría General del Estado*) commenced an arbitration proceeding against Hutchison Port Investments Ltd. and Hutchison Port Holdings (“Hutchison”), in the *Centro de Arbitraje y Mediación de la Cámara de Comercio de Quito* (“Center for Arbitration and Mediation of Quito Chamber of Commerce”) to recover U.S.\$141 million in damages. APM alleges that it suffered these damages as a result of Hutchison’s unilateral abandonment of the facilities and other defaults under a concession agreement to operate the port at Manta. Hearings took place from February 9 to 13, 2015 in Panama. On November 30, 2015, the arbitration tribunal decided in favor of Ecuador for an amount of U.S.\$30 million.

The arbitral tribunal awarded APM U.S.\$34,9 million for consequential damages and lost profits. After deduction of the contractual guarantee entered into by APM, the indemnification amount totaled U.S.\$27,2 million (before adjusting current value). The tribunal also ordered the compensation of 50% of the arbitral costs to APM to be paid within thirty days from notification of the arbitral award. APM has initiated proceedings in various jurisdictions for the execution of the award. APM initiated proceedings for the execution of the award in the British Virgin Islands. Hutchison presented its objections to the execution of the award in the British Virgin Islands. On October 30, 2017, a hearing on the execution and recognition of the award was held in which APM requested an abbreviated proceeding for the recognition of the award. However, the tribunal determined that a longer hearing in the British Virgin Islands shall be held in order to allow the parties to present their arguments regarding the recognition of the award before a decision is made. Such hearing remains to be scheduled.

On March 16, 2017, before the *Sala Cuarta de la Corte Suprema de Justicia* the APM presented its opposition to the annulment petition by Hutchison in Panama on December 30, 2015 against the award in favor of APM.

Coca Codo Sinclair

From 2012 to March 2017, CELEC EP – Unidad de Negocio Coca Codo Sinclair (“CCS”), an Ecuadorian public enterprise and Sinohydro Corporation were heard by the *Junta Combinada de Disputas* (“JCD”) (“Combined Dispute Board”), a pre-arbitral forum created under the engineering, procurement and construction contract (the “EPC Contract”) for the construction of the Coca Codo Sinclair hydroelectric plant. The amount of the claims is yet to be determined. Both parties presented, among others, claims relating to time extensions under the EPC Contract, declined payroll/tax return payments, supposed changes in tax laws, costs for changes in infrastructure design, indirect effects of the non-execution of a potential agreement between China and Ecuador relating to double taxation, and non-compliance with the national participation quota established in the EPC Contract for subcontracting of works. Sinohydro Corporation has sought tax refunds for capital exit taxes, additional costs for engineering designs and a time extension for supposed extreme subsoil geological conditions. The JCD has issued 22 mandatory decisions. Under the EPC Contract, the parties may definitively resolve the underlying disputes through arbitration before the International Chamber of Commerce by sending a notification of disagreement within 20 days after the JCD’s decisions. Both parties have stated their disagreement with the JCD’s 22 decisions, thus preserving their right to commence arbitral proceedings with respect to these disputes. As of the date of this Supplement, the parties have not commenced arbitral proceedings with respect to these disputes.

Ecuador TLC, Cayman International, and Teikoku Oil

On February 26, 2014, Ecuador TLC, Cayman International, and Teikoku Oil filed a breach of contract arbitration claim against Ecuador in the Permanent Court of Arbitration in the Hague for an amount of U.S.\$808.3 million plus interest. The claim is in connection with an oil-field exploration contract that was terminated by Ecuador because the plaintiffs did not agree to the new renegotiated terms. See “The Ecuadorian Economy—Economic and Social Policies—Renegotiation of Oil Field Contracts.” Ecuador presented its response brief on March 21, 2016 and Ecuador TLC presented its response on June 20, 2016. From January 24, 2017 to January 28,

2017, the arbitral tribunal held a hearing regarding Ecuador TLC's breach of contract claim in Washington D.C. The parties presented their submissions on March 3 and on May 5. The parties presented their submission on costs on May 29. On January 16, 2018, the arbitral tribunal ordered Ecuador to pay the plaintiffs a total amount of U.S.\$515,067,578.4, post-award interest and an additional amount of U.S.\$35,000 for arbitral costs and expenses. On March 19, 2018, the parties reached an agreement that reduced the amount Ecuador owed to the plaintiffs to U.S.\$507,746,745.07 out of which Ecuador retained approximately more than U.S.\$189 million in order for the plaintiffs to fulfill their pending labor and tax obligations. Ecuador paid the remaining U.S.\$318,712,249.05 in three separate installments. Ecuador considers that it has fulfilled its obligations under the agreement reached on March 19, 2018, and it does not expect any further actions on this matter.

Caribbean Financial International Corp v. Ecudos – Corporación Azucarera Ecuatoriana Coázucar

On July 11, 2012, Caribbean Financial International ("CFI") filed a breach of contract claim against ECUDOS S.A. in the *Juzgado Duodécimo de Circuito Civil del Primer Circuito Judicial de Panamá* (the "Twelfth Court of the Civil Circuit in the First Circuit of Panama") for an amount of U.S.\$65,9 million plus costs, expenses and interests. The contract was originally entered into by CFI and TRAINSAINER S.A., a company absorbed by ECUDOS S.A. through merger (the "CFI-TRAINSAINER contract"). The CFI-TRAINSAINER contract called for CFI's sale to TRAINSAINER S.A. of all of its stock capital in DURCHES S.A. and ECUDOS S.A. Through the CFI-TRAINSAINER contract, CFI granted TRAINSAINER S.A. a credit of U.S.\$60 million for a term of ten years. In turn, on October 29, 2000, TRAINSAINER S.A. issued a promissory note in favor of CFI due on October 27, 2010. The CFI-TRAINSAINER contract provided for the filing of a lawsuit if the payment became overdue. The Attorney General intervened as a result of an indemnity obligation in the CFI-TRAINSAINER contract. ECUDOS S.A. filed a response to the claim denying CFI's allegations and challenging the contract. On April 18, 2018, the Twelfth Court of the Civil Circuit in the First Circuit of Panama held Ecudos liable for U.S.\$106,183, 608.11, including costs and expenses. On May 31, 2018, Ecudos appealed the decision of the Twelfth Court of the Civil Circuit in the First Circuit of Panama. On June 8, 2018, CFI presented its brief opposing Ecudos' appeal. The Primer Tribunal Superior del Primer Distrito Judicial de Panamá (the "First Superior Court of the First Judicial District" is reviewing the appeal.

Ecudos – Corporación Azucarera Ecuatoriana Coázucar v. Caribbean Financial International Corporation – CFI

On August 8, 2012, ECUDOS S.A. filed an ordinary claim for declaratory judgement of large amount (*Demanda Ordinaria Declarativa de Mayor Cuantía*) in Panama against CFI seeking annulment of the CFI-TRAINSAINER S.A. contract as well as of the promissory note in favor of CFI. As it is an annulment lawsuit, the amount of the lawsuit is undetermined. Admission of the evidence brought by the parties is pending. After consideration of the admissibility of the evidence, both parties will present their pleas. A decision on the admissibility of the evidence is pending.

Oleoducto de Crudos Pesados

On March 16, 2018, Oleoductos de Crudos Pesados S.A. (Ecuador) and Oleoducto de Crudos Pesados Ltd. (jointly, "OCP") filed an arbitral claim against Ecuador under the UNCITRAL Arbitration Rules. The claim is in connection with an alleged reinterpretation of an Ecuadorian law by the Ecuadorian Internal Revenue Service affecting the rights of OCP under an authorization contract for the construction and operation of a pipeline. The amount of the claim is yet to be determined. On April 2, 2018, OCP notified the appointment of its arbitrator. On May 17, 2018, the Republic appointed its arbitrator. On June 26, 2018, the presiding arbitrator was appointed.

Gente Oil

On April 13, 2018 Ecuador received a notification for arbitral proceedings from Gente Oil Ecuador Pte. Ltd. ("Gente Oil"). In the notification, Gente Oil alleges that Ecuador breached the contract for the rendering of services for the exploration and exploitation of Hydrocarbons with respect to crude oil in the Singue block of the Ecuadorian Amazon region. Gente Oil claims that Ecuador breached the contract by imposing its negotiation, ignoring the tariff agreed, not acting in good faith and preventing Gente Oil from performing its obligations under the contract.

Pursuant to this contract, the arbitral proceedings will be conducted under the Rules of UNCITRAL and administered under the Permanent Court of Arbitration in the Hague. The amount of the claim is yet to be determined. As of the date of this Supplement, the composition of the arbitral tribunal is undergoing determination.

Notifications under Bilateral Investment Treaties

AECON

On January 19, 2018, Ecuador received a notification of existence of a controversy from AECON founded on Articles II, VIII, XII and XIII of the bilateral investment treaty between Ecuador and Canada. AECON claims that Ecuador has breached the guarantee of legal stability granted under certain investment agreement and, consequently, it has breached the fair and equal treatment standard in the relevant bilateral investment treaty causing the expropriation of AECON's investment. The amount of the claim is yet to be determined. As of the date of this Supplement, the parties are in direct negotiations.

AMDOCS

On April 17, 2018, Ecuador received a notification of existence of a controversy from AMDOCS founded on Articles 2, 5 and 8 of the bilateral investment treaty between Ecuador and the United Kingdom. AMDOCS claims arise from a contractual dispute in a project with CNT in which CNT alleged contractual breach by AMDOCS. Such contractual breaches caused the early termination of the main and ancillary agreements followed by judicial proceedings. AMDOCS claims a breach of the fair and equal treatment standard under the bilateral investment treaty and expropriation. The amount of the claim is yet to be determined. As of the date of this Supplement, the parties are in direct negotiations.

PDVSA

On May 15, 2018, Ecuador received notifications from PDVSA founded on alleged breaches of Articles 3 and 4 of the bilateral investment treaty between Ecuador and Venezuela. Ecuador does not recognize these notifications as notifications of existence of a controversy as these notifications do not identify the investments, agreements, contracts or rights that could potentially give rise to a controversy under the bilateral investment treaty. The notifications also fail to identify which actions taken by Ecuador could have created the alleged controversy under the treaty. PDVSA claims that there has been a breach of the fair and equal treatment, full protection and expropriation rights under the bilateral investment treaty. Ecuador does not consider that the period for direct negotiations has begun. These notifications do not indicate an amount of the claims.

WORLEYPARSONS

On February 16, 2018, WorleyParsons informed Ecuador of the existence of a controversy founded on Articles II(1), II(3), II(3)(a), II(3)(b), II(3)(c) and III(1) of the bilateral investment treaty between Ecuador and the United States of America. Ecuador requested further detail on the nature of the allegations in the notification. On March 19, 2018, WorleyParsons informed Ecuador that the controversy is related to its contracts with Petroecuador and the *Compañía de Economía Mixta Refinería del Pacífico RDP-CEM* (the "Mixed Economy Pacific Refinery Company") and to certain actions of the Office of the Comptroller General and the Office of the Prosecutor General. Although the notification from WorleyParsons did not include details of the substance of the dispute, following the request of the Attorney General, WorleyParsons identified the following contracts under which the disputes would have arisen: (i) Contract 201130 for the Audit and Management of the Rehabilitation Program for the Esmeraldas Refinery, under which WorleyParsons claims that Petroecuador has an outstanding debt of U.S.\$36.2 million in order to proceed with the liquidation and termination of the contract; (ii) the Project Management Consultancy (PMC) Support Service Agreement with the Mixed Economy Pacific Refinery Company for the Pacific Refinery project, under which WorleyParsons claims that there is an outstanding debt of U.S.\$35.4 million; (iii) contracts for

the audit of certain construction works in the Liquid Natural Gas Plant of Bajo Alto (El Oro), under which WorleyParsons claims an outstanding debt of U.S.\$5.9 million; and (iv) LAB 2014187 Contract executed with PetroEcuador for the production of “Studies for the Project of Reengineering and Construction of a Drainage System for the Liquid Effluents of the Esmeraldas Refinery”, under which WorleyParsons claims that there is an outstanding debt of U.S.\$3.2 million. Ecuador considers that the six-month consultation period under the bilateral investment treaty between Ecuador and the United States of America began on March 19, 2018. The preliminary amount of the claim is between U.S.\$80 and U.S.\$210 million.

WorleyParsons has not provided further information on those certain actions of the Office of the Comptroller General and the Office of the Prosecutor General that are related to the controversy, according to WorleyParsons. According to the information available at the Office of the Attorney General, the Office of the Comptroller General has performed several audits of the contracts executed with WorleyParsons where certain irregularities in the procurement processes and in the execution of such contracts by WorleyParsons were found. The Office of the Comptroller General has issued several claims (*Glosas de Determination Civil Culposa*) against WorleyParsons, following those audits, for a total amount of approximately U.S.\$120 million and has delivered to the Officer of the Prosecutor General several reports including indications of criminal liability.

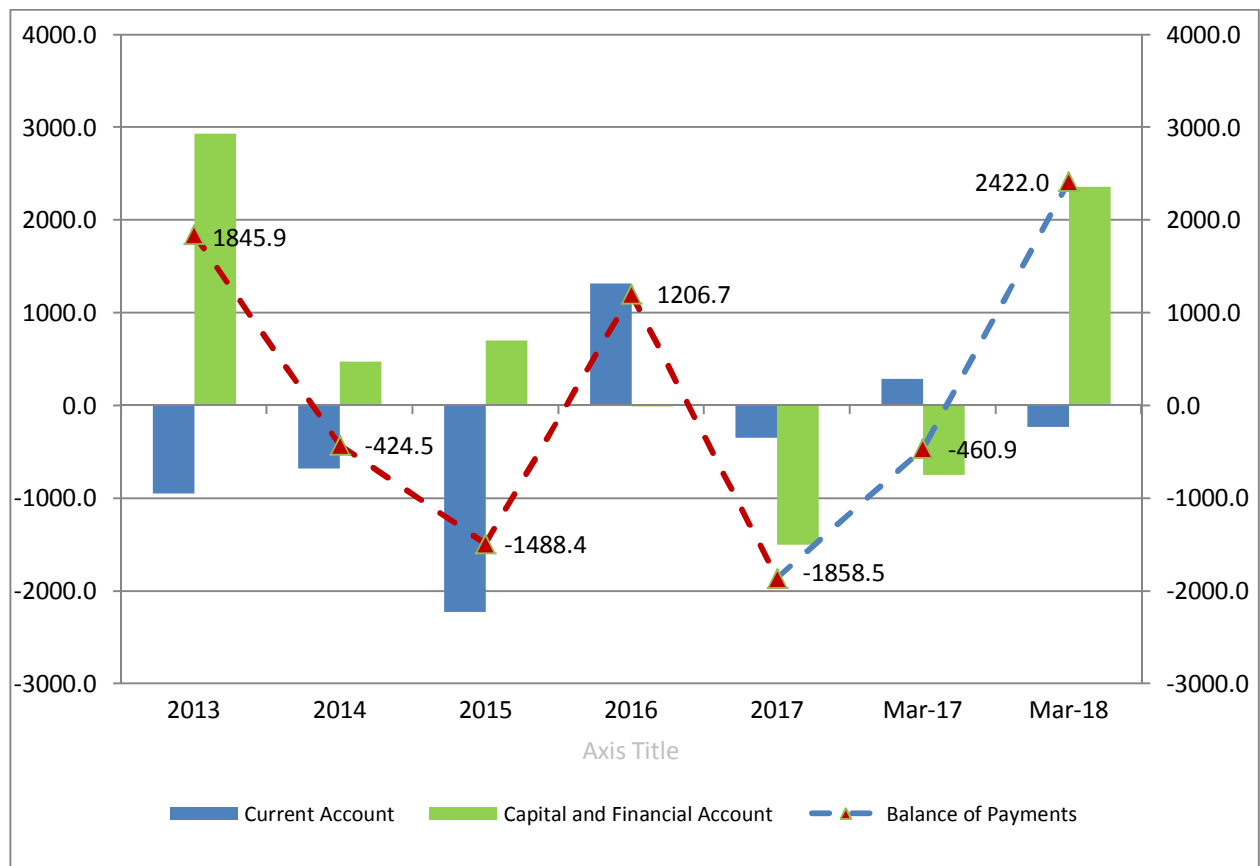
INDRA

On February 20, 2018, Ecuador received a notification of existence of a controversy from Indra Sistemas, S.A. (“INDRA”) founded on the fair and equitable treatment and indirect expropriation provisions and on the protection and effective measures principles under the clause of most favored nation of the bilateral investment treaty between Ecuador and the Kingdom of Spain. The controversy arose from a contract for the implementation of a judicial information system executed between INDRA and the Ecuadorian Judicial Council on December 22, 2011. The final product was delivered by INDRA on June 7, 2013 and the Judicial Council paid the full contract price of U.S.\$23,760,000. The Office of the Comptroller General audited the contract and issued an administrative claim against INDRA for the full amount of \$23,760,000. This administrative claim was followed by 3 judicial proceedings: (i) an appeal to the administrative claim filed by an Ecuadorian public servant that was named as joint and severally liable together with INDRA; (ii) an appeal to the ruling that denied the revision of that administrative claim filed by INDRA; and (iii) a damages trial initiated by the Judicial Council against INDRA for an amount of U.S.\$32 million. The first proceeding concluded with the confirmation of the administrative claim and has been further appealed. The remaining two proceedings are still in process and a decision has not been made. INDRA also argues that its rights under the bilateral investment treaty in these proceedings have been breached. The notification received from INDRA indicates a claim of at least U.S.\$32 million.

BALANCE OF PAYMENTS AND FOREIGN TRADE

Balance of Payments

Given Ecuador's dollarized economy, the balance of payments is important in determining money supply. A positive balance of payments would increase money supply and a negative balance of payments would decrease money supply. Between 2013 and 2017, Ecuador experienced fluctuations between balance of payments deficits and surpluses. While there were surpluses in 2013 and 2016, there were deficits in 2014, 2015 and 2017. For the quarter ended in March 2017, there was a balance of payments deficit. In contrast, for the quarter ended March 2018, there was a balance of payments surplus.



Source: Based on Figures from the Central Bank Balance of Payments Quarterly Bulletin for the First Quarter of 2018. Amounts in U.S.\$ millions.

In 2014, Ecuador had a balance of payment deficit of U.S.\$424.5 million as a result of a decrease in the capital and financial account. The capital and financial account decreased from U.S.\$2,914.6 million in 2013 to U.S.\$323.5 million in 2014 as a result of a decrease in investment for that year. However, the current account improved from a deficit of U.S.\$921.5 million in 2013 to a deficit of U.S.\$523.4 million in 2014. This improvement was due to the improvement in the trade balance from a deficit of U.S.\$528.6 million in 2013 to a deficit of U.S.\$63.5 million in 2014, which was due to an increase in non-petroleum exports in 2014, particularly banana and shrimp exports.

In 2015, Ecuador's balance of payment deficit grew to U.S.\$1,488.4 million as a result of a decrease in the current account. The current account decreased from a deficit of U.S.\$523.4 million in 2014 to a deficit of U.S.\$2,108.3 million in 2015. The expansion of the deficit in the current account was due to an increase in the deficit in the balance of trade from U.S.\$63.5 million in 2014 to a deficit of U.S.\$1,649.8 in 2015. The increase in the deficit was the result of a decline in the price of oil.

In 2016, there was a balance of payments surplus of U.S.\$1,206.7 million, an increase compared to the U.S.\$1,488.4 million deficit in 2015. The balance of payments surplus was due to an increase in the current account.

In 2017, there was a balance of payments deficit of U.S.\$1,858.5 million, an increase in the deficit compared to the U.S.\$1,206.7 million balance of payments surplus in 2016. This increase in the deficit in the balance of payments was due to a deficit of U.S.\$348.7 million in the current account and a deficit of U.S.\$1,566.0 in the financial account.

For the first quarter of 2018, there was a balance of payments surplus of U.S.\$2,422.0 million, an increase of U.S.\$2,882.9 million compared to the U.S.\$460.9 million balance of payments deficit for the first quarter of 2017. This increase was primarily due to the issuance and placement in the international markets in the first quarter of 2018 of the 2028 Notes.

The current account increased from a deficit of U.S.\$2,226.6 million in 2015 to a surplus of U.S.\$1,316.1 million in 2016. The surplus in the current account was principally due to an improvement in the trade balance from a deficit of U.S.\$1,649.8 million to a surplus of U.S.\$1,567.3 million, which was due to a decrease in imports particularly with respect to fuel and lubricants as well as capital goods.

In the years from 2013 to 2016, the total balance of payments has heavily depended on petroleum exports. Although non-petroleum exports are increasingly becoming a larger portion of the Republic's GDP, there has been a non-petroleum trade balance deficit for the past from 2013 to 2016. Until the last quarter of 2014, increasing petroleum exports due to the increase in petroleum prices have offset this deficit and resulted in yearly trade balance surpluses or reduced deficits. The time period from 2013 to 2014 also saw a slight increase in remittances from U.S.\$2,449.5 million in 2013 to U.S.\$2,461.7 million in 2014 and a decrease to U.S.\$2,377.8 million in 2015. These decreases in remittances occurred due to the weakening of the euro against the dollar and the economic recession in Spain, which represented 14.4% of all remittances to Ecuador. In 2016, remittances increased to U.S.\$2,602.0 million representing an increase of 9.4% from remittances in 2015. This increase in remittances is due to the economic situation of the main countries where Ecuadorians living abroad reside, including the United States, Spain and Italy, among others and also to the response of Ecuadorian migrants to the Pedernales Earthquake. In 2017, remittances increased to U.S.\$2,840.2 million representing an increase of 9.2% from remittances in 2016 with remittances principally originating from the United States, Spain and Italy.

The following table sets forth information regarding the Republic's balance of payments for the periods indicated.

Annual Balance of Payments⁽¹⁾ (in millions of U.S.\$)					
	2013	2014	2015	2016	2017
Current Account	-944.1	-677.7	-2,226.6	1,316.1	-348.7
Trade balance	-528.6	-63.5	-1,649.8	1,567.3	311.4
Exports ⁽²⁾	25,586.8	26,596.5	19,048.7	17,425.4	19,618.3
Petroleum and derivatives	14,107.2	13,275.5	6,660.3	5,459.2	6,913.6
Non-petroleum	10,643.7	12,448.9	11,670.3	11,338.5	12,208.9
Non-registered commerce and other exports	835.8	872.0	718.1	627.7	495.8
Imports	-26,115.3	-26,660.0	-20,698.5	-15,858.1	-19,306.8
Services	-1,419.6	-1,170.7	-805.2	-1,054.5	-994.3
Rendered services (credit)	2,041.4	2,346.3	2,391.3	2,139.8	2,299.9
Transportation	435.8	437.0	444.3	409.8	413.6
Travel	1,246.2	1,482.1	1,551.4	1,443.6	1,656.9
Other	359.4	427.1	395.7	286.4	229.5
Rendered services (debit)	-3,460.9	-3,517.0	-3,196.6	-3,194.3	-3,294.2
Transportation	-1,708.9	-1,743.9	-1,510.1	-1,238.2	-1,471.4
Travel	-622.5	-634.6	-638.6	-661.1	-686.7
Other	-1,129.5	-1,138.5	-1,047.8	-1,295.0	-1,136.0
Investment income	-1,371.9	-1,552.0	-1,734.1	-1,850.7	-2,330.5
Inflows (credit)	112.6	120.7	140.3	161.7	187.1
Outflows (debit)	-1,484.6	-1,672.7	-1,874.4	-2,012.3	-2,517.6
Employees' remuneration	-9.8	-11.4	-13.5	-14.4	-14.5
Direct investment income	-680.6	-663.2	-598.1	-433.1	-361.2
Portfolio investment income	-63.7	-143.2	-230.9	-300.7	-808.4
Other	-730.5	-854.8	-1,031.9	-1,264.2	-1,333.5
Net transfers	2,375.9	2,108.5	1,962.5	2,653.9	2,664.6
Emigrant remittances	2,449.5	2,461.7	2,377.8	2,602.0	2,840.2
Capital and financial account	2,935.4	477.8	702.9	-8.5	-1,497.3
Capital account	66.1	66.8	-69.1	-813.8	68.7
Financial account	2,869.2	411.0	772.0	805.3	-1,566.0
Direct Investment	727.0	772.2	1,322.5	755.3	612.0
Portfolio Investment	-909.8	1,500.4	1,473.4	2,200.9	6,490.6
Other Investment	3,052.1	-1,861.6	-2,023.8	-2,151.0	-8,668.6
Errors and omissions	-145.3	-224.6	35.2	-100.8	-12.5
Total balance of payments	1,845.9	-424.5	-1,488.4	1,206.7	-1,858.5
Financing	-1,845.9	424.5	1,488.4	-1,206.7	1,858.5
International Reserves ⁽³⁾	-1,878.0	411.5	1,453.1	-1,762.9	1,807.8
IMF loans.....	-	-	-	365.2	-
Exceptional Financing, net ⁽⁴⁾	32.1	13.0	35.3	191.0	50.7

Source: Based on figures from the Central Bank 2018 Quarterly Balance of Payments Bulletin for the First Quarter of 2018. Balance of payments data is published by the Central Bank on an annual and quarterly basis.

(1) Balance of payments data is published by the Central Bank on an annual and quarterly basis, not by semester.

(2) Figures differ from "Exports-(FOB)" charts and "Real GDP by Expenditure" chart due to the inclusion of non-registered commerce and "other exports." "Non-registered commerce" includes goods, which for some reason are not registered by customs. Ecuadorian customs may not register commerce under various situations including, but not limited to, delays in the submission of export forms, false declarations, different statistical treatment in the country with which Ecuador has engaged in trade, sales of contraband, and arms trade. "Other exports" includes exports of goods for processing, repair of goods, goods acquired in ports through various transportation means and non-monetary gold.

(3) Data corresponds to changes in International Reserves. Negative numbers indicate an increase in International Reserves and positive numbers indicate a reduction.

(4) Data refers to the refinancing of existing debt, financing necessary for repayment of arrears, and loans procured for the purpose of financing the balance of payments.

Quarterly Balance of Payments⁽¹⁾

(in millions of U.S.\$)

	December 2016	March 2017	December 2017	March 2018
Current Account	223.0	288.2	-254.8	107.3
Trade balance	332.1	533.5	-116.4	281.4
Exports ⁽²⁾	4,779.2	4,855.4	5,195.8	5,359.6
Imports.....	-4,447.0	-4,321.9	-5,312.2	-5,078.2
Services	-299.4	-242.5	-250.8	-58.0
Rendered services (credit)	542.6	556.6	617.0	748.5
Transportation	107.3	94.5	107.8	98.0
Travel	372.3	397.8	456.9	582.1
Other	62.9	64.3	52.2	68.4
Rendered services (debit)	-842.0	-799.1	-867.8	-806.5
Transportation	-329.5	-340.3	-374.6	-375.3
Travel	-159.5	-164.1	-166.0	-174.1
Other	-353.0	-294.7	-327.2	-257.1
Investment income	-476.4	-600.9	-580.0	-595.1
Inflows (credit)	42.9	45.3	52.5	63.9
Outflows (debit)	-519.3	-646.1	-632.5	-659.0
Employees' remuneration.....	-3.5	-3.6	-4.1	-4.1
Other outflows investment income ⁽³⁾	-515.8	-642.5	-628.5	-654.9
Net transfers	666.7	598.0	692.4	479.0
Emigrant remittances	671.4	625.7	763.4	715.0
Other transfers.....	185.6	116.2	134.3	99.8
Outgoing transfers.....	-190.3	-143.8	-205.3	-335.8
Capital and financial account	-356.2	-744.0	251.3	2,361.0
Capital account	18.2	15.2	18.7	15.9
Financial account	-374.4	-759.1	232.5	2,345.1
Direct Investment.....	298.9	184.4	88.0	223.6
Portfolio Investment	784.9	1,033.4	2,896.5	2,817.3
Other Investment.....	-1,458.2	-1,976.9	-2,751.9	-695.8
Errors and omissions	-86.8	-5.1	69.1	-46.2
Total balance of payments	-220.0	-460.9	65.6	2,422.0
Financing	220.0	460.9	-65.6	-2,422.0
International Reserves ⁽⁴⁾	214.1	449.2	-88.7	-2,417.0
IMF loans	-	-	-	-
Exceptional Financing, net ⁽⁵⁾	5.9	11.6	23.1	-5.0

Source: Based on figures from the Central Bank 2018 Quarterly Balance of Payments Bulletin for the First Quarter of 2018. Balance of payments data is published by the Central Bank on an annual and quarterly basis.

- (1) Balance of payments data is published by the Central Bank on an annual and quarterly basis, not by semester.
- (2) Figures include "non-registered commerce" and "other exports" and therefore differ from figures included in "Exports-(FOB)" and "Real GDP by Expenditure" tables. "Non-registered commerce" includes goods not registered by customs for reasons such as delays in the submission of import or export forms, falsely declared goods for import or export, different statistical treatment of goods in the origin or destination country, undeclared imports or exports (i.e., contraband), and arms trade. "Other exports" includes exports of goods for processing, repair of goods, goods acquired abroad by transportation companies and non-monetary gold.
- (3) Includes direct investment income, portfolio investment income and other investment income.
- (4) Data reflects changes in International Reserves, where negative numbers indicate an increase in International Reserves and positive numbers indicate a decrease.
- (5) Data refers to the refinancing of existing debt, financing necessary for repayment of arrears, and loans procured for the purpose of financing the balance of payments.

Current Account

In 2013, the current account registered a deficit of U.S.\$944.1 million (0.99% of GDP) compared to the current account deficit of U.S.\$162.2 million in 2012 (0.18% of GDP), which was partly due to the result of lower services and investment income balances and primarily a result of a decrease in the trade balance due to an increase of imports. The current account deficits were financed by external debt, including Chinese bilateral credits. In 2014, the current account improved and registered a deficit of U.S.\$677.7 million (0.67% of GDP), which was the result of an increase in non-petroleum exports. The current account for 2015 resulted in a deficit of U.S.\$2,226.6 million (2.24% of GDP) caused by the decrease in the price of petroleum exports. The current account for 2016 resulted in a surplus of U.S.\$1,316.1 million (1.33% of GDP) caused by the surplus in the trade balance and the surplus in net transfers. In 2017, the current account registered a deficit of U.S.\$348.7 million (0.34% of GDP), a decrease of U.S.\$1,664.8 million compared to the U.S.\$1,316.1 million surplus for 2016. The decrease in the current account was mainly due to a lower surplus of U.S.\$1,255.9 million in the trade balance account and a higher deficit of U.S.\$479.8 million in the investment income account. In the first quarter of 2018, the current account registered a surplus of U.S.\$107.3 million, a decrease of U.S.\$180.9 million compared to the U.S.\$288.2 million surplus in the first quarter of 2017. The decrease in the current account was mainly due to a lower surplus of U.S.\$252.1 million in the trade balance account and a lower surplus of U.S.\$119.0 million in the net transfers account.

Although the levels of imports increased from 2013 to 2014, the rate of increase declined over this two-year period due to the Republic's promotion of domestic production. In 2013, imports increased slightly to 6.5% compared to the previous year and declined to 2.1% in 2014. In 2015, imports totaled U.S.\$20,698.5 million, compared to U.S.\$26,660.0 million for 2014 registering the first decrease in the levels of imports in the past five years. This decrease in the level of imports was due to budget adjustments that limited the amount of investment to be used in the purchase of imports. In 2016, imports continued decreasing totaling U.S.\$15,858.1 million, a 23% decrease compared to the previous year. This decrease was principally due to a decrease in the price of crude oil and a decrease in imports of fuel and lubricants. For 2017, imports totaled U.S.\$19,306.8 million compared to U.S.\$15,858.1 million for 2016. This increase in the level of imports was due to an increase in imports of 45.0% in consumer goods, 19.3% in fuel and lubricants, 16.7% in raw materials and 30.2% in capital goods due to the lifting of the import safeguards in July 2017. For the first quarter of 2018, imports totaled U.S.\$5,078.2 million compared to U.S.\$4,321.9 million for the first quarter of 2017. This increase in the level of imports was due to an increase in almost all groups of products classified by use or economic destination, and particularly due to a 32.1% increase in consumer goods imports.

The trade balance registered a deficit of U.S.\$528.6 million in 2013, a decrease from a U.S.\$49.9 million surplus in 2012. The deficit was due to the increase in imports from the previous year. In 2014, the trade balance registered a deficit of U.S.\$63.5 million. Increased shrimp exports for the period contributed to this reduction in the deficit. In 2015, the trade balance registered a deficit of U.S.\$1,649.8 million, which was the result of lower revenues from petroleum exports as a result of the decline in the price of oil. In 2016, the trade balance resulted in a surplus of U.S.\$1,567.3 million, an improvement compared to the U.S.\$1,649.8 million trade balance deficit in 2015. In 2017, the trade balance resulted in a surplus of U.S.\$311.4 million, a decrease compared to the U.S.\$1,567.3 surplus in 2016. An increase in imports consisting mainly of durable and non-durable consumer goods, fuel and lubricants, industrial raw materials, industrial capital goods and transportation equipment capital goods as a consequence of the lifting of import safeguards contributed to this decrease. The trade balance for the first quarter of 2018 resulted in a surplus of U.S.\$281.4 million, a decrease compared to the U.S.\$533.5 million surplus in the first quarter of 2017. This decrease was mainly due to an increase in imports from U.S.\$4,321.9 million in the first quarter of 2017 to U.S.\$5,078.2 million in the first quarter of 2018.

The services balance registered a deficit of U.S.\$1,419.6 million in 2013, a U.S.\$25.3 million increase from 2012. This increase was the result of an increase in the amount of services that were contracted to work on domestic infrastructure projects. In 2014, the services balance registered a deficit of U.S.\$1,170.7 million. In 2015, the services balance improved to a deficit of U.S.\$805.2 million as a result of an improvement in the rendered services balance. In 2016, the services balance registered a deficit of U.S.\$1,054.5 which is an increase from the U.S.\$805.2 million deficit of 2015. This increase was the result of a decrease in the credit amount for rendered services. In 2017, the services balance improved to a deficit of U.S.\$994.3 million compared to the U.S.\$1,054.5 deficit in 2016.

The services balance for the first quarter of 2018 resulted in a deficit of U.S.\$58.0 million, a decrease in the deficit compared to the U.S.\$242.5 million deficit in the first quarter of 2017. This decrease in the deficit was due to a 34.5% increase in the export of services compared to a 0.9% increase in services received.

The investment income balance registered a deficit of U.S.\$1,185.7 million in 2016, which was an increase from the deficits of U.S.\$1,734.1 million, U.S.\$1,552.0 million, U.S.\$1,371.9 million and U.S.\$1,298.0 million in 2015, 2014, 2013 and 2012, respectively. The continued increases from 2012 to 2016 are primarily due to an increase in interest payments related to the increase in bilateral and multilateral debt as well as an increase in the portfolio. For more information regarding the Republic's public debt, see "Public Debt–Debt Obligations." The investment income balance for 2017 resulted in a deficit of U.S.\$2,330.5 million, an increase in the deficit compared to the U.S.\$1,850.7 million deficit in 2016. This increase in the deficit was due to an increase in investment outflows as a result of the payment of interests from the investment portfolio and from external debt. The investment income balance for the first quarter of 2018 resulted in a deficit of U.S.\$595.1 million, a decrease compared to the U.S.\$600.9 million deficit in the first quarter of 2017. This decrease in the deficit was mainly due to an increase in investment inflows.

Remittances, which are primarily denominated in U.S dollars and Euros, are an important source of net transfers to Ecuador's current account. Remittances decreased by 7.7% and 0.7%, in 2012 and 2013, respectively. Remittances increased by 0.4% to U.S.\$2,461.7 million in 2014 and decreased by 3.4% to U.S.\$2,377.8 million in 2015. Remittances then increased by 9.4% to U.S.\$2,602.0 million in 2016. The year on year fluctuation for remittance levels from 2012 to 2015 reflected the economic situation of those countries from which the remittances were received. In 2016, the majority of remittances came from the United States, Spain and Italy with 56.2%, 26.4% and 6.0%, respectively. This increase in remittances is due to the economic situation of the main countries where Ecuadorians living abroad reside, including the United States, Spain, and Italy, among others, and also to the response of Ecuadorian migrants to the Pedernales Earthquake. In 2017, remittances totaled U.S.\$2,840.2 million, an increase compared to the U.S.\$2,602.0 million total in 2016. This increase in remittances is due to the improvement in the economic situation of the main countries where Ecuadorians living abroad reside which led to an increase of U.S.\$128 million in remittances from the United States and U.S.\$81 million in remittances from Spain. For the first quarter of 2018, remittances totaled U.S.\$715.0 million, an increase compared to the U.S.\$625.7 million total for the first quarter of 2017. This increase in remittances is due to the improvement in the economic situation of the main countries where Ecuadorians living abroad reside which has led to an increase of U.S.\$37 million in remittances from the United States and U.S.\$31.5 million in remittances from Spain.

Capital and Financial Account

The capital and financial account measures valuations in Ecuador's assets and liabilities against those of the rest of the world (other than valuations from exceptional financings). In 2013, the capital and financial account registered a large surplus of U.S.\$2,935.4 million primarily due to the net proceeds from the 2024 Notes. In 2015, the capital and financial account registered U.S.\$702.9 million, an increase from a surplus of U.S.\$477.8 million in 2014. This increase was the result of increased foreign investment in 2015. In 2016, the capital and financial account registered a deficit of U.S.\$8.5 million. This deficit was the result of a deficit in the capital account consisting mainly of a decrease in outgoing capital transfers. In 2017, the capital and financial account registered a deficit of U.S.\$1,497.3 compared to the deficit of U.S.\$8.5 million in 2016. This increase in the deficit of the capital and financial account was due to a decrease in direct foreign investment and the repayment of external debt. In the first quarter of 2018, the capital and financial account registered a surplus of U.S.\$2,361.0 million compared to the deficit of U.S.\$744.0 million for the first quarter of 2017. This increase in the capital and financial account was primarily due to an increase in the placement of sovereign bonds in the international markets and by a decrease of assets and liabilities in the other investment account.

Ecuador experienced an increase in direct investment for 2013, where direct investment totaled U.S.\$727.0 million, which represents a 28.1% increase from the U.S.\$567.5 million in 2012. This increase was due to continuing investment in Ecuador's infrastructure, in particular, its electricity and water sector. In 2014 and 2015, total direct investment continued to increase to U.S.\$772.2 million and U.S.\$1,322.5 million, respectively. These increases were principally due to an increase in investment in the mining sector. In 2016, total direct investment

decreased to U.S.\$755.3 million. This decrease was principally due to a decrease in investment in the manufacturing and in the services rendered to businesses sectors. In 2017, total direct investment decreased to U.S.\$612.0 million. For the first quarter of 2018, direct investment totaled U.S.\$223.6 million, an increase compared to the U.S.\$184.4 million for the first quarter of 2017. This increase was principally due to an increase in reinvested earnings.

In 2013, the investment portfolio showed a deficit of U.S.\$909.8 million. In 2014 and 2015, the investment portfolio registered a surplus of U.S.\$1,500.4 million and U.S.\$1,473.4 million, respectively. In 2016, the investment portfolio showed a surplus of U.S.\$2,200.9 million. In 2017, the investment portfolio showed a surplus of U.S.\$6,490.6 million. The investment portfolio for the first quarter of 2018 registered a surplus of U.S.\$2,817.3 million, an increase compared to the U.S.\$1,033.4 million surplus for the first quarter of 2017. This increase was mainly due to a lower accumulation of assets and a higher net placement of sovereign bonds.

International Reserves

Ecuador's International Reserves, include, among other items, cash in foreign currency, gold reserves, reserves in international institutions, and deposits from Ecuador's financial institutions and non-financial public sector institutions. In 2012 and 2013, Ecuador's International Reserves totaled U.S.\$2,482.5 million and U.S.\$4,360.5 million, respectively. In 2015, Ecuador's International Reserves totaled U.S.\$2,496.0 million, a decrease from 2014, when International Reserves totaled U.S.\$3,949.1 million. This decrease was due to transfers to the Liquidity Fund for the purpose of strengthening the financial safety net. In 2016, Ecuador's International Reserves totaled U.S.\$4,258.8 million, an increase from 2015. This increase was primarily due to loan disbursements, external debt servicing and hydrocarbon operations.

As of December 31, 2017, Ecuador's International Reserves totaled U.S.\$2,451.1 million a decrease compared to December 31, 2016 when International Reserves totaled U.S.\$4,258.9 million. The decrease in International Reserves during the 12-month period ending in December 31, 2017 compared to the period ending in December 31, 2016 was mainly due to a decrease in investments, term deposits and securities. As of June 30, 2018, Ecuador's International Reserves totaled U.S.\$3,166.7 million, a decrease from June 30, 2017 when International Reserves totaled U.S.\$4,467.2 million. The decrease in International Reserves during the 12-month period ending in June 30, 2018 compared to the period ending in June 30, 2017 was mainly due to a decrease in investments, term deposits and securities.

Foreign Trade

Merchandise and Services Trade

Ecuador has historically been an exporter of primary goods, and an importer of raw materials, capital, and intermediate goods, as well as manufactured products. The Republic's main exports are relatively limited in terms of sectors and export markets. Two of Ecuador's principal export markets, the United States and the European Union, have been significantly affected by the global recession that began in 2008-2009. From 2012 to 2016, the United States, the European Union and the Andean Community were the destinations for the majority of Ecuador's exports. Ecuador continues to seek to expand the types of goods it exports as well as its trading partners through engaging with, and obtaining funding from development banks and other strategic initiatives. Since 1972, petroleum and petroleum derivatives have comprised the majority of Ecuadorian export products. According to exports (FOB) data, in 2012, 2013, 2014, 2015 and 2016 exports of petroleum and petroleum derivatives accounted for approximately 58.0%, 57.0%, 51.6%, 36.4% and 32.5% of total exports, respectively. Between 2011 and 2014, non-petroleum exports, which include, among others, flowers, vehicles, manufactured textile products and seafood, increased an average of 10.0% per year, but decreased by 6.3% in 2015. Ecuador's total export trade has grown steadily during the period between 2011 and 2014, but decreased in 2015 and in the second and third quarter of 2016, due to a decrease in non-petroleum revenues consisting mainly of decreases in banana and tuna and fish exports, despite the increase in oil exports. According to exports (FOB) data, in 2016, total exports decreased to U.S.\$16.798 million, compared to U.S.\$18.331 million in 2015. According to exports (FOB) data, in 2017, total exports increased to U.S.\$17,122 million, compared to U.S.\$16.798 million in 2016. According to exports (FOB) data, for the period of January through May 2018, overall exports increased to U.S.\$9,005 million, compared to U.S.\$7,921 million for the same period for 2017.

The following table shows the overall balance of trade for the periods indicated:

Overall Balance of Trade ⁽¹⁾

(in millions of U.S.\$)

	Exports	Imports	Balance
Year Ended December 31, 2013.....	25,586.8	-26,115.3	-528.6
Year Ended December 31, 2014	26,596.5	-26,660.0	-63.5
Year Ended December 31, 2015.....	19,048.7	-20,698.5	-1,649.8
Year Ended December 31, 2016.....	17,425.4	-15,858.1	1,567.3
Year Ended December 31, 2017	19,618.3	-19,306.8	311.4

Source: Based on Figures from the Central Bank Balance of Payments Quarterly Bulletin for the First Quarter of 2018.

(1) Data for exports and imports reflect figures from “Balance of Payments” chart.

Overall Balance of Trade ⁽¹⁾

(in millions of U.S.\$)

	Exports	Imports	Balance
Fourth Quarter of 2016	4,779.2	-4,447.0	332.1
First Quarter of 2017	4,855.4	-4,321.9	533.5
Fourth Quarter of 2017	5,195.8	-5,312.2	-116.4
First Quarter of 2018	5,359.6	-5,078.2	281.4

Source: Based on Figures from the Central Bank Balance of Payments Quarterly Bulletin for the First Quarter of 2018.

(1) Data for exports and imports reflect figures from “Balance of Payments” chart.

Trade Policy

Ecuador’s trade policy has focused on protecting dollarization, avoiding a decrease in the money supply, integrating into the international economy, as well as increasing the access of Ecuadorian goods and services to new markets and, until recently, reducing non-tariff barriers to trade.

Until the late 1980s, Ecuador used tariff barriers to protect its domestic industry against foreign competition. Import duties ranged from zero to 290%, with up to fourteen different rates.

In the early 1990s, the Government began to significantly liberalize its foreign trade policy. As a result of those reforms, the tariff structure was simplified and currently consists of a seven-tiered structure (0%, 3%, 5%, 10%, 15%, 20% and 35%), with levels of 5% for most raw materials and capital goods, 10% or 15% for intermediate goods, and 20% for most consumer goods. A small number of products, including planting seeds, are subject to a tariff rate of zero, while the 35% tariff is exclusively applied to the automobile industry. Average tariff levels were reduced from 29% in 1989 to 6% in 2004.

In 2007, Ecuador introduced the Currency Outflow Tax, an exit tax of 0.5% on any currency leaving the country, which was subject to a number of exemptions. Since December 2007, Ecuador has progressively increased the Currency Outflow Tax as a measure to support a positive balance of trade. The tax acts as a devaluation of the U.S. dollar in Ecuador, thereby making imports more expensive and fostering local production. In December 2007, Ecuador increased the Currency Outflow Tax to 1% and eliminated the applicable exemptions. In December 2009, the Currency Outflow Tax increased from 1% to 2% and included an exemption for the first U.S.\$500 per transaction. In November 2011, the Currency Outflow Tax increased from 2% to 5% and included an exemption for the first U.S.\$1,000 in a 15-day period as long as no debit or credit card is used in the transaction. Payments of external public debt and dividends paid to foreign shareholders are also exempt from this tax. In 2016, the exemption was raised to U.S.\$1,098 and U.S.\$5,000 if a debit card or credit card is used.

In January 2009, the Republic, through the *Consejo de Comercio Exterior e Inversiones* (“Foreign Commerce and Investment Council”) (now the Committee on Foreign Trade), imposed tariffs of general applicability on some consumer goods imports, including products imported from countries with which Ecuador has commercial treaties honoring preferential status. Ecuador enforced these tariffs for one year, in order to restore its trade balance.

On December 12, 2014, representatives from Ecuador's Ministry of Foreign Commerce signed a trade agreement with the European Union for Ecuador's accession to the Multiparty Trade Agreement entered into the European Union and Colombia and Peru on June 26, 2012. The agreement is intended to provide expanded access to the European market for Ecuadorian exports and lower tariff duties on European imports into the Ecuadorian market. As part of the agreement reached in 2014, Ecuador was allowed to benefit from the European Union's Generalized Scheme of Preferences Plus program until 2016 or until the trade agreement was in place. This benefit allowed Ecuador to not pay tariffs on exports of Ecuadorian products into the European Union.

On November 11, 2016, Ecuador signed the accession agreement to the Multiparty Trade Agreement with the European Union Council. The trade agreement required the approval of each of the National Assembly, the European Parliament, and the legislatures of the 28 EU member countries in order to be effective. In January 2017, both the European Union and Ecuador implemented the trade agreement on a provisional basis pursuant to Article 3 of the European Council's decision (EU) 2016/2039 with the exception of Articles 2, 202(1), 291 and 292 of the trade agreement. The agreement will allow Ecuadorian products (including fishing products, bananas, flowers, coffee, cocoa, fruits, and nuts) to have greater access to the European market. The Ministry of Foreign Commerce estimates that this agreement will increase the Ecuadorian supply of goods into and from the European Union by 1.6% until 2020.

On January 25, 2015, EPCN and Peru's Cementos Yura S.A. signed a U.S.\$230 million contract for the construction of a clinker production plant. As of the date of entrance into the agreement, the plant was expected to be built in the city of Riobamba and to produce an estimated 2,400 tons of clinker per day. As of September 22, 2015 Cementos Yura S.A. held a 63.5% stake in EPCN. As of the date of entrance into the agreement, the Government stated that the domestic production of clinker through this agreement was expected to reduce imports of cement products into the Republic.

In March 2015, the *Comité de Comercio Exterior* ("Committee on Foreign Trade") issued a resolution imposing temporary and non-discriminatory tariff surcharges on various consumer goods imports, in order to regulate national imports and reduce the balance of payments deficit. The tariff surcharges are in addition to the ones currently in place and do not apply to certain imports, including those exported by less developed member countries of the *Asociación Latinoamericana de Integración* ("Latin American Integration Association").

In January 2016, the Committee on Foreign Trade modified certain tariff surcharges set by the March 2015 resolution, from a 45% surcharge to a 40% surcharge. Additionally, on April 29, 2016, the Committee on Foreign Trade delayed the release of the tariff surcharges for an additional year. The dismantling of tariff surcharges, implemented in 2015 to improve the balance of payments led to a reduction of the 10% tariff surcharge to 5% and the 23.3% tariff surcharge to 11.7%, as of May 1, 2017. On June 1, 2017, both the 5% and the 11.7% tariff surcharges were eliminated.

On November 13, 2017, the *Servicio Nacional de Aduana del Ecuador* ("SENAE") imposed a custom control service tariff of ten cents of a dollar per imported unit (with certain exceptions) in order to fight against smuggling and fraud. On June 7, 2018, the SENAE eliminated the custom control service tariff following the instructions of the General Secretariat of the Community of Andean Nations.

There have also been other measures taken to increase local production, including the creation of the Ministry of Commerce and the enactment of the Production Code, see "The Ecuadorian Economy—Economic and Social Policies—Production Code."

Regional Integration

Ecuador's trade integration policy consists of entering new markets strategically, promoting the growth of non-traditional exports, and encouraging investment. Ecuador has intensified its efforts to strengthen trade arrangements with its primary partners, including:

- Removing regional trade restrictions as a member of ALADI (a regional external trade association comprised of Ecuador, Argentina, Bolivia, Brazil, Chile, Colombia, Cuba, Mexico, Panama, Paraguay, Peru, Uruguay and Venezuela);
- Reducing or eliminating tariff barriers to trade, as a member of the Andean Community, except with respect to measures taken to increase the Republic's balance of payments in 2009 as a result of the global recession;
- Entering into bilateral trade agreements with Colombia, Venezuela and Bolivia that are aimed at levying uniform tariffs on goods from third parties;
- Entering into a bilateral trade agreement with Chile in 1994, which was expanded in 2008;
- Negotiating a bilateral association agreement with Paraguay;
- Maintaining preferential access to the European Union through preferential trade status;
- Entering into the *Sistema Unitario de Compensación Regional* ("Regional Payment Compensation Unitary System" or "SUCRE"), with the governments of Bolivia, Ecuador, Cuba, Honduras, Nicaragua and Venezuela in 2009, which sets forth an account unit and function as a means of payment, intended to be used by national banks and to eliminate the use of currency for international trade transactions; and
- Signing a trade agreement with the European Union in July 2014 that expands access to the European market for Ecuadorian exports and lowers tariff duties on European imports into the Ecuadorian market.

Composition of Trade

In 2013, exports increased to U.S.\$24,751 million, an increase of 4% compared to 2012. The increase was primarily due to improved banana (12%) and cacao (23%) production, a sharp increase in shrimp exports (40%), and an increase in crude oil exports (6%).

In 2014, despite a 3% decrease in crude oil exports, overall exports increased with U.S.\$25,724 million, an increase of 4%, compared to 2013. The increase was primarily due to improved banana (11%) and cacao (36%) production, as well as a sharp increase in shrimp exports (41%).

In 2015, overall exports fell to U.S.\$18,331 million, a decrease of 29% compared to 2014. This decrease was primarily due to a decrease in crude oil exports (51%), as well as reductions in shrimp exports (9%) and exports of tuna and other fish (18%). The decrease in crude oil exports reflected the decrease in the price of crude oil in 2015.

In 2016, overall exports decreased to U.S.\$16,798 million, a decrease of 8% compared to 2015. This decrease was primarily due to a decrease in crude oil exports (20%), as well as a decrease in cacao exports (10%) and exports of metal manufacturing (21%).

In 2017, overall exports increased to U.S.\$19,122 million, an increase of 13.8% compared to 2016. This increase was primarily due to an increase in petroleum derivatives exports (78.6%), as well as crude oil exports (22.5%) and exports of shrimp (17.7%).

For the period of January through May 2018, overall exports increased to U.S.\$9,005 million, an increase of 13.7% compared to the U.S.\$7,921 million for the same period for 2017. This increase was primarily due to an increase in petroleum derivatives exports (64.9%), tuna and other fish (48.1%) and crude oil (23.5%).

The following table sets forth information regarding exports for the periods indicated.

Exports - (FOB)⁽¹⁾
(in millions of U.S.\$ and as a % of total exports)

	For the Year Ended December 31,										January – May			
	2013		2014		2015		2016		2017		2017		2018	
	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%
Crude oil	13,412	54.2	13,016	50.6	6,355	34.7	5,054	30.1	6,190	32.4	2,539	32.1	3,136	34.8
Bananas and plantains.....	2,323	9.4	2,577	10.0	2,808	15.3	2,734	16.3	3,035	15.9	1,391	17.6	1,448	16.1
Petroleum derivatives.....	695	2.8	259	1.0	305	1.7	405	2.4	724	3.8	233	2.9	384	4.3
Shrimp	1,784	7.2	2,513	9.8	2,280	12.4	2,580	15.4	3,038	15.9	1,190	15.0	1,387	15.4
Cacao	423	1.7	576	2.2	693	3.8	621	3.7	588	3.1	237	3.0	198	2.2
Coffee	28	0.1	24	0.1	18	0.1	18	0.1	17	0.1	7	0.1	4	0.0
Tuna and other fish.....	278	1.1	296	1.2	258	1.4	244	1.5	242	1.4	99	1.2	146	1.6
Flowers	830	3.4	918	3.6	820	4.5	802	4.8	881	4.6	427	5.4	407	4.5
Metal Manufacturing ⁽²⁾	508	2.1	519	2.0	510	2.8	402	2.4	440	2.3	173	2.2	209	2.3
Other products ⁽³⁾	4,470	18.1	5,024	19.5	4,284	23.4	3,936	23.4	3,967	20.7	1,626	20.5	1,686	18.7
Total	24,751	100	25,724	100	18,331	100	16,798	100	19,122	100	7,921	100	9,005	100

Source: Based on figures from the Central Bank June 2018 Monthly Bulletin (Table 3.1.1).

- (1) Figures do not include “non-registered commerce” and “other exports” and therefore differ from export figures in “Balance of Payments” and “Real GDP by Expenditure” tables. See footnote 1 of “Balance of Payment” chart.
- (2) Includes vehicles and their components.
- (3) “Other products” consist of non-traditional primary and manufactured products, including abaca, wood, other primary products, processed coffee, processed cacao products, fish flour, other canned seafood, chemicals and pharmaceutical products, hats, textile manufactured products and other industrialized products.

The following table sets forth information regarding imports for the periods indicated.

Imports – (CIF)

(in millions of U.S.\$ and as a % of total imports)

	2013		2014		2015		2016		2017		January - May			
											2017		2018	
	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%
Consumer goods														
Non-durable goods	2,997	11.1	3,014	10.9	2,695	12.5	2,140	13.1	2,505	12.5	884	11.8	1,065	11.5
Durable goods	2,210	8.2	2,230	8.0	1,593	7.4	1,241	7.6	1,944	9.7	595	7.9	946	10.2
Postal traffic	240	0.9	208	0.8	131	0.6	136	0.8	165	0.8	64	0.9	71	0.8
Fuel and combustibles	6,110	22.6	6,617	23.9	4,171	19.4	2,632	16.1	3,350	16.7	1,324	17.6	1,747	18.9
Primary Materials														
Agriculture	1,124	4.2	1,351	4.9	1,199	5.6	1,112	6.8	1,243	6.2	492	6.6	596	6.5
Industrial	6,198	22.9	6,147	22.2	5,445	25.3	4,501	27.6	5,401	27.0	2,222	29.6	2,367	25.6
Construction materials	1,010	3.7	1,120	4.0	658	3.1	413	2.5	475	2.4	185	2.5	228	2.5
Capital Goods														
Agriculture	125	0.5	128	0.5	144	0.7	117	0.7	141	0.7	51	0.7	72	0.8
Industrial	5,077	18.8	4,898	17.7	3,948	18.3	2,978	18.2	3,427	17.1	1,245	16.6	1,482	16.0
Transportation Equipment ...	1,863	6.9	1,954	7.0	1,471	6.8	992	6.1	1,308	6.5	416	5.6	634	6.9
Other	67	0.2	60	0.2	63	0.3	62	0.4	53	0.3	22	0.3	29	0.3
Total	27,021	100	27,726	100	21,518	100	16,324	100	20,010	100	7,502	100	9,237	100

Source: Based on figures from the Central Bank June 2018 Monthly Bulletin (Table 3.1.7).

Ecuador's largest trading partners are the United States, the European Union, Chile, Peru, and Colombia. The following table sets forth information regarding the country of destination of the Republic's exports.

Exports - (FOB) by Destination Country⁽¹⁾
(in millions of U.S.\$, and as a % of total exports)

	2013		2014		2015		2016		2017		January - May			
	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%	2017	%	2018	%
Americas														
United States	11,043	44.6	11,240	43.7	7,226	39.4	5,436	32.4	6,057	31.7	2,646	33.4	2,532	28.1
Peru.....	1,901	7.7	1,582	6.1	934	5.1	934	5.6	1,283	6.7	495	6.3	747	8.3
Colombia	912	3.7	951	3.7	784	4.3	811	4.8	763	4.0	318	4.0	347	3.8
Chile.....	2,457	9.9	2,328	9.0	1,138	6.2	1,151	6.9	1,236	6.5	544	6.9	595	6.6
Other (Americas) ⁽²⁾	2,126	8.6	2,951	11.5	1,689	9.2	1,752	10.4	1,945	10.2	682	8.6	973	10.8
Total Americas.....	18,439	74.5	19,052	74.1	11,771	64.2	10,083	60.0	11,284	59.0	4,686	59.2	5,194	57.7
Europe														
European Union (EU).....	3,011	12.2	2,981	11.6	2,773	15.1	2,832	16.9	3,173	16.6	1,362	17.2	1,436	16.0
Italy.....	416	1.7	431	1.7	326	1.8	461	2.7	587	3.1	257	3.2	320	3.6
United Kingdom	170	0.7	176	0.7	166	0.9	139	0.8	200	1.0	75	1.0	70	0.8
Germany	411	1.7	526	2.0	549	3.0	531	3.2	502	2.6	217	2.7	211	2.3
Spain.....	777	3.1	525	2.0	484	2.6	547	3.3	601	3.1	245	3.1	229	2.5
Other (EU) ⁽³⁾	1,237	5.0	1,323	5.2	1,249	6.8	1,153	6.9	1,283	6.7	568	7.2	606	6.7
Rest of Europe ⁽⁴⁾	1,097	4.4	1,072	4.2	903	5.0	902.5	5.4	970	5.1	449	5.7	446	5.0
Total Europe	4,108	16.6	4,053	15.8	3,676	20.1	3,734	22.2	4,144	21.7	1,811	22.9	1,883	20.9
Asia														
Taiwan.....	8	0.0	7	0.0	6	0.0	9	0.1	12	0.1	5	0.1	4	0.0
Japan.....	572	2.3	326	1.3	331	1.8	22	1.9	389	2.0	131	1.7	140	1.6
China.....	564	2.3	485	1.9	723	3.9	656	3.9	772	4.0	283	3.6	651	7.2
South Korea.....	45	0.2	57	0.2	173	0.9	83	0.5	115	0.6	45	0.6	41	0.5
Other countries ⁽⁵⁾	864	3.5	1,558	6.1	1,475	8.0	1,775	10.6	2,307	12.1	719	11.6	1,031	11.4
Total Asia.....	2,053	8.3	2,433	9.5	2,708	14.8	2,842	16.9	3,595	18.8	1,383	17.5	1,865	20.7
Africa	99	0.4	122	0.5	105	0.6	65	0.4	43	0.2	15	0.2	38	0.4
Oceania	39	0.2	45	0.2	51	0.3	52	0.3	54	0.3	25	0.3	22	0.2
Other countries	13	0.1	20	0.1	20	0.1	21	0.1	3	0.0	1	0.0	2	0.0
Total	24,751	100	25,724	100	18,331	100	16,798	100	19,122	100	7,921	100	9,005	100

Source: 2013 through 2018 figures based on figures from the Central Bank June 2018 Monthly Bulletin (Table 3.1.5).

- (1) Total export figures differ with export figures from "Balance of Payments" chart and "Real GDP by Expenditure" chart due to the exclusion of "non-registered commerce" and "other exports" figures in calculation of total exports in this chart. See footnote 1 of "Balance of Payment" chart.
- (2) Includes Canada, the Central American Common Market, Argentina, Brazil, Mexico, Panama, Venezuela, Bolivia and other countries in the Americas.
- (3) Includes Belgium, Luxembourg, France, Holland and other countries in the EU.
- (4) Includes the European Free Trade Association and other countries in Europe.
- (5) Includes Hong Kong and other countries in Asia.

The following table sets forth information regarding the country of origin of the Republic's imports for the periods presented.

Imports (CIF) by Country of Origin
(in millions of U.S.\$)

						January - May	
	2013	2014	2015	2016	2017	2017	2018
Americas⁽¹⁾							
Mexico	963	967	656	491	660	246	293
United States	7,755	8,751	5,806	4,116	4,532	1,926	2,138
Central America	107	104	96	95	120	41	54
South America and the Caribbean							
Argentina	415	501	235	218	375	137	203
Brazil	871	863	712	672	867	329	383
Bolivia	110	114	183	192	196	72	76
Colombia	2,288	2,201	1,766	1,421	1,716	645	770
Chile	628	583	551	479	560	201	221
Panama	1,765	1,442	1,022	889	1,274	390	790
Peru	1,118	1,024	789	689	830	301	357
Rest of Americas and Caribbean ⁽³⁾	676	678	487	368	468	183	175
TOTAL AMERICA	16,697	17,227	12,302	9,630	11,598	4,469	5,461
Europe							
Germany	578	578	497	398	481	188	217
Italy	292	326	344	258	262	92	121
Spain	738	618	430	357	620	242	222
UK	341	151	87	51	97	28	41
Rest of EU ⁽²⁾	961	1,315	1,126	793	1,113	403	561
Rest of Europe ⁽³⁾	301	302	313	313	248	98	103
TOTAL EUROPE	3,210	3,288	2,796	2,170	2,821	1,052	1,266
Asia							
China	3,476	3,613	3,266	2,550	3,064	1,033	1,390
Japan	599	574	478	293	408	154	183
Taiwan	205	213	182	123	139	50	65
South Korea	1,008	902	792	526	616	231	257
Rest of Asia ⁽⁴⁾	1,442	1,548	1,431	783	1,049	399	498
TOTAL ASIA	6,731	6,851	6,148	4,275	5,276	1,868	2,393
Postal Traffic and regions excluding the Americas, Europe and Asia⁽⁵⁾	383	360	272	249	315	113	117
Total	27,021	27,726	21,518	16,324	20,010	7,502	9,237

Source: 2012 figures based on figures from the Central Bank December 2015 Monthly Bulletin (Table 3.1.4); 2013 through 2017 figures based on figures from the Central Bank June 2018 Monthly Bulletin (Table 3.1.9).

- (1) Canada included in Rest of Americas and Caribbean.
(2) Includes Belgium, Luxembourg, France, Holland and other countries in the EU.
(3) Includes the European Free Trade Association and other countries in Europe.
(4) Includes Hong Kong and other countries in Asia.
(5) Includes Africa, Oceania, other countries and international postal traffic.

Foreign Direct Investment

Ecuador's foreign direct investment policy is governed largely by national implementing legislation for the Andean Community's Decisions 291 of 1991 and 292 of 1993. Generally, foreign investors enjoy the same rights Ecuadorian national investors have to form companies. Foreign investors may own up to 100% of a business entity in most sectors without prior Government approval, and face the same tax regime.

Currency transfers overseas are unrestricted with respect to earnings and profits distributed abroad resulting from registered foreign investment provided that obligations relating to employee revenue sharing and relevant taxes, as well as other corresponding legal obligations, are met.

Certain sectors of the Ecuadorian economy are reserved for the state. All foreign investment in petroleum exploitation and development in Ecuador must be carried out under contracts with the Secretariat of Hydrocarbons of Ecuador.

Direct foreign investment reached U.S.\$727.1 million, U.S.\$772.3 million, and U.S.\$1322.0 million, in 2013, 2014 and 2015, respectively. Direct foreign investment in 2016 reached U.S.\$755.5 million. In 2017, direct foreign investment reached U.S.\$604.4 million. In 2017, the manufacturing sector represented the largest percentage of direct foreign investment with 23.6% of all investment. Agriculture, forestry, hunting and fishing, and commerce followed representing 20.5% and 16.1% of direct foreign investment, respectively. In 2017, direct foreign investment reached U.S.\$606.4 million, a decrease compared to the U.S.\$755.5 million in 2016. This decrease was principally due to a U.S.\$158.0 million decrease in the shares and other equity security interests account and a U.S.\$39.4 million decrease in reinvested earnings.

The following table sets forth information regarding foreign direct investment by sector for the periods indicated.

Foreign Investment by Sector

(in millions of U.S.\$, and as a % of total foreign investment)

	For the Year Ended December 31									
	2013		2014		2015		2016		2017	
	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%
Agriculture, forestry, hunting and fishing	20.8	2.9	38.9	5.0	67.8	5.1	42.0	5.6	124.4	20.5
Commerce ⁽¹⁾	110.3	15.2	148.5	19.2	172.9	13.1	122.2	16.2	97.9	16.1
Construction	69.2	9.5	4.7	0.6	6.8	0.5	30.5	4.0	56.0	9.2
Electricity, gas and water	29.2	4.0	-4.7	-0.6	61.8	4.7	1.2	0.2	2.1	0.4
Petroleum ⁽²⁾	252.9	34.8	685.6	88.8	559.8	42.4	462.7	61.2	64.7	10.7
Manufacturing	137.9	19.0	107.7	14.0	264.1	20.0	37.5	5.0	143.1	23.6
Social and personal services	-2.3	-0.3	14.1	1.8	-10.8	-0.8	-9.9	-1.3	-3.9	-0.6
Services rendered to businesses	117.7	16.2	24.4	3.2	243.3	18.4	21.9	2.9	74.4	12.3
Transportation, storage and telecommunications	-8.5	-1.2	247.0	-32.0	43.6	-3.3	47.5	6.3	47.6	7.8
Total	727.0	100	772.3	100	1,322.0	100	755.5	100	606.4	100

Source: Based on Figures from the Central Bank Balance of Payments Quarterly Bulletin for the Fourth Quarter of 2017

(1) Commerce includes investment in commercial infrastructure and real estate.

(2) Includes mining and natural gas.

The 2008 Constitution contains certain principles relating to foreign investment, including promoting national and international investment, with priority being given to national investment and a complementary role being attributed to international investment; subjecting foreign investment to Ecuador's national legal framework and regulations; prohibiting expropriation without indemnification; limiting access to strategic sectors, which will remain under state control; providing for disputes relating to international agreements to be resolved in a regional (Latin American) forum; and preventing disputes between the Republic and private companies from becoming disputes between sovereigns. These principles are materialized in the enactment of the Production Code (see "Economic and Social Policies—Production Code") and Article 422 of the Constitution, which sets parameters for disputes relating to international agreements. For information relating to recent developments in international investment, see "The Republic of Ecuador – Memberships in International Organizations and International Relations – Treaties and Other Bilateral Relationships."

MONETARY SYSTEM

The Central Bank

The role of the Central Bank is to promote and contribute to the economic stability of the country. It acts as the manager of the public sector's accounts and provides financial services to all public sector institutions that are required to hold their deposit accounts in the Central Bank. Management of these accounts primarily involves transfer operations between entities, including from the Government to other entities, and transfers to accounts in other banks, both foreign and domestic. The Central Bank is also the central coordinator of the payment system. All domestic banks conduct their clearing operations through the Central Bank, and also use the bank to hold their liquidity reserves. In addition, the Central Bank monitors economic growth and economic trends. To accomplish this task, it has developed statistical and research methodologies to conduct analyses and policy recommendations on various economic issues.

The functions of the Central Bank were sharply reduced as a result of the Dollarization Program. It no longer sets monetary policy or exchange rate policy for Ecuador. Instead, the Ecuadorian economy is currently directly affected by the monetary policy of the United States, including U.S. interest rate policy. The Ecuadorian Economic Transformation Law, which made the U.S. dollar legal tender in Ecuador, provided for the Central Bank to exchange, on demand, sucres at a rate of 25,000 sucres per U.S.\$1. The law also prohibited the Central Bank from incurring any additional sucre-denominated liabilities, and required that the Central Bank redeem sucre coins and bank notes for U.S. dollars.

Pursuant to the 2008 Constitution, the role of the Central Bank has changed further in that its authority and autonomy have decreased. Currently, the main functions of the Central Bank are to execute Ecuador's monetary policy, which involves managing the system of payments, investing International Reserves, managing the liquidity reserve, and acting as depository of public funds and as a fiscal and financial agent for the Republic. The Central Bank also sets policy and strategy design for national development, executes the Republic's macroeconomic program, and maintains financial statistics, which it publishes in monthly bulletins.

On August 12, 2015, after the Monetary and Financial Law abolished the position of president of the Central Bank, the Central Bank named Diego Martínez as its General Manager. On May 23, 2017, President Moreno named Verónica Artola Jarrín as General Manager of the Central Bank. According to the Monetary and Financial Law, the Committee of Monetary and Financial Policy Regulation is comprised of the Minister of Economy and Finance, the Minister for National Planning, a Minister who is designated by the President to serve on the Committee as the representative of the productive sector, and a delegate appointed by the President. The Superintendent of Banks, the Superintendent of Companies, Securities and Insurance, the Superintendent of Popular Economy, the General Manager of the Central Bank and the Chairman of the Board of Directors of the Deposit Insurance Corporation, Liquidity Fund and Private Insurance Fund may attend committee meetings but have no right to vote. Under the supervision of this committee, the General Manager oversees operations of the Central Bank, which operates through the office of the Vice General Manager in Quito and two other branches in Cuenca and Guayaquil.

The Monetary and Financial Law also establishes the role and structure of public banks, including the Government-owned *Banco de Desarrollo del Ecuador B.P.* (the "Ecuadorian Development Bank"), formerly denominated, *Banco del Estado*. Since 1979, the role of the Ecuadorian Development Bank has been to finance Government investment and infrastructure projects through loans to municipalities and provinces and to grant loans to municipalities and provinces. During the period from January 1, 2017 through December 31, 2017, the Ecuadorian Development Bank made a total of approximately over U.S.\$505.96 million in disbursements to Ecuador's Autonomous Decentralized Governments. During the period from January 1, 2018 through May 31, 2018, the Ecuadorian Development Bank made a total of U.S.\$124.24 million in disbursements to Ecuador's Autonomous Decentralized Governments.

The Republic is not currently under a structural agreement, such as a stand-by or similar agreement, with the IMF or similar international multilateral institutions. The Executive Board of the IMF approved a disbursement of approximately U.S.\$364 million for the Republic under the IMF Rapid Financing Instrument. The financial

support was granted to the Republic in order to make up for financial shortfalls and finance reconstructions resulting from the Pedernales Earthquake. IMF announced the financial support on July 8, 2016 through a press release. The IMF disbursed the U.S.\$364 million loan in a single, upfront disbursement with no conditionality.

As of December 31, 2017, Ecuador's International Reserves totaled U.S.\$2,451.1 million a decrease compared to December 31, 2016 when International Reserves totaled U.S.\$4,258.9 million. The decrease in International Reserves during the 12-month period ending in December 31, 2017 compared to the period ending in December 31, 2016 was mainly due to a decrease in investments, term deposits and securities. As of June 30, 2018, Ecuador's International Reserves totaled U.S.\$3,166.7 million, a decrease from June 30, 2017 when International Reserves totaled U.S.\$4,467.2 million. The decrease in International Reserves during the 12-month period ending in June 30, 2018 compared to the period ending in June 30, 2017 was due to was mainly due to a decrease in investments, term deposits and securities.

On July 8, 2016, the Executive Board of the IMF concluded its annual Article IV consultation with Ecuador. On September 2016, the IMF published a staff report completed on July 1, 2016, following discussions with Government officials on economic developments and policies underpinning the IMF arrangement under the IMF Rapid Financing Instrument. On November 2017, an IMF delegation comprised of the IMF's Director of the Western Hemisphere Department and the Mission Chief for Ecuador visited Quito to meet and discuss with Government officials economic policies and priorities for the country. The Minister of Economy and Finance stated that the meeting was not held to seek emergency funding from the IMF. From June 20 to July 4, 2018, an IMF delegation under the leadership of Anna Ivanova had meetings to discuss economic developments with Government officials as part of the annual Article IV consultation with Ecuador. The discussions concluded on July 4, 2018 and included topics such as technical support to authorities on the statistical presentation of debt, which is currently under review after the CGR Audit Report recommended the repeal of Decree 1218 with respect to the calculation of the total public debt to GDP ratio for purposes of being able to ascertain the actual value of total public debt and determine if the latter has surpassed the legal limit of 40% debt to GDP set out in Article 124 of the Public Planning and Finance Code. Based on the preliminary findings of the IMF mission, IMF staff will prepare an Article IV report. See "The Republic of Ecuador – Memberships in International Organizations and International Relations–International Organizations."

On January 8, 2016, the Central Bank issued U.S.\$200 million in bonds governed by Ecuadorian law. The bonds were issued to several of Ecuador's municipalities as payment for value added tax amounts owed to the municipalities by the Ministry of Economy and Finance as well as for payment to third party contractors with which Ecuador had accounts payable.

As of October 23, 2017, the Ministry of Economy and Finance stated that on January 16, 2017, it entered into payment agreements for around U.S.\$786 million in *Títulos del Banco Central* ("Central Bank Certificates") with representatives of the Autonomous Decentralized Governments to arrange for payment of the amounts owed to them.

On November 24, 2016, the Monetary and Financial Policy and Regulation Board issued Resolution No. 302-2016-F amending Resolution No. 273-2016-F by increasing from 2% to 5% the reserves that financial institutions with more than U.S.\$1.0 billion in assets are required to hold at the Central Bank. This resolution is expected to reduce the liquidity of these financial institutions' Central Bank deposits by approximately U.S.\$809 million.

Financial Sector

Supervision of the Financial System

The financial sector consists of various financial institutions, insurance companies, and the securities markets, in accordance with the Monetary and Financial Law. In accordance with the Monetary and Financial Law, the Committee of Monetary and Financial Policy Regulation regulates (1) all private sector financial institutions including banks and credit card issuers, (2) public sector and private financial institutions, with respect to their

solvency, liquidation, financial prudence and other administrative matters, (3) insurance and re-insurance companies, and (4) the securities markets. In addition, the Committee of Monetary and Financial Policy Regulation provides general oversight and regulation for the financial system, including the Central Bank, the Superintendent of Banks, COSEDE, the Liquidity Fund, and private banks.

The Ecuadorian financial system is composed of the Central Bank, private commercial banks, cooperative banks, and several state development and state-owned banks.

The Monetary and Financial Law permits the establishment of universal banks (banks that can offer all types of banking services), and provides for the equal treatment of foreign and domestic financial institutions. Ecuadorian financial institutions may, with authorization from the Superintendent of Banks, establish foreign offices and invest in foreign financial institutions. Foreign subsidiaries of Ecuadorian financial institutions must also conform to the guidelines established by the Monetary and Financial Law, in order to promote prudent banking and investment policies, and ensure financial solvency. Each year, external auditors must provide opinions regarding capital adequacy, concentration of loans, interested debtors, and asset classifications on both unconsolidated and consolidated bases for all banks. The Republic has structured its guidelines under the Monetary and Financial Law so as to be consistent with the banking supervision guidelines established by the Basel Committee on Banking Supervision.

The Monetary and Financial Law designates the Superintendent of Banks as the principal regulatory authority for the Republic's financial system. The Superintendent of Banks is tasked primarily with prudential matters including capital adequacy, liquidity earnings, management risks, and the solvency and risk asset quality of financial institutions.

The Monetary and Financial Law creates the Committee of Monetary and Financial Policy Regulation to oversee and regulate the execution of monetary, foreign exchange, financial, insurance, and securities policies of the country. The committee replaces existing regulatory bodies, and also serves as an overall supervisory body to oversee the activities of the Republic's financial entities, including supervisory agencies such as the Superintendent of Banks. The committee is comprised of delegates from Ecuador's Ministry of Economy and Finance, the Ministry of Production and Industrialization, the National Secretary of Planning and Development, the Ministry of Economic Policy, and a delegate appointed by the President. Among the principal functions of the committee are:

- the oversight and monitoring of the liquidity requirements of Ecuador's financial system, with the objective of ensuring that liquidity remains above certain levels (to be determined by the Committee of Monetary and Financial Policy Regulation);
- the auditing and supervision of the Central Bank and Superintendent of Banks;
- the establishment of regulations for the Republic's electronic payment system; and
- the oversight of borrowing requirements for private loans.

Since the crisis in the banking system during the late 1990s, during which a number of banks became insolvent, the Superintendent of Banks has worked to improve banking supervision standards. Since 2001, the Superintendent of Banks has reformed the regulatory framework for banking supervision.

As part of the reforms, the Superintendent of Banks implemented measures that included the following:

- Programs for regulatory on-site audits and periodic reporting requirements. These are published in national newspapers, with the intention of ensuring that banks comply with regulatory standards;
- Uniform accounting risks for the financial system;
- Liquidity risk, which derives from the incapacity of financial institutions to cover their liabilities and other obligations when due, in both local and foreign currency;

- Evaluation of market risk based on interest rate risk, which refers to the potential losses of net income or in the capital base, due to the incapacity of the institution to adjust the return on its productive assets (loan portfolio and financial investment) with the fluctuations in the cost of its resources produced by changes in interest rates; and
- Evaluation of credit risk based on a detailed method for classifying financial assets in terms of risk.

This method increased the amounts which financial institutions are required to reserve in order to mitigate potential losses arising from their loans (“Loan-loss Reserve”). With respect to Loan-loss Reserve, current regulations impose reserve requirements based on risk categories and type of financial assets. These requirements have been introduced to bring them in line with international standards, and to increase the average quality of the financial system’s loan portfolio. As of the date of this Supplement, the majority of banks in Ecuador are in compliance with Basel II. As of the date of this Supplement, no time limit exists for banks in Ecuador to become compliant.

The following table sets forth information regarding the risk categories and Loan-loss Reserve requirements currently in force pursuant to Resolution No. 209-2016-F, of February 12, 2016 promulgated by the Committee of Monetary and Financial Policy and most recently updated by Resolution No. 358-2017-F, of April 28, 2017.

Risk Categories and Required Loan-loss Reserve

(in number of days past due, except for percentages)

Category ⁽¹⁾	Commercial ⁽²⁾	Consumer	Mortgage	Small Business ⁽³⁾	Loan-loss Reserve
A1	0	0	0	0	1%
A2	1-15	1-8	1-30	1-8	2%
A3	16-30	9-15	31-60	9-15	3% - 5%
B1	31-60	16-30	61-120	16-30	6% - 9%
B2	61-90	31-45	121-180	31-45	10% - 19%
C1	91-120	46-70	181-210	46-70	20% - 39%
C2	121-180	71-90	211-270	71-90	40% - 59%
D	181-360	91-120	271-450	91-120	60% - 99%
E	+360	+120	+450	+120	100%

Source: Superintendent of Banks as of June 2018.

- (1) Ecuador subdivides Categories A, B, and C into sub-categories. However, categories in chart are simplified for ease of presentation.
- (2) For commercial loans, in addition to the number of days due, three factors are considered for classification among risk categories: (a) debtor payment capacity and financial situation; (b) experience of payment (risk information from the system, debtor’s credit history); and (c) risk of the economic environment.
- (3) Classified, with respect to (a) retail microcredit, as loans up to U.S.\$1,000, (b) microcredit simple accumulation, as loans from U.S.\$1,000 to U.S.\$10,000, and (c) microcredit extended accumulation, as loans in excess of U.S.\$10,000. Persons with annual sales equal to or less than U.S.\$100,000, or groups of lenders guaranteeing or financing small scale production or commercialization are eligible for microcredit loans.

The following table sets forth information regarding loans of the banking system by risk category as of April 30, 2018.

Classification of Aggregate Assets of the Ecuadorian Private Financial System ⁽¹⁾
(as a % of total loans)

As of April 30, 2018				
Category	Commercial loans	Consumer loans	Mortgage loans	Small business
A	76.96	93.82	96.37	94.19
B	17.39	1.92	1.62	1.42
C	4.77	1.38	0.36	1.0
D	0.31	0.49	0.71	0.40
E	0.57	2.39	0.94	2.99
Total	100	100	100	100

Source: Superintendent of Banks as of April 2018. Based on data from private banks.

(1) As of July 23, 2018, Banks must hold 60% of total liquidity in Ecuador.

The Financial Safety Net

Former President Correa's administration determined that the financial safety net in place when he took office was insufficient, as there was no lender of last resort. In many countries, the central bank acts as the lender of last resort. Due to Ecuador's Dollarization Program, however, the Republic's lending capacity was limited to the *Fondo de Liquidez del Sistema Financiero Ecuatoriano* ("Liquidity Fund"). Former President Correa's administration believed that the lack of a strong lender of last resort increased the risks to the financial system, and decreased liquidity within the system.

In light of these perceived deficiencies, the Government passed the Financial Safety Net Law in December 2008. The new law created a four-tiered framework for the banking sector. These four tiers are described below.

Lender of Last Resort

In accordance with the Financial Safety Net Law, this was designed to strengthen the Liquidity Fund, the Liquidity Fund acts as the lender of last resort for private financial institutions. As of December 31, 2017, the Liquidity Fund consisted of approximately U.S.\$2,625.14 million, an increase compared with December 31, 2016, when the Liquidity Fund amounted to U.S.\$2,457.57 million. Of the U.S.\$2,625.14 million in the Liquidity Fund at the end of December 31, 2017, U.S.\$2,517.22 million corresponded to private financial institutions and U.S.\$107.92 million corresponded to popular and solidarity financial institutions consisting of segments from society including the community, voluntary, and cooperative sectors. Factors contributing to this increase included contributions from private, popular and solidarity financial institutions. As of March 31, 2018, the Liquidity Fund consisted of approximately U.S.\$2,746.37 million, an increase of U.S.\$121.23 million compared with December 31, 2017, when the Liquidity Fund amounted to U.S.\$2,625.14 million. Of the U.S.\$2,746.37 million in the Liquidity Fund at the end of March 31, 2018, U.S.\$2,602.80 million corresponded to private financial institutions and U.S.\$143.57 million corresponded to popular and solidarity financial institutions. Factors contributing to this increase were increases in deposits subject to lace. The Liquidity Fund is overseen by the Superintendent of the Banks and administered by the Central Bank. The assets of the Liquidity Fund are subject to sovereign immunity and cannot be subject to attachment of any kind.

Banking Resolution System

The second tier of the Financial Safety Net Law is the creation of a banking resolution scheme called *Exclusión y Transferencia de Activos y Pasivos* ("Exclusion and Transfer of Assets and Liabilities" or "ETAP"). Under ETAP, healthier labor contingencies, deposits and assets can be excluded from the balance sheet of a troubled banking institution and transferred to a newly created entity or to one or more healthier banking institutions. This policy is intended to separate good assets from non-performing assets and create an efficient and orderly banking resolution process.

Deposit Insurance

The third tier of the Financial Safety Net Law consists of the establishment of COSEDE. The COSEDE is the successor to the Deposit Guarantee Agency, which was previously responsible for insuring the accounts of

depositors in Ecuador's banking systems. In December 1998, the AGD was created as a response to the banking crisis by the *Ley de Reordenamiento en Materia Económica en el Área Tributario-Financiera* ("Law Reorganizing Economic Matters in the Tax and Finance Areas"). The AGD had a dual role: to oversee the amounts the Republic deposited with the Central Bank in order to protect depositors, and to help restructure banks in liquidation.

In December 2009, the AGD closed. The net assets of the AGD were then temporarily transferred to the Ministry of Economy and Finance and to COSEDE and thereafter transferred to the Corporación Financiera Nacional (the "CFN"), a separate Government institution. The Deposit insurance administered by COSEDE had assets of U.S.\$453 million, U.S.\$622 million, U.S.\$798 million, U.S.\$1,009 million, U.S.\$1,236 million as of December 31, 2011, December 31, 2012, December 31, 2013, December 31, 2014, and December 31, 2015, respectively. As of December 31, 2016, COSEDE had assets of U.S.\$1,410 million. As of December 31, 2017, COSEDE had assets corresponding to its administration of deposit insurance funds from various financial institutions of U.S.\$1.678 million, an increase from U.S.\$1.452 million as of December 31, 2016. As of May 31, 2018, COSEDE had assets corresponding to its administration of deposit insurance funds from various financial institutions of U.S.\$1.779 million, an increase from U.S.\$1.542 million as of May 31, 2017.

In accordance with the Financial Safety Net Law, and Resolution JB-2009-1280, COSEDE administers the private financial institutions insurance deposit system, which does not include any public banking institution. COSEDE insures deposits of up to U.S.\$32,000 per account, whereas the AGD guaranteed accounts with public resources without limit. Pursuant to the Financial Safety Net Law, banks are required to contribute to COSEDE an amount determined annually in accordance with the total amount of deposits held. Under the Monetary and Financial Law, deposits in the COSEDE are subject to sovereign immunity and cannot be subject to attachment of any kind.

Superintendent of Banks

Under the fourth tier of the Financial Safety Law, the Superintendent of Banks is authorized to increase the capital and reserves requirement of banking institutions.

The Financial System

The following table sets forth, by type, the number of financial institutions in the Ecuadorian financial system for the periods indicated.

	Number of Financial Institutions					As of May 31,	
	As of December 31,					2017	2018
	2013	2014	2015	2016	2017		
Banks	26	24	22	23	24	23	24
National banks	25	23	21	22	23	22	23
Private	24	22	20	21	22	21	22
Government-owned banks	1	1	1	1	1	1	1
Foreign banks	1	1	1	1	1	1	1
Other financial entities	57	54	41	37	32	37	37
Savings and loans associations ⁽¹⁾	39	37	24	25	25	25	30
Small lending institutions	4	4	4	4	4	4	4
Financial institutions	10	9	10	5	0	5	0
Public banks	4	4	3	3	3	3	3
Insurance companies	44	40	39	n/a	n/a	n/a	n/a
Insurance companies	42	38	37	n/a	n/a	n/a	n/a
Reinsurance companies	2	2	2	n/a	n/a	n/a	n/a
Credit-card issuing entities	2	2	1	0	n/a	n/a	n/a
Total	129	120	103	60	56	60	61

Source: Superintendent of Banks as of May 2018.

- (1) Savings and Loans Associations include the *Cooperativas de Ahorro y Credito de Primer Piso, del Segmento 1*. On February 13, 2015, the Committee of Monetary and Financial Policy passed Resolution 038-2015-F, which set out parameters for the division of savings and loans associations into 5 categories, setting the minimum threshold for inclusion in Category 1 at entities with assets above U.S.\$80 million. This threshold will be reviewed by the Committee of Monetary and Financial Policy Regulation on an annual basis.
- (2) Information with respect to Insurance Companies is not available for December 31, 2016, May 31, 2017, December 31, 2017, and May 31, 2018 and is not included in the total number of financial institutions as of such dates.

Banking System

Overview

As of December 31, 2017, the Ecuadorian banking system had a total of 24 banking institutions, of which one was a foreign bank operating in Ecuador and one was a state-owned commercial bank. The decrease in the total amount of banking institutions and other financial entities, excluding insurance companies, from 64 in 2015 to 61 in 2016 in the above chart reflects a decrease in the number of financial institutions. Total assets of the banking system increased from U.S.\$30.7 billion in 2013 to U.S.\$33.6 billion in 2014. As of December 31, 2016, total assets for the banking system totaled U.S.\$35.6 billion, an increase of 15.3% compared to the U.S.\$30.9 billion since December 31, 2015. This increase in total assets is due to an increase in available funds of U.S.\$2.2 billion in 2016. As of December 31, 2017, total assets for the banking system totaled U.S.\$39 billion, an increase of 9.5% since December 31, 2016. Total assets of the banking system increased from U.S.\$35.1 billion in May 31, 2017 to U.S.\$38.8 billion in May 31, 2018, an increase of 10.4%. This increase was principally due to an increase in the net loan portfolio of U.S.\$4.41 billion.

The following table sets forth the total assets of the Ecuadorian private banking sector and the percentage of non-performing loans over total loans.

Banking System

	As of December 31,					As of May 31,	
	2013	2014	2015	2016	2017	2017	2018
Total assets (in billions of U.S. dollars)	30.7	33.6	30.9	35.6	39.0	35.1	38.8
Non-performing loans (as % of total loans)	1.18%	1.33%	1.45%	1.34%	1.21%	1.26%	1.24%

Source: Superintendent of Banks as of May 2018.

The following table sets forth deposit information for the private banking system on the dates indicated.

Private Bank Deposits
(in millions of U.S.\$, except for percentages)

	<u>Demand Deposits</u>	<u>Time Deposits</u>	<u>Total Time and Demand Deposits⁽¹⁾</u>	<u>Annual growth rate of Time and Demand Deposits</u>
December 31, 2013.....	17,619	6,631	24,251	11%
December 31, 2014.....	19,014	7,861	26,875	11%
December 31, 2015.....	15,889	7,402	23,291	-13%
December 31, 2016.....	19,166	8,309	27,475	18%
December 31, 2017.....	19,912	9,440	29,352	7%
May 31, 2017.....	18,847	8,178	27,025	12%
May 31, 2018.....	19,033	9,963	28,996	7%

Source: Superintendent of Banks as May 2018.

(1) Total does not include reported operations, guarantee deposits and restricted deposits.

Banking deposits, primarily composed of demand deposits and time deposits, constitute the principal source of financing for the banking system. From December 31, 2013 through December 31, 2016, total time and demand deposits increased 13.3%, from U.S.\$24,251 million to U.S.\$27,475 million. As of December 31, 2017, time and demand deposits totaled U.S.\$29,352 million, an increase of 6.8% since December 31, 2016. This increase is due to a significant growth in time deposits. The majority of funding for the Ecuadorian banking system is comprised of demand deposits, which increased 8.8% from U.S.\$17,619 million in 2013 to U.S.\$19,166 million in 2016. As of December 31, 2017, demand deposits totaled U.S.\$19,912 million, an increase of 3.9% since December 31, 2016. Time deposits increased 25.3% from U.S.\$6,631 million in 2013 to U.S.\$8,309 million in 2016. As of December 31, 2017, time deposits totaled U.S.\$9,440 million, an increase of 13.6% since December 31, 2016. As of May 31, 2018, total time and demand deposits increased to U.S.\$28,996 million, an increase of 7.29% compared to May 31, 2017. This increase was principally due to accounting for the deposits of the new bank “Banco Diners” which contributed to a 3.47% growth in time and demand deposits out of the 7.29% total growth mainly driven by time deposits; an increase in demand deposits of: Banco Guayaquil which contributed to a 0.82%; Banco Pichincha which contributed to a 0.74%; Banco Pacífico which contributed to a 0.63% and Banco Produbanco which contributed to a 0.59% growth in time and demand deposits out of the 7.29% total growth.

Foreign banks and financial institutions are also a source of liquidity in the Ecuadorian banking system. As of December 31, 2017 the balance of foreign liabilities in the banking sector amounted to approximately U.S.\$564 million, which is an increase from the balance of foreign liabilities in December 31, 2016, which was U.S.\$506 million. As of May 31, 2018, the balance of foreign liabilities in the banking sector amounted to approximately U.S.\$519 million, which is an increase of 9.89% from the balance of foreign liabilities in May 31, 2017, which was U.S.\$472 million.

The following table sets forth information regarding the principal sources of financing with respect to total liabilities as of the dates indicated.

Classification of the Main Financing Accounts with Respect to Liabilities

	(as % of total liabilities)		
	Demand deposits	Time deposits	Foreign financing
December 31, 2013	63	22	2
December 31, 2014	62	26	2
December 31, 2015	58	27	5
December 31, 2016	60	26	5
December 31, 2017	57	27	5
May 31, 2017	60	26	5
May 31, 2018	55	25	5

Source: Superintendent of Banks as of May 2018.

The following table sets forth information regarding the allocation of principal asset accounts, with respect to total assets of the banking system as of the dates indicated.

Allocation of the Principal Asset Accounts with Respect to Total Assets of the Banking System

	(as a % of total assets)	
	Portfolio of current loans	Investments
December 31, 2013	52.6	13.9
December 31, 2014	54.7	14.0
December 31, 2015	56.7	14.4
December 31, 2016	53.4	14.4
December 31, 2017	58.7	14.7
May 31, 2017	56.4	17.2
May 31, 2018	62.5	14.5

Source: Superintendent of Banks as of May 2018.

As of December 31, 2017, the banking system represented 81.93% of the total assets of the private financial system. The banking system, for the year ended December 31, 2017, made a profit of U.S.\$396 million, which according to data from the Superintendent of Banks represented 0.39% of Ecuador's nominal GDP and an increase compared to U.S.\$222 million as of December 31, 2016. The banking system strengthened between 2016 and 2017, and its assets expanded by 9.5% due to an increase in the net loan portfolio.

As of May 31, 2018, the banking system represented 79.99% of the total assets of the private financial system. For the period from January 31, 2017 to May 31, 2017, the banking system made a profit of U.S.\$131 million which decreased to U.S.\$129 million for the period from January 31, 2018 to May 31, 2018. The assets of the banking system increased by 9.5% between December 31, 2016 and December 31, 2017. The assets of the banking system increased by 10.4% between May 31, 2017 and May 31, 2018 due to an increase in the net loan portfolio of U.S.\$4.41 billion.

Ecuador's banks use their resources primarily to extend loans. Between 2013 and 2017, the Ecuadorian banking system's total loan portfolio increased by U.S.\$7.06 billion (42.02%) and past due loans increased by U.S.\$280 million (62.50%). Financial entities may not carry out active and contingent operations with the same natural or legal person for an amount that exceeds, in aggregate, 10% of the technical equity of the entity. This limit will be raised to 20% if what exceeds 10% corresponds to obligations secured by guarantee. In no case may the appropriate guarantee have a value lower than the total value of the excess. The set of operations of the previous subparagraph may not in any case exceed two hundred percent (200%) of the patrimony of the subject of credit, unless there are adequate guarantees that cover, in excess of at least one hundred and twenty percent (120%).

The following table identifies the loans made to the private sector from the private banking sector, and the deposits of the private banking sector as of the dates indicated.

Loans to the Private Sector and Private Bank Deposits
(in millions of U.S.\$)
As of May 31, 2018

Loans		Deposits	
Commercial, Productive and Consumer Loans	21,824	Demand Deposits	19,033
Microenterprise Loans	1,603	Time Deposits.....	9,963
Education Loans	433	Guarantee Deposits	2
Real Estate and Public Housing Loans	2,174	Others	1,312
Total	26,034	Total	30,309

Source: Superintendent of Banks as of May 2018.

The following table sets forth information regarding the banking system's loan portfolio as of the dates indicated.

Banking System Loan Portfolio Balances
(in millions of U.S.\$, except for percentages)

	Current loans	Past-due loans ⁽¹⁾	Total loan portfolio	Current loans as a percentage of the total loan portfolio	Past-due loans as a percentage of the total loan portfolio
December 31, 2013	16,810	448	17,258	97.4%	2.6%
December 31, 2014	19,087	565	19,652	97.1%	2.9%
December 31, 2015	18,086	687	18,773	96.3%	3.7%
December 31, 2016	19,654	721	20,375	96.5%	3.5%
December 31, 2017	23,873	728	24,601	97%	3%
May 31, 2017	20,492	764	21,256	96.4%	3.6%
May 31, 2018	25,206	827	26,034	96.8%	3.2%

Source: Superintendent of Banks as of May 2018.

(1) Past-due loans are classified by economic sector. Commercial past-due loans are classified as loans 31 days overdue, consumer past-due loans are classified as loans 16 days overdue, real estate past-due loans are classified as loans 61 overdue, and microcredit past-due loans are classified as loans 16 overdue. Non-interest generating loans are also included in past-due loans.

The delinquency rate increased to 2.8% in 2012 from 2.2% in 2011 as a result of an increase in consumer past-due loans which increased from U.S.\$175 million in 2011 to U.S.\$293 million in 2012. However the rate decreased to 2.6% in 2013 due to reduction in past-due loans of the commercial sector, which decreased to U.S.\$284 million. In 2014, the delinquency rate increased to 2.9%, as a result of the increase in delinquency rates in consumer credits from 4.7% to 5.5%. In 2015, the delinquency rate increased to 3.7% due to the increase in delinquency rates in commercial credits from 12.7% to 14.3% as well as the decrease in the total loan portfolio. In 2016, the delinquency rate on loans from the private banking sector decreased to 3.5% as a result of a U.S.\$166.2 million decrease in the delinquency rate on consumer loans. In 2017, the delinquency rate on loans from the private banking sector decreased to 3%. As of May 31, 2018, the delinquency rate decreased to 3.2% compared to the 3.6% delinquency rate as of May 31, 2017. This decrease is principally due to an increase of 8.26% in past-due loans, while the total gross loan portfolio increased by 22.48% as a result of an increase in the income of borrowers which decreased payment delays. As of May 31, 2018, 49.6% of all current loans were commercial, 34.4% were consumer, 8.3% were housing, 6.0% were microcredit and 1.6% were education related.

As of May 31, 2018 banking deposits, including guarantee deposits and restricted deposits, totaled U.S.\$30,309 million, an increase from the U.S.\$28,246 million as of May 31, 2017. Total current loans to the private sector from the private banking sector increased from U.S.\$20,492 million as of May 31, 2017 to U.S.\$25,206 million as of May 31, 2018.

The following table sets forth information regarding the number of past-due loans in different sectors of the economy as of the dates indicated.

Past due loans by sector of the economy (in millions of U.S.\$, and as a percentage of past due loans)														
	As of December 31,										As of May 31,			
	2013		2014		2015		2016		2017		2017		2018	
	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%
Commercial	65	14.5	72	12.7	98	14.3	117	16.2	114	15.6	144	18.9	131	15.9
Consumer	284	63.4	383	68.0	438	63.7	428	59.3	448	61.6	433	56.6	500	60.4
Real estate	27	6.0	31	5.3	39	5.6	59	8.1	61	8.4	67	8.7	75	9
Microcredit	72	16.1	79	13.8	90	13.1	97	13.5	79	10.9	93	12.2	85	10.3
Education ⁽¹⁾	-	-	-	-	22	3.2	20	2.8	21	2.9	27	3.5	28	3.4
Total	448	100	565	100	687	100	721	100	728	100	764	100	827	100

Source: Superintendent of Banks as of May 2018.

- (1) The education loan portfolio that was previously administered by the *Instituto Ecuatoriano de Crédito Educativo y Becas* (IECE) was transferred to the banking system in February of 2015.

Banking Sector

The first, second and third largest banks in Ecuador are Banco del Pichincha, Banco del Pacífico and Produbanco, respectively. As of December 31, 2017, the three banks accounted for about 45.9% of the reported combined income and 52.2% of Ecuador's banking assets. Return on equity for these three banks averaged 13.6% for 2017, an increase of 6.5% compared to 2016, while net profit increased from U.S.\$116 million in 2016 to U.S.\$182 million in 2017.

Banco del Pacífico is 100% owned by the Republic, having been taken over from private shareholders during the banking crisis in 1999 and its shares transferred to the Central Bank. During 2010 and 2011 there had been discussions relating to the re-privatization of Banco del Pacífico, however, these plans were abandoned in 2011 when ownership was transferred from the Central Bank to CFN. As of December 31, 2017, Banco del Pacífico had approximately U.S.\$5,452 million in assets. Its profits increased in 2017 when compared to 2016 from U.S.\$40.00 million in 2016 to U.S.\$70.23 million in 2017. As of May 31, 2018, Banco del Pacífico had approximately U.S.\$5,508 million in assets. According to the Superintendent of Banks, Banco del Pacífico's profits were U.S.\$40.6 million for the period from January 31, 2018 to May 31, 2018.

Pacific National Bank was Banco del Pacífico's U.S. subsidiary, based in Miami. Pacific National Bank had approximately U.S.\$355 million in assets, including U.S.\$154 million in loans (mostly commercial real estate), U.S.\$163 million in securities and U.S.\$3.6 million in repossessed property. In 2011, the bank was fined U.S.\$7 million by U.S. banking regulators for violations of the U.S. Bank Secrecy Act ("BSA") and anti-money laundering laws. In 2012, the Federal Reserve Bank of the United States placed Banco del Pacífico's shares in Pacific National Bank under the control of a trustee and ordered the sale of the shares to a third party. According to the regulatory consent order transferring the shares to the trustee, the share transfer to the trustee and sale are not related to the violations of the BSA, but due to the transfer of ownership of Banco del Pacífico from the Central Bank to CFN in 2011, which according to U.S. banking regulations does not qualify as a holding company for a U.S. chartered bank. On October 21, 2013, the shares were sold to a group of private investors.

According to the Superintendent of Banks, as of June 30, 2018, approximately 1.88 % of the profits in the banking sector came from Citibank N.A. Ecuador Branch, which on that date was the only foreign bank operating in Ecuador.

In March 2013, Banco Territorial S.A, one of the oldest banks in Ecuador with assets of U.S.\$135 million, entered a liquidation process one week after its operations were suspended. Banco Territorial primarily provided services to small and medium-sized companies in Guayaquil and had approximately 79,000 depositors, with total deposits of approximately U.S.\$122 million, or less than 1% of the total deposits in the private banking sector in

Ecuador. As of December 31, 2015, COSEDE had paid U.S.\$54.4 million to depositors, which represented the total amount owed to depositors.

In August 2014, the Superintendent of Banks formally announced that Banco Sudamericano S.A. will undergo a forced liquidation process due to a failure to meet adequate solvency and liquidity requirements. As of the date of this Supplement, the liquidator of Banco Sudamericano S.A. named by the Superintendent of Banks is considering the sale of its assets to use the proceeds to pay the debt owed to its creditors. Banco Sudamericano S.A. owned 0.55% of the total assets in the Ecuadorian banking system. As of December 31, 2016, COSEDE had paid U.S.\$1.77 million to depositors and a formal liquidator was appointed. The liquidation process has been delayed due to the lack of information on certain accounts which is making it difficult to regularize its financial statements.

On October 11, 2014, Promerica Financial Corporation, a Nicaraguan banking conglomerate with operations in Ecuador, acquired Banco de la Producción Produbanco S.A., an Ecuadorian banking entity. At the time of the merger, Banco de la Producción Produbanco S.A. represented 9.5% of the Ecuadorian banking system, with U.S.\$3,028 million in assets, while Promerica Financial Corporation represented 2.8% of the banking system with assets of U.S.\$843.5 million.

In June 2016, the Superintendent of Banks announced that Proinco Sociedad Financiera S.A., a financial institution focusing on mortgage lending and micro-loans with approximately U.S.\$42 million dollars in assets, would be liquidated as a result of its failure to comply with the relevant laws and regulations, including certain solvency requirements.

Cooperative Banks

In 2008, the Correa administration created the *Programa de Finanzas Populares* (“Program for Public Finance”) to expand lending to smaller financial cooperatives, in order that they could increase lending to small businesses. These cooperatives extend micro-loans to individuals and businesses that could otherwise not obtain loans from commercial banks. In January 2008, cooperative loans were at 11.1% of total non-publicly owned bank lending. As of December 31, 2015, cooperative loans totaled U.S.\$4,301 million. As of December 2017, cooperative loans totaled U.S.\$5,295 million.

On February 13, 2015, the Committee of Monetary and Financial Policy passed Resolution 038-2015-F, which sets forth rules relating to the division of the savings and loan association sector as follows:

- Category 1: entities with assets above U.S.\$80 million;
- Category 2: entities with assets between U.S.\$20 million to U.S.\$80 million;
- Category 3: entities with assets between U.S.\$5 million to U.S.\$20 million;
- Category 4: entities with assets between U.S.\$1 million to U.S.\$5 million; and
- Category 5: entities with assets below U.S.\$1 million.

The threshold for Category 1 will be reviewed by the Committee of Monetary and Financial Policy Regulation on an annual basis. The additional four categories are set without further review by the Committee of Monetary and Financial Policy Regulation. Additional regulations applicable to each segment will be promulgated by the *Superintendencia de Economía Popular y Solidaria* (the “Superintendent of the Popular Economy”, or “SEPS”).

Capital Markets

Most of the trading on Ecuador’s capital markets involves the purchase and sale of bank securities and fixed income Government securities. Between 2012 and 2016, Ecuador experienced an increase in the issuance of corporate bonds. They have become an important financing alternative for companies and issuers that want longer

terms than those available through bank loans. The Ecuadorian capital markets consist of the Quito Stock Exchange and the Guayaquil Stock Exchange (the “Ecuadorian Stock Exchanges”), both opened in 1969. As of May 2018, the Ecuadorian Stock Exchanges combined listed the securities of approximately 397 issuers.

Issuers that subscribe to one exchange automatically become listed on the other exchange.

The Ecuadorian capital markets are regulated by the *Ley de Mercado de Valores* (“Capital Markets Law”) and the Law to Strengthen and Optimize the Corporate and Securities Sector. Under these laws, the Ecuadorian Stock Exchanges are supervised by the *Superintendencia de Compañías, Valores y Seguros* (the “Superintendent of Companies, Securities and Insurance”) while the Committee of Monetary and Financial Policy is responsible for formulating the general securities policies of the Ecuadorian capital markets and for providing general oversight of the securities markets.

As of December 31, 2016, U.S.\$1,269.9 million worth of securities were traded in the secondary market, representing 15.2% of the Ecuadorian securities market. Repo trading represented 0.17% of the total market. As of December 31, 2017, U.S.\$1,442.1 million worth of securities were traded in the secondary market, representing 21.8% of the Ecuadorian securities market. Repo trading represented 0.67% of the total market.

As of June 30, 2018, U.S.\$636.37 million worth of securities were traded in the secondary market, representing 19% of the Ecuadorian securities market. Repo trading represented 0.38% of the total market.

Aggregate Amounts of Traded Securities

(in millions of U.S. dollars)

	As of December 31,					As of May 31	
	2013	2014	2015	2016	2017	2017	2018
Repos.....	168.1	203.3	23.0	14.2	44.6	10.0	9.8
Other ⁽¹⁾	3,554.2	7,340.8	5,023.8	8,318.5	6,578.2	2,316.9	2,768.9
Total	3,722.3	7,544.1	5,046.8	8,332.7	6,622.8	2,326.9	2,778.7

Source: *Bolsa de Valores de Quito* (“Quito Stock Exchange”).

(1) Includes Government securities, bank securities, and commercial paper, among others.

In 2016, U.S.\$8,332.7 million worth of securities were traded on the Ecuadorian Stock Exchanges, representing an increase compared to the U.S.\$5,046.8 million of the securities traded in 2015. This increase is due to a greater placement of investment certificates and government issues.

In 2017, U.S.\$6,622.8 million worth of securities were traded on the Ecuadorian Stock Exchanges, representing a decrease compared to the U.S.\$8,332.7 million of securities traded in 2016. This decrease is due to a decrease in the amount of investment certificates, capital coupons, certificates of deposit, central bank securities and commercial paper.

As of May 31, 2018, U.S.\$2,778.7 million worth of securities were traded on the Ecuadorian Stock Exchanges, representing an increase compared to the U.S.\$2,326.9 million of securities traded as of May 31, 2017. This increase is due to an increase in the amount of investment certificates, treasury certificates and certificates of deposit.

Interest Rates and Money Supply

In July 2007, the *Ley del Costo Máximo Efectivo del Crédito* (“Maximum Actual Credit Cost Law”) went into effect to establish a new system for the calculation of interest rates. The principal aspects of this law are:

- the prohibition on charging commissions for credit operations and pre-payments;
- the prohibition on imposing any fee that is not in the nature of compensation for the rendering of a service; and

- in December 2007, a change in the methodology for calculating the maximum interest rate of the Central Bank, whose methodology has since been declared unconstitutional, and has been further amended so that the maximum rate equals interest rates of credit operations of private financial institutions in each relevant sector, multiplied by an amount determined by the Central Bank.

In April 2015, Resolution 043-2015-F was published in the Official Gazette and became effective, establishing new categories of credits in the financial system, totaling 10. The purpose of this Resolution is to promote socially and environmentally responsible consumption, to encourage value generating investment and improve the efficiency of the financial system. The new categories of credit in the financial system include: productive credits, ordinary commercial credits, priority commercial credits, ordinary consumption credits, priority consumption credits, education credits, public interest housing credit, real estate credits, microcredits and public investment credits. Changes from the prior categorization include the following:

- “productive credits” are defined as those credits for which at least 90% of funds are dedicated to acquisition of capital goods, construction of infrastructure project and the purchase of industrial property rights;
- “consumer credits” are divided into “ordinary consumer loans,” for the acquisition or commercialization of light fossil fuel vehicles and “priority consumer loans,” dedicated to the purchase of goods or services or expenses not related to productive activity or ordinary commercial activity;
- “commercial credits” are defined as “ordinary commercial credits,” which are available to persons whose annual sales are higher than U.S.\$100,000.00 that acquire or commercialize light fossil fuel vehicles and “priority commercial credits,” which are available for the acquisition of goods and services for commercial and productive activities to persons whose annual sales are higher than U.S.\$100,000.00; and
- “education credits,” which are available to individuals and accredited institutions to finance education and vocational or technical training, were introduced.

In addition to the new categorization of credit, the Committee of Monetary and Financial Policy Regulation fixed the maximum interest rates for each of these categories through Resolution No. 044-2015-F.

The following table sets forth average deposit interest rates for the economy as a whole and average lending interest rates per sector for the periods shown.

Interest Rates
(in percentages)

	As of December 31,					As of May 31,
	2013	2014	2015	2016	2017	2018
Deposit interest rate.....	4.5	5.2	5.1	5.1	5.0	5.1
Lending interest rate.....	8.2	8.2	9.1	8.1	7.8	7.3
Corporate productive lending interest rate ⁽¹⁾	8.2	8.2	9.2	8.5	7.8	7.3
Maximum corporate productive interest rate.....	9.3	9.3	9.3	9.3	9.3	9.3
Business productive lending interest rate ⁽²⁾	9.5	9.6	9.8	9.8	8.9	9.8
Maximum business productive interest rate.....	10.2	10.2	10.2	10.2	10.2	10.2
Medium and small business productive lending interest rate ⁽³⁾	11.2	11.2	10.3	11.2	10.8	10.2
Maximum medium and small business productive interest rate.....	11.8	11.8	11.8	11.8	11.8	11.8
Ordinary commercial lending interest rate ⁽⁴⁾	n/a	n/a	9.0	9.4	8.0	7.9
Maximum commercial interest rate.....	n/a	n/a	11.8	11.8	11.8	11.8
Corporate commercial priority lending interest rate ⁽¹⁾	n/a	n/a	9.1	8.1	7.8	7.3
Maximum corporate commercial interest rate.....	n/a	n/a	9.3	9.3	9.3	9.3
Business commercial priority lending interest rate ⁽²⁾	n/a	n/a	9.9	9.9	9.9	9.6
Maximum business commercial interest rate.....	n/a	n/a	10.2	10.2	10.2	10.2
Medium and small business commercial priority lending interest rate ⁽³⁾	n/a	n/a	11.1	11.0	10.6	10.4
Maximum medium and small business commercial interest rate.....	n/a	n/a	11.8	11.8	11.8	11.8
Consumer lending interest rate ⁽⁵⁾	15.9	16.0	n/a	n/a	n/a	n/a
Maximum consumer interest rate.....	16.3	16.3	n/a	n/a	n/a	n/a
Ordinary consumer lending interest rate ⁽⁵⁾	n/a	n/a	16.2	16.8	16.7	16.6
Maximum Ordinary consumer interest rate.....	n/a	n/a	17.3	17.3	17.3	17.3
Priority consumer lending interest rate ⁽⁵⁾	n/a	n/a	16.0	16.7	16.5	16.7
Maximum priority consumer interest rate.....	n/a	n/a	17.3	17.3	17.3	17.3
Education lending interest rate ⁽⁶⁾	n/a	n/a	7.1	9.5	9.5	9.5
Maximum education interest rate.....	n/a	n/a	9.5	9.5	9.5	9.5
Housing lending interest rate.....	10.6	10.7	10.9	10.9	10.5	10.3
Maximum housing interest rate.....	11.3	11.3	11.3	11.3	11.3	11.3
Microcredit increased accumulation lending interest rate ⁽⁷⁾⁽⁸⁾	22.4	22.3	24.3	21.5	21.1	20.1
Maximum microcredit increased accumulation interest rate ⁽⁸⁾	25.5	25.5	25.5	25.5	25.5	23.5
Microcredit increased accumulation lending interest rate ⁽⁷⁾⁽⁹⁾	n/a	n/a	n/a	n/a	n/a	21.0
Maximum microcredit increased accumulation interest rate ⁽⁹⁾	n/a	n/a	n/a	n/a	n/a	25.5
Microcredit simple accumulation lending interest rate ⁽¹⁰⁾⁽⁸⁾	25.2	25.2	26.9	25.1	24.7	23.8
Maximum microcredit simple accumulation interest rate ⁽⁸⁾	27.5	27.5	27.5	27.5	27.5	25.5
Microcredit simple accumulation lending interest rate ⁽⁹⁾⁽¹⁰⁾	n/a	n/a	n/a	n/a	n/a	23.2
Maximum microcredit simple accumulation interest rate ⁽⁹⁾	n/a	n/a	n/a	n/a	n/a	27.5
Microcredit subsistence accumulation lending interest rate ⁽¹¹⁾⁽⁸⁾	28.8	28.6	29.0	27.3	27.4	26.9
Maximum microcredit subsistence accumulation interest rate ⁽⁸⁾	30.5	30.5	30.5	30.5	30.5	28.5
Microcredit subsistence accumulation lending interest rate ⁽⁹⁾⁽¹¹⁾	n/a	n/a	n/a	n/a	n/a	24.7
Maximum microcredit subsistence accumulation interest rate ⁽⁹⁾	n/a	n/a	n/a	n/a	n/a	30.5

Source: 2014 and 2013 deposit and lending interest rates based on Central Bank March 2016 Monthly Bulletin (Table 1.10.1). Other 2014 and 2013 figures based on Central Bank March 2016 Monthly Bulletin (Table 1.10.2).

2015 and 2016 deposit and lending interest rates based on Central Bank February Monthly Bulletin (Table 1.10.1). Other 2015 and 2016 figures based on Central Bank October 2016 Monthly Bulletin (Table 1.10.2).

2017 deposit and lending interest rates based on Central Bank December Monthly Bulletin (Table 1.10.1). Other 2017 figures based on Central Bank December 2017 Monthly Bulletin (Table 1.10.2).

2018 deposit and lending interest rates based on Central Bank June 2018 Monthly Bulletin (Table 1.10.1) Other 2018 figures based on Central Bank June 2018 Monthly Bulletin (Table 1.10.2).

- (1) "Corporate lending rate" is the rate provided to businesses whose annual sales exceed U.S.\$5,000,000.00.
- (2) "Business lending rate" is the rate provided to businesses whose annual sales equal or exceed U.S.\$1,000,000 up to U.S.\$5,000,000.00.
- (3) "Medium and small business lending rate" is the rate provided to businesses whose annual sales equal or exceed U.S.\$1,000,000 up to U.S.\$5,000,000.00.
- (4) "Ordinary commercial lending rate" is the rate provided to businesses whose annual sales exceed U.S.\$100,000.00 that acquire or commercialize light fossil fuel vehicles.
- (5) In 2015 consumer credits were divided into "ordinary consumer credits," for the acquisition or commercialization of light fossil fuel vehicles and "priority consumer credits," dedicated to the purchase of goods or services or expenses not related to productive activity or ordinary commercial activity.
- (6) "Education lending rate" is the rate provided to individuals for development of human capital by accredited institutions.

- (7) "Microcredit increased accumulation lending rate" refers to credit transactions whose amount per trade and balance due to microcredit financial institutions exceed U.S.\$10,000. This is the rate granted to entrepreneurs who register annual sales of less than U.S.\$100,000.
- (8) Under the Monetary, Financial, Securities and Insurance Resolutions Code, which includes Resolution 437-2018-F of January 26, 2018, certain maximum rates were established for the microcredit segments after February 1, 2018, which will be applicable for the public finance sector, the private finance sector, credit unions and entities of segment 1 of the solidary and popular segment.
- (9) Under the Monetary, Financial, Securities and Insurance Resolutions Code, which includes Resolution 437-2018-F of January 26, 2018, certain maximum rates were established for the microcredit segments after February 1, 2018, which corresponds to credit unions of segments 2, 3 and 4.
- (10) "Microcredit simple accumulation lending rate" refers to credit transactions whose amount per transaction and balance due to microcredit financial institutions is larger than U.S.\$1,000, but smaller than U.S.\$10,000. This is the rate provided to entrepreneurs who register a sales level or annual income of less than U.S.\$100,000 and to self-employed individuals.
- (11) "Microcredit subsistence accumulation lending rate" refers to credit transactions that are less than or equal to U.S.\$1,000. This is the rate provided to micro entrepreneurs who recorded a level of annual sales less than U.S.\$100,000 and to self-employed, individuals or a group of borrowers with joint liability.

Average loan interest rates on short-term and long-term loans decreased from 8.2% in 2012 to 7.8% in 2017. During the same period, the average interest rates on deposits increased from 4.5% in 2012 to 5.0% in 2017.

With respect to the various sectors, most loan interest rates remained stable during the period from 2012 through 2016 with the corporate productive lending interest rate increasing slightly to 8.2%, and consumer lending rates remaining at approximately 15.9% from 2012 to 2013, increasing slightly to 16.0% in 2014. In 2015 consumer credits were divided into "ordinary consumer credits," for the acquisition or commercialization of light fossil fuel vehicles and "priority consumer credits," dedicated to the purchase of goods or services or expenses not related to productive activity or ordinary commercial activity. After such reclassification, the ordinary consumer lending interest rate was 16.2% in 2015 increasing slightly to 16.7% in 2017, and the priority consumer lending interest rate increased from 16.0% in 2015 to 16.5% in 2017. As of May 31, 2018, the ordinary consumer lending interest rate was 16.6% and the priority consumer lending interest rate was 16.7%.

Some loan interest rates slightly increased from 2015 to 2016 with the education lending interest rate increasing from 7.1% to 9.5% and the medium and small business productive lending interest rate increasing from 10.3% to 11.2%. However, the corporate productive lending interest rate decreased from 9.2% in 2015 to 8.5% in 2016, the microcredit increased accumulation lending interest rate decreased from 24.3% in 2015 to 21.5% in 2016, the microcredit simple accumulation lending interest rate decreased from 26.9% in 2015 to 25.1% and the microcredit subsistence accumulation lending interest rate also decreased from 29.0% in 2015 to 27.3% in 2016. The deposit rate decreased from 5.1% as of December 31, 2016 to 5.0% as of December 31, 2017 and the lending rate decreased from 8.1% to 7.8% for the same period. The ordinary commercial lending interest rate decreased from 9.4% as of December 31, 2016 to 8.0% as of December 31, 2017 and the corporate productive lending interest rate decreased from 8.5% to 7.8% for the same period.

The following table sets forth the principal monetary indicators for the periods presented.

Principal Monetary Indicators (in millions of U.S. dollars)

	As of December 31,					As of November 30,	
	2012	2013	2014	2015	2016	2016	2017
Currency in circulation	6,326.74	7,367.06	9,539.90	11,753.67	13,261.22	12,414.6	14,170.5
Demand deposits	8,100.37	8,818.04	9,068.76	7,200.95	9,281.36	8,635.6	9,391.4
Fractional Currency	84.52	87.33	86.58	86.26	88.20	86.0	84.9
M1	14,511.62	16,272.43	18,695.32	19,041.49	22,634.90	21,140.0	23,657.0
Savings	2,360.24	3,898.14	3,506.05	3,053.45	6,044.05	5,068.8	4,655.7
Term deposits	16,393.88	18,778.71	21,409.05	20,608.95	23,553.5	22,861.4	25,178.5
M2 (M1 plus term deposits)	30,905.50	35,051.14	40,104.37	39,650.60	46,188.37	44,001.4	48,835.5

Source: Based on figures from the Central Bank December 2017 Monthly Bulletin (Table 1.1.1). Figures from 2012 based on the March 2014 Monthly Bulletin.

In January 2000, following several weeks of severe exchange-rate depreciation, the Republic announced that it would dollarize the economy. On March 1, 2000, the National Assembly approved the Ecuadorian Economic Transformation Law which made the U.S. dollar legal tender in Ecuador. Further, pursuant to the Ecuadorian Economic Transformation Law, all sucre-denominated deposits were converted into U.S. dollars effective January 1,

2000, and the U.S. dollar became the unit of account in the financial system. As a result, U.S. dollar deposits that in prior periods were classified as deposits in foreign currency have been, for periods from and after January 1, 2000, classified as demand deposits, savings or term deposits, as applicable.

Inflation

Ecuador measures the inflation rate by the percentage change between two periods in the consumer price index (“CPI”). The CPI is computed by INEC based on a standard basket of 299 items of goods and services that reflects the pattern of consumption of urban Ecuadorian households in eight cities. The price for each good or service that makes up the basket is weighted according to its relative importance in an average urban household’s consumption pattern in order to calculate the CPI.

Prior to the adoption of the Dollarization Program, Ecuador was plagued by high inflation. From 1994 to 1999, the inflation rate ranged from a 22.8% low in 1995 to a 60.7% high in 1999. In 1999 and early 2000, the sharp devaluation of the sucre contributed to an increase in the Republic’s inflation rate, which became one of the highest in Latin America at 96.1% in 2000.

The restrictions imposed by the Dollarization Program brought this to an end. The inflation rate was 2.7% in 2004, 2.2% in 2005, 2.8% in 2006, 3.3% in 2007 and 8.8% in 2008. The increase in inflation in 2008 was primarily caused by increases in food prices, due to climatic changes that affected the agricultural sector. In addition, the international prices of fertilizer and agricultural commodities also increased. As a result of these increases, Ecuador fixed the prices for some of these goods and limited the export of various agricultural products. During 2011, 2012, 2013 and 2014 the inflation rate was 5.4%, 4.2%, 2.7% and 3.7%, respectively. The decrease in the inflation rate from 4.2% in 2012 to 2.7% in 2013 was due to the imposition of price controls intended to curb price speculation on basic foodstuffs including, meats, various fruits and vegetables, and milk.

At the end of 2014, the inflation rate was 3.7%. This increase is due to an increase in the prices of housing, water and electricity services during that year. For the 12-month period ending December 31, 2015, the inflation rate decreased to 3.4%. This decrease was due to a decrease in the price of certain foods, primarily shrimp and chicken. Inflation for the 12-month period ending in December 31, 2016 decreased to 1.1% from 3.4% for the 12-month period ending December 31, 2015. This decrease is due to a decrease in the price of certain garments, motor vehicles and fruits and vegetables as a result of competition from Peruvian agricultural products entering the market, the impact on the price of imported goods as a result of a stronger dollar and the application of certain additional tariffs. According to the Central Bank, inflation decreased from 1.12% for the 12-month period ended December 31, 2016 to -0.20% for the 12-month period ended December 31, 2017. This decrease was due to a decrease in the price of domestic goods and services, clothing garments and footwear, food and non-alcoholic beverages. According to the Central Bank, inflation decreased from 1.10% for the 12-month period ended May 31, 2017 to -1.01% for the 12-month period ended May 31, 2018. This decrease was primarily due to a reduction in prices of agricultural products and clothing and footwear, the decrease of the value added tax by 2% (from 14% to 12%) on June 1, 2017 and the elimination of safeguard measures on imports.

Given the constraints of dollarization, and Ecuador’s inability to mint currency, the Republic is more vulnerable than other countries to external factors such as global recessions, the volatility of commodity and raw material prices and natural disasters affecting the agricultural sector. The relative strength or weakness of the dollar, relative to the currencies of Ecuador’s Andean trading partners, has also affected Ecuador’s inflation rate during those periods.

The following table sets forth inflation rates in the Republic as measured by the CPI for the periods presented.

Inflation	
(% Change in CPI from Previous Year at Period End ⁽¹⁾)	
December 2012.....	4.2
December 2013.....	2.7
December 2014.....	3.7
December 2015.....	3.4
December 2016.....	1.1
December 2017.....	-0.2
May 2018	-1.0

Source: Based on figures from the Central Bank June 2018 Monthly Bulletin Table (4.2.1) and (4.2.1a).

- (1) Data reflect percentage change in consumer prices in urban areas over the prior 12 month period.

PUBLIC SECTOR FINANCES

Overview

Budget Process

The 2008 Constitution and the Public Planning and Finance Code set forth the public sector's budget process. According to Article 292 of the 2008 Constitution, the General State Budget is the instrument for establishing and managing Government income and spending, and includes all public sector income and expenses, with the exception of those belonging to social security, public banks, public companies and the Autonomous Decentralized Governments. The drafting and implementation of the General State Budget adheres to the National Development Plan, while the budgets of the Autonomous Decentralized Governments and those of other public entities adhere to regional and provincial plans, with the framework of the National Development Plan. This plan is published by the Government every four years, and lays out the goals and priorities of the Government for that time period. The National Development Plan for 2013 to 2017 was released in August of 2013.

The executive branch formulates the annual budget estimate, and the four-year budgetary schedule, and presents both to the National Assembly for approval. The levels of revenue, expenditure, and debt are based on the macroeconomic projections and targets of the Ministry of Economy and Finance and the Central Bank. The Ministry of Economy and Finance is primarily responsible for the preparation of the public sector's annual budget, based on guidelines issued by various planning agencies and other ministries.

The executive branch submits the draft annual budget and the four-year budgetary schedule to the National Assembly within the first 90 days of its initial term and, in subsequent years, 60 days before the start of the relevant fiscal year. The National Assembly must adopt or object to the draft budget within 30 days. The objections of the National Assembly are limited to the areas of revenue and spending and cannot alter the overall amount of the draft budget. If the National Assembly objects to the draft budget or schedule, the executive branch may, within ten days, accept the objection and submit a new proposal to the National Assembly for approval. If the National Assembly does not object within 30 days, the draft annual budget and the four-year budgetary schedule become effective.

The 2008 Constitution also establishes predetermined budget allocations for the Autonomous Decentralized Governments, the health sector, the education sector, and for research, science, technology and innovation. The creation of any other predetermined budget allocations is forbidden.

The Ministry of Economy and Finance has the authority to modify the budget during its execution phase in an amount up to 15% of any approved allocation. These adjustments must be made in accordance with the priorities and goals established in the National Development Plan and the constitutional limits established in Article 126 of the Public Planning and Finance Code. For more information regarding the National Development Plan and constitutional limits, see "Public Debt—General."

Income and expenses belonging to social security, state banks, public companies and the Autonomous Decentralized Governments are not considered part of the General State Budget. As such, Autonomous Decentralized Governments prepare their budgets in accordance with the non-binding guidelines prepared by the National Secretary of Planning and Development. The executive branch of each Autonomous Decentralized Government is responsible for drafting the budget and submitting it for approval before the corresponding legislative bodies. The General State Budget and local budgets, upon approval, are implemented and made public, as is the General State Budget, and are implemented by the respective local governments.

In 2002, in response to increasing Government expenditures, the National Assembly enacted the Law to Promote Responsibility, Stabilization and Fiscal Transparency, which was aimed at reducing public indebtedness and establishing greater transparency in the Government's use of public funds. During the second half of 2005, the Government, with the support of the National Assembly, replaced the *Fondo de Estabilización, Inversión Social, y Reducción del Endeudamiento Público* (the "Stabilization, Social Investment and Public Indebtedness Reduction Fund" or "FEIREP") that was previously created by the 2002 law. FEIREP was replaced by CEREPS. This

resulted in an increase in Government investment in the social and productive sectors of the economy to strengthen the economic performance while limiting current expenses.

In 2008, CEREPS was eliminated due to the 2008 Constitution and the enactment of LOREYTF. The Republic believes that the new law enhances transparency and flexibility to the budget process by providing enhanced management of state resources and prioritizing social investments. The law also eliminated all predetermined use of resources; currently all of the Republic's resources go directly to a single system of accounts in the Central Bank. Title 3 of the Public Planning and Finance Code also provides transparency by providing unrestricted access to all budget and financial information of the Republic and annual financial statements of public companies.

In accordance with the terms of the 2008 Constitution, the macroeconomic rules and the restrictions on the assumption of public debt were changed as follows:

- permanent expenditures must be financed by permanent income; expenditures related to health, education and justice will be treated as preferential and may be, under exceptional circumstances, financed by non-permanent income; and
- public debt or income from petroleum products may not be used for current Government expenditures.

Under the 2008 Constitution, each of the following is subject to the National Development Plan:

- policies;
- programs and public projects;
- scheduling and execution of the state budget; and
- investment and allocation of public resources.

Pursuant to the Public Planning and Finance Code, each of the following is also subject to the National Development Plan:

- public actions, programs and projects;
- public debt;
- international cooperation;
- scheduling, formulation, approval and execution of the general state budget;
- state banks' budgets;
- national-level public companies; and
- social security.

The Organic Law for Development, Investment, Employment and Fiscal Stability, enacted on August 21, 2018, amended the Public Planning and Finance Code to prevent that a budget with a primary deficit be approved and ensure that any increase in the expenditure by the central government does not exceed the long term growth rate of the economy.

At the request of the Ministry of Economy and Finance, or on its own, the Office of the Comptroller General can perform an audit of all public sector entities that administer public funds for compliance with proposed budgets and compliance under the law.

Fiscal Policy

In October 2010, the National Assembly approved the Public Planning and Finance Code, which regulates the state planning process and coordinates planning with fiscal policy. This law establishes guidelines for fiscal management, including rules that:

- allow for more flexibility for the Ministry of Economy and Finance to reallocate and reassign expenditures up to 15% of the approved Government budget;
- set an explicit total public debt ceiling of 40% of GDP including Central Government, non-financial public sector and the Autonomous Decentralized Governments;
- allow the Ministry of Economy and Finance to issue CETES, at its discretion, without having to undergo the same approval process required for long-term internal and external sovereign debt;
- allow for the establishment of citizen committees for financial public policy consultations;
- determine that all excess cash not spent during a fiscal year will be accounted for as initial cash for the following fiscal year; and
- establish the functions and responsibilities of the Debt and Finance Committee. See “Public Debt—General.”

The CGR Audit Report recommended that, in order to reconcile amounts comprising public debt, it would be necessary to amend the Public Planning and Finance Code and repeal Decree 1218 with respect to the calculation of the total public debt to GDP ratio for purposes of being able to ascertain the actual value of total public debt and determine if the latter has surpassed the legal limit of 40% debt to GDP set out in Article 124 of the Public Planning and Finance Code. Following these recommendations, on June 21, 2018, the National Assembly passed the Organic Law for Development, Investment, Employment and Fiscal Stability which became effective on August 21, 2018, which among other things, expressly confirms that certain activities and instruments are considered a *pasivo contingente* (“contingent liability”), and therefore are not included in the calculation of the total public debt to GDP ratio. See “Public Debt-Decree 1218” and “Public Debt-Organic Law for Development, Investment, Employment and Fiscal Stability.”

In addition, the Organic Law for Development, Investment, Employment and Fiscal Stability amends Article 124 of the Public Planning and Finance Code providing that in exceptional cases, fiscal rules and the 40% debt to GDP ratio limit may be temporarily suspended when natural catastrophes, severe economic recession, imbalances in the payment system, or national emergency situations occur, for which purpose the approval of the majority of the members of the National Assembly will be required. These rules may also be suspended in the event that the President of the Republic decrees a state of emergency, in accordance with the provisions of the Constitution. In these cases, the organism in charge of public finances shall apply a strengthening plan for public finances with the purpose of achieving and restoring fiscal balance.

The non-financial public sector deficit is primarily financed by the issuance of CETES and bonds placed with IESS. There is no maximum amount of CETES that may be issued per year nor is there a requirement to place a certain percentage in the public or private sector. However, IESS may only hold 75% of the value of its total portfolio in CETES.

As of July 11, 2018, the Ministry of Economy and Finance has an outstanding balance of U.S.\$2,890,871,442.36 in CETES. Towards the end of 2012, the Government drew on its International Reserves with the Central Bank to cover its liquidity. This led to a decrease in reserve levels in December 2012. As of

December 31, 2017, International Reserves covered 9.5% of current account payments. For more information regarding International Reserves, please see “Balance of Payments—International Reserves.” The Government received external funding from FLAR, which in September 2012 disbursed a balance-of-payments back-up credit of U.S.\$514.6 million. The China Development Bank also disbursed U.S.\$500 million. In the first several months of 2013, the Government received U.S.\$1.4 billion from China Development Bank under a new line of credit that was negotiated in December 2012. These funds were used to restore Ecuador’s International Reserves. As of December 31, 2017, Ecuador’s International Reserves totaled U.S.\$2,451.1 million a decrease compared to December 31, 2016 when International Reserves totaled U.S.\$4,258.9 million. The decrease in International Reserves during the 12-month period ending in December 31, 2017 compared to the period ending in December 31, 2016 was mainly due to a decrease in investments, term deposits and securities. As of June 30, 2018, Ecuador’s International Reserves totaled U.S.\$3,166.7 million, a decrease from June 30, 2017 when International Reserves totaled U.S.\$4,467.2 million. The decrease in International Reserves during the 12-month period ending in June 30, 2018 compared to the period ending in June 30, 2017 was mainly due to a decrease in investments, term deposits and securities.

The Organic Law for Development, Investment, Employment and Fiscal Stability, enacted on August 21, 2018, created a fiscal stabilization fund to ensure fiscal sustainability and health and education expenses, supported by the extra revenue above the flows contemplated under the Budget from the exploitation of non-renewable natural resources, after deducting the share earmarked to local governments.

Non-Financial Public Sector Revenues and Expenditures

The following table sets forth actual revenues and expenditures for the consolidated non-financial public sector for the periods presented.

Summary of Consolidated Non-financial Public Sector Revenues and Expenditures

(in millions of U.S.\$ and as a % of GDP)

	For the Year Ended December 31,										January 1 – March 31 ⁽¹⁾	
	2013	% of GDP	2014	% of GDP	2015	% of GDP	2016	% of GDP	2017	% of GDP	2017	2018
Revenue												
Petroleum Revenue												
Exports ⁽²⁾	11,433	12.0	10,906	10.7	6,346	6.4	5,402	5.5	5,840	5.7	1,303	1,457
Domestic Sales	-	-	-	-	-	-	-	-	-	-	-	-
Total Petroleum Revenue (a)	11,433	12.0	10,906	10.7	6,346	6.4	5,402	5.5	5,840	5.7	1,303	1,457
Non-petroleum revenue												
Income Tax	3,847	4.0	4,161	4.1	4,734	4.8	3,640	3.7	3,764	3.7	798	899
Value-added Tax	6,056	6.4	6,376	6.3	6,352	6.4	5,400	5.5	5,979	5.8	1,527	1,594
Specific consumption taxes	744	0.8	803	0.8	840	0.9	790	0.8	937	0.9	218	256
International trade taxes	1,352	1.4	1,357	1.3	2,026	2.0	1,633	1.7	1,468	1.4	391	363
Social Security Contributions	4,547	4.8	4,718	4.6	5,052	5.1	4,741	4.8	5,414	5.3	1,565	1,224
Other ⁽³⁾	6,084	6.4	6,524	6.4	6,933	7.0	8,091	8.2	7,912	7.7	1,960	2,022
Total non-petroleum revenue (b) ...	22,630	23.8	23,939	23.5	25,937	26.1	24,294	24.6	25,473	24.7	6,460	6,358
Operating Income of Public Companies (c)	3,196	3.4	4,187	4.1	1,298	1.3	618	0.6	1,642	1.6	651	1,013
Total Revenue (a+b+c)	37,260	39.2	39,032	38.4	33,581	33.8	30,314	30.7	32,955	32.0	8,414	8,828
Expenses												
Current Expenditures												
Interest	971	1.0	1,024	1.0	1,368	1.4	1,561	1.6	2,209	2.1	574	792
Foreign	714	0.8	829	0.8	1,143	1.2	1,335	1.4	1,850	1.8	507	472
Domestic	257	0.3	195	0.2	225	0.2	226	0.2	359	0.4	68	320
Wages and salaries	8,896	9.4	9,478	9.3	9,904	10.0	10,014	10.2	10,366	10.1	2,414	2,496
Purchases of goods and services	4,435	4.7	5,328	5.2	5,111	5.2	4,684	4.8	5,056	4.9	1,059	791
Social Security	3,410	3.6	3,665	3.6	4,216	4.3	4,655	4.7	4,999	4.9	1,182	1,239
Others	9,265	9.7	9,497	9.3	6,884	6.9	5,691	5.8	5,777	5.6	1,406	1,747
Total Current Expenditure	26,977	28.4	28,992	28.5	27,483	27.7	26,604	27.0	28,407	27.6	6,636	7,065
Capital Expenditure and net lending												
Gross capital formation	14,039	14.8	13,980	13.7	10,344	10.4	10,293	10.4	8,648	8.4	2,049	1,112
General State Budget	8,506	8.9	8,290	8.2	5,542	5.6	6,105	6.2	5,086	4.9	1,261	451
Public Companies	3,988	4.2	4,218	4.2	3,286	3.3	2,533	2.6	1,870	1.8	441	376
Rest of General Government	1,545	1.6	1,472	1.5	1,516	1.5	1,655	1.7	1,692	1.6	348	284
Other Capital Expenditure	592	0.6	1,375	1.4	850	0.9	731	0.7	1,024	1.0	286	188
Total Capital Expenditure	14,631	15.4	15,354	15.1	11,194	11.3	11,024	11.2	9,672	9.4	2,335	1,300
Total Expenditure	41,607	43.7	44,346	43.6	38,677	39.0	37,628	38.2	38,080	37.0	8,972	8,365
Surplus/Deficit	-4,348	-4.6	-5,314	-5.2	-5,096	-5.1	-7,314	-7.4	-5,125	-5.0	-558	-463

Source: Based on figures from the Central Bank May 2018 Monthly Bulletin (Table 2.1 and Table 2.2).

- (1) Figures for the period from January 1, 2018 to March 31, 2018 were calculated based on aggregations of figures for the first three months as published in Table 2.2. Figures for the period from January 1, 2017 to March 31, 2017 were calculated based on the figures of the first trimester of 2017 as published in Table 2.2.
- (2) This figure is different than the crude oil exports figure in the Exports FOB table in that it includes derivate revenues, as opposed to only crude oil, and measures revenues from petroleum exports for the non-financial public sector, only.
- (3) Includes other taxes and revenue.

The increase in the year-to-year deficit from 2012 to 2015 was due to increased Central Government spending during each such year, particularly in wages and salaries and interest payments in connection with debt obligations, and in 2015 was also due to the decline in oil prices. The increase in the year-to-year deficit from 2015 to 2016 was due to a stronger dollar which affected exports, the Pedernales Earthquake and the decline in oil prices.

In 2012, the non-financial public sector registered a deficit of U.S.\$824 million (equivalent to -0.9% of GDP). In 2012, total expenditures totaled U.S.\$35,394 million (equivalent to 40.3% of GDP) and total revenues totaled U.S.\$34,570 million (equivalent to 39.3% of GDP).

In 2013, the non-financial public sector registered a deficit of U.S.\$4,348 million (equivalent to -4.6% of GDP). This deficit was due to an increase in public sector investment, primarily in infrastructure projects financed by bilateral debt. The increase in spending on infrastructure projects is due to a number of projects that had been in the planning or initial stages in previous years and that reached or accelerated the construction phase in 2013 (including the Coca Codo Sinclair hydroelectric project, the Sopladora hydroelectric project, the Minas San Francisco hydroelectric project and the Cañar-Naranjal flood control project) and therefore required increased expenditures as construction began or accelerated. Total expenditures totaled U.S.\$41,607 million (equivalent to 43.7% of GDP) and total revenues totaled U.S.\$37,260 million (equivalent to 39.2% of GDP).

In 2014, the non-financial public sector registered a deficit of U.S.\$5,314 million, equivalent to -5.2% of GDP. This deficit was the result of increases in wages and salaries and current expenses. Total expenditures totaled U.S.\$44,346 million (equivalent to 43.4% of GDP) and total revenues totaled U.S.\$39,032 million (equivalent to 38.2% of GDP) in 2014.

In 2015, the non-financial public sector registered a deficit of U.S.\$5,091 million, equivalent to -5.1% of GDP. This deficit, while smaller than the deficit in 2014, was the result of decreased petroleum revenue. Total expenditures totaled U.S.\$38,676 million (equivalent to 38.6% of GDP) and total revenues totaled U.S.\$33,586 million (equivalent to 33.5% of GDP) in 2015.

In 2016, the non-financial public sector registered a deficit of U.S.\$7,314 million compared to a deficit U.S.\$5,091 million in 2015. This increase in the deficit was due to a decrease in the revenues from the sale of oil exports caused by the decrease in the price of oil during the time period. In 2016, total revenues for the non-financial public sector totaled U.S.\$30,314 million, a decrease from U.S.\$33,586 million in 2015. In 2016, total expenditures for the non-financial public sector totaled U.S.\$37,628 million, a decrease compared to U.S.\$38,676 million in 2015.

In 2017, the non-financial public sector registered a deficit of U.S.\$5,125 million compared to a deficit U.S.\$7,314 million in 2016. This decrease in the deficit was due to an increase in total revenues; particularly in the value added tax, specific consumption taxes, income tax and greater contributions to social security, along with a decrease in the gross-fixed capital formation driven by a reduction in capital expenditures of the general state budget, public companies and municipalities. In 2017, total revenues for the non-financial public sector totaled U.S.\$32,955 million, an increase from U.S.\$30,314 million in 2016. In 2017, total expenditures for the non-financial public sector totaled U.S.\$38,080 million, an increase compared to U.S.\$37,628 million in 2016.

For the first three months of 2018, the non-financial public sector registered a deficit of U.S.\$463 million compared to a deficit of U.S.\$558 million for the first three months of 2017. This decrease in total deficit is primarily due to an increase in total revenues mainly in greater petroleum revenues and operation surpluses of companies within the non-financial public sector, along with a decrease in the gross-fixed capital formation driven by a reduction in capital expenditures of the general state budget, public companies and municipalities.

For the first three months of 2018, total revenues for the non-financial public sector totaled U.S.\$8,828 million, an increase from U.S.\$8,414 million for the first three months of 2017. For the first three months of 2018, total expenditures for the non-financial public sector totaled U.S.\$8,365 million, a decrease compared to U.S.\$8,972 million for the first three months of 2017.

Based upon available information, the Republic expects that the actual deficit for 2018 will be reduced from U.S.\$5,125 million for the year 2017 to U.S.\$2,882 million, a reduction of U.S.\$2,243 million.

For 2018, the Ministry of Economy and Finance's estimated projection for financing needs (both internal debt, external debt and other mechanisms like CETES and/or public sector liquidity agreements) is U.S.\$11.7 billion. The Ministry of Economy and Finance estimates that approximately U.S.\$6.5 billion will derive from international financing, approximately U.S.\$1.8 billion from domestic financing and approximately U.S.\$3.4 billion from other sources like CETES, disbursements from outstanding oil presale agreements and public sector liquidity agreements, among others. With respect to international financing, the Ministry of Economy and Finance expects that such financing may come from various sources, including drawdowns under existing loan facilities, new bilateral and multilateral lending facilities, bond issuances and other methods of providing liquidity that the Republic has previously utilized, such as oil sector related transactions, among others. With respect to domestic financing, the Ministry of Economy and Finance expects that such financing may derive from rollovers of existing debt, new placements by the Ministry of Economy and Finance, the Central Bank and other public institutions, certain projects and domestic operations. While the Ministry of Economy and Finance has expectations as to the approximate amounts to be derived from the various sources, such allocation is subject to market conditions as well as the policies of the new administration and such amounts and the use of the financing sources set forth in this paragraph is subject to change.

Central Government Revenues and Expenditures

The Government derives its revenues primarily from sales of petroleum, tax collection and import duties, and other revenue, including transfers. The following table shows the actual Central Government revenues and expenditures for the periods presented. The Central Government ("Central Government") includes the Republic's ministries, supervising entities, and other Government entities.

Consolidated General State Budget Revenues and Expenditures
(in millions of U.S.\$, and as % of GDP)

	For the Year Ended December 31,										January 1 – March 31 ⁽¹⁾	
	2013	% of GDP	2014	% of GDP	2015	% of GDP	2016	% of GDP	2017	% of GDP	2017	2018
Revenue⁽²⁾												
Petroleum revenue	4,677	4.9	3,765	3.7	2,264	2.3	2,003	2.0	1,676	1.6	454	452
Non-petroleum revenue	15,723	16.5	16,616	16.2	18,081	18.0	16,552	16.9	16,494	16.0	4,007	4,106
Tax revenue												
Taxes on goods and services												
Value-added tax	6,056	6.4	6,376	6.2	6,352	6.3	5,400	5.5	5,979	5.8	1,527	1,594
Selected excise taxes	744	0.8	803	0.8	840	0.8	790	0.8	937	0.9	218	256
Total taxes on goods and services	6,800	7.1	7,179	7.0	7,192	7.2	6,189	6.3	6,916	6.7	1,745	1,850
Taxes on income and profits	3,847	4.0	4,161	4.1	4,734	4.7	3,640	3.7	3,764	3.7	798	899
Taxes on International Trade												
Import duties	1,352	1.4	1,357	1.3	2,026	2.0	1,633	1.7	1,468	1.4	391	363
Exit tax ⁽³⁾	1,322	1.4	1,406	1.4	1,278	1.3	815	0.8	935	0.9	210	261
Total taxes on international trade	2,675	2.8	2,763	2.7	3,304	3.3	2,448	2.5	2,403	2.3	601	624
Vehicle tax	214	0.2	228	0.2	223	0.2	195	0.2	191	0.2	53	64
Other taxes	132	0.1	129	0.1	135	0.1	1,546	1.6	805	0.8	320	108
Total tax revenue	13,668	14.4	14,460	14.1	15,588	15.6	14,017	14.3	14,078	13.7	3,517	3,544
Non-tax revenue	1,961	2.1	2,061	2.0	2,021	2.0	2,152	2.2	2,098	2.0	447	552
Transfers	95	0.1	95	0.1	471	0.5	383	0.4	318	0.3	43	10
Total revenues	20,400	21.4	20,381	19.9	20,345	20.3	18,556	19.0	18,170	17.6	4,461	4,558
Current expenditure												
Interest accrual												
Foreign	652	0.7	715	0.7	971	1.0	1,148	1.2	1,612	1.6	451	235
Domestic	516	0.5	682	0.7	789	0.8	791	0.8	868	0.8	135	401
Total interest accrual	1,169	1.2	1,397	1.4	1,759	1.8	1,938	2.0	2,482	2.4	586	636
Wages and salaries	7,897	8.3	8,359	8.2	8,761	8.7	8,870	9.1	9,140	8.9	2,110	2,181
Purchase of goods and services	2,035	2.1	2,490	2.4	2,409	2.4	1,935	2.0	2,139	2.1	402	338
Other current expenditures	1,696	1.8	998	1.0	691	0.7	742	0.8	715	0.7	174	237
Transfers	1,511	1.6	1,737	1.7	863	0.9	1,028	1.1	1,155	1.1	241	338
Total current expenditure	14,308	15.0	14,981	14.6	14,484	14.5	14,514	14.8	15,629	15.2	3,512	3,730
Capital expenditure												
Fixed capital expenditure	8,506	8.9	8,290	8.1	5,542	5.5	6,105	6.2	5,087	4.9	1,261	451
Other	-	-	22	-	16	-	394	0.4	370	0.4	57	67
Capital Transfers	3,048	3.2	3,501	3.4	4,108	4.1	3,092	3.2	3,226	3.1	766	800
Total capital expenditure	11,554	12.1	11,812	11.5	9,665	9.6	9,590	9.8	8,682	8.4	2,084	1,318
Total Expenditure⁽³⁾	25,861	27.2	26,794	26.2	24,149	24.1	24,103	24.6	24,312	23.6	5,596	5,048
Adjustment on treasury accounts	-	-	-	-	-	-	n/a	n/a	n/a	n/a	n/a	n/a
Overall surplus or deficit	-5,461	-5.7	-6,413	-6.3	-3,805	-3.8	-5,548	-5.7	-6,142	-6.0	-1,135	-490

Source: Based on figures from the Central Bank May 2018 Monthly Bulletin (Table 2.2.1)

(1) Figures for the period from January 1, 2018 to March 31, 2018 were calculated based on aggregations of figures for the first three months as published in Table 2.2.1. Figures for the period from January 1, 2017 to March 31, 2017 were calculated based on the figures of the first trimester of 2017 as published in Table 2.2.1.

(2) Revenues are cash, expenditures are accrued.

(3) Includes all interest payments under foreign debt obligations.

Taxation and Customs

In 2012, Central Government revenues totaled U.S.\$19,523 million (equivalent to 22.2% of GDP), of which U.S.\$6,086 million (equivalent to 6.9% of GDP) corresponds to petroleum revenue, U.S.\$12,255 million (equivalent to 13.9% of GDP) corresponds to tax revenue, U.S.\$1,128 million (equivalent to 1.3% of GDP) corresponds to non-tax revenue and U.S.\$54 million (equivalent to approximately 0.1% of GDP) is in respect of transfers received.

In 2013, Central Government revenues totaled U.S.\$20,400 million (equivalent to 21.5% of GDP), of which U.S.\$4,677 million (equivalent to 4.9% of GDP) corresponds to petroleum revenue, U.S.\$13,668 million (equivalent to 14.4% of GDP) corresponds to tax revenue, U.S.\$1,961 million (equivalent to 2.1% of GDP) corresponds to non-tax revenue and U.S.\$95 million (equivalent to approximately 0.1% of GDP) is in respect of transfers received.

In 2014, Central Government revenues totaled U.S.\$20,381 million (equivalent to 20.2% of GDP), of which U.S.\$3,765 million (equivalent to 3.7% of GDP) corresponds to petroleum revenue, U.S.\$14,460 million (equivalent to 14.3% of GDP) corresponds to tax revenue, U.S.\$2,061 million (equivalent to 2.0% of GDP) corresponds to non-tax revenue and U.S.\$95 million (equivalent to approximately 0.1% of GDP) is in respect of transfers received.

In 2015, Central Government revenues totaled U.S.\$20,344 million (equivalent to 20.2% of GDP), of which U.S.\$2,264 million (equivalent to 2.2% of GDP) corresponds to petroleum revenue, U.S.\$15,588 million (equivalent to 15.5% of GDP) corresponds to tax revenue, U.S.\$2,021 million (equivalent to 2.0% of GDP) corresponds to non-tax revenue and U.S.\$471 million (equivalent to approximately 0.5% of GDP) is in respect of transfers received.

In 2016, Central Government revenues totaled U.S.\$18,556 million (equivalent to 19.0% of GDP), of which U.S.\$2,003 million (equivalent to 2.0% of GDP) corresponds to petroleum revenue, U.S.\$14,017 million (equivalent to 14.3% of GDP) corresponds to tax revenue, U.S.\$2,152 million (equivalent to 2.2% of GDP) corresponds to non-tax revenue and U.S.\$383 million (equivalent to 0.4% of GDP) is in respect of transfers received. This results in a deficit of U.S.\$5,548 million in 2016, an increase in the deficit compared to the deficit of U.S.\$3,805 million in 2015. This increase in the deficit is primarily due to decreases in petroleum revenue and non-petroleum revenue as well as in revenue from certain taxes.

In 2017, Central Government revenues totaled U.S.\$18,170 million (equivalent to 17.6% of GDP), of which U.S.\$1,676 million (equivalent to 1.6% of GDP) corresponds to petroleum revenue, U.S.\$14,078 million (equivalent to 13.7% of GDP) corresponds to tax revenue, U.S.\$2,098 million (equivalent to 2.0% of GDP) corresponds to non-tax revenue and U.S.\$318 million (equivalent to 0.3% of GDP) is in respect of transfers received. This results in a deficit of U.S.\$6,142 million in 2017, an increase in the deficit compared to the deficit of U.S.\$5,548 million in 2016. This increase of U.S.\$594 million in the deficit is primarily due to a decrease in total revenues mainly from lower petroleum revenues and lower transfers and an increase in current expenditure.

For the first three months of 2018, total revenues of the general state budget were U.S.\$4,558 million, while total expenditures were U.S.\$5,048 million. This resulted in a deficit of U.S.\$490 million for the first three months of 2018, a decrease compared to the U.S.\$1,135 million deficit for the first three months of 2017. This decrease in the deficit is primarily due to an increase in total revenues mainly from greater non-petroleum revenues, particularly in the total taxes on goods and services and taxes on income and profits, along with a decrease in fixed capital expenditure.

The 2008 Constitution grants the National Assembly the authority to create, amend or eliminate taxes by means of the law, without detriment to the attributions granted to Autonomous Decentralized Governments. Pursuant to the 2008 Constitution, only the President may submit bills that levy, amend or eliminate taxes. Municipal governments may also levy taxes. The 2008 Constitution provides that tax policy shall promote redistribution and shall stimulate employment, the production of goods and services, as well as ecologically, socially

and economically responsible conduct. Furthermore, the 2008 Constitution expressly prioritizes direct and progressive taxes.

The value added tax applies to most sales of tangible assets as well as most services, except for educational, public transportation, public services, childcare services and others. For the first three months of 2018, the value-added tax generated U.S.\$1,594 million of total tax revenues, an increase from the U.S.\$1,527 million generated in the first three months of 2017. This increase was due to the increase in tax collection was due to a consumption increase of 4.6% for the first quarter of 2018. The value added tax has been the largest component of tax revenues in the past five years, generating U.S.\$5,979 million of total tax revenues in 2017, an increase from U.S.\$5,400 million in 2016. This increase was due to an improvement in economic activity. The value added tax steadily increased from 2012 to 2015, generating U.S.\$5,415 million in 2012 and U.S.\$6,352 million in 2015. The increase from 2012 to 2015 was not due to an increased rate which held steady at 12% for 8 years until the Law of Solidarity increase to 14% for one year from June 1, 2016 until June 1, 2017 when that rate returned to 12%. Instead, the increase in revenues was due to the Government's increased capacity to collect this tax due to an improved administrative system and the tax reforms described in further detail below.

The second largest component of tax revenues is social security contributions, which accounted for U.S.\$1,224 million of tax revenues for the first three months of 2018, a decrease from U.S.\$1,565 million of tax revenues for the first three months of 2017. The third largest component of tax revenues is income tax, which accounted for U.S.\$899 million of tax revenues for the first three months of 2018, an increase from U.S.\$798 million of tax revenues for the first three months of 2017. Income tax accounted for U.S.\$3,764 million of tax revenues in 2017, a decrease from U.S.\$3,640 million of tax revenues in 2016. Effective personal income tax rates for residents and non-residents who file tax returns in Ecuador range from 0% to 35%. The standard corporate tax rate in 2014 was 22%, down from 25% in 2012. However, a tax reform enacted in December 2014 increased the corporate tax rate to 25% for profits on distributions from Ecuadorian entities to residents domiciled in tax havens. Non-resident individuals are also subject to a flat income tax of 22% in 2013 (down from 24% in 2011 and 23% in 2012). The standard corporate tax rate for 2015 was 22% but increased to 25% for 2016 due to the 3% increase established by the Law of Solidarity. However, although the standard corporate tax rate decreased back to 22% for 2017, it was then increased to 25% under the Organic Law for the Reactivation of the Economy, Strengthening of Dollarization and Modernization of Financial Management.

Despite the decrease in revenues due to the fall of the price of oil in 2015 and 2016, revenues from income taxes have also steadily increased in the past six years. This increase is due to several tax reforms implemented during this period. Furthermore, the Organic Law for Development, Investment, Employment and Fiscal Stability, enacted on August 21, 2018, established an amnesty for interest, fines and surcharges on overdue tax obligations as of April 2, 2018, that is expected to bring in U.S.\$602 million.

Tax Reforms

Historically, many individuals and companies did not pay taxes in Ecuador. Upon taking office, former President Correa aimed to change this behavior and institute a culture of paying taxes among citizens and companies. To that end, the Ministry of Education established the *Día de la Cultura Tributaria* ("Tax Culture Day") to be commemorated every April 27 and ran multiple television advertisements concerning the importance of tax payments. Ecuador completed these cultural efforts with legal reforms. Two of the most important reforms include the Reform Act to the Internal Tax Regime Law and the Reform Act for Tax Equity in Ecuador, which were enacted on December 23, 2009 and include the following measures:

- a 1% to 2% Currency Outflow tax, which was subsequently amended in November of 2011 to a 5% Currency Outflow Tax with an exemption, established in 2016, for the first U.S.\$1,098 and U.S.\$5,000 if a debit card or credit card is used (for more information regarding the Currency Outflow Tax, see "Balance of Payments and Foreign Trade—Foreign Trade—Trade Policy");
- taxation on dividends received by company shareholders as profits;

- changes in the manner in which the *Impuesto a los Consumos Especiales* (“Special Consumer Good Tax” or “ICE”) calculates taxes on certain items for products such as cigarettes, alcoholic beverages and soft drinks. See “The Ecuadorian Economy—Economic and Social Policies – Environmental Improvement and State Resources Optimization Law;”
- incentives for the production sector, such as a proposal to return the VAT for certain tourism activities, and exemptions on tax for reinvestment in science and technology; and
- a refund of the 12% VAT (increased to 14% for 2016 and returned to 12% effective June 1, 2017) for the public sector.

Other measures include the institution of numerous new individual tax deductions that encouraged the participation in payment of taxes. Taxpayers can apply these new deductions prior to the end of the tax year. Ecuador believes that the deductions and the advance payment system encourage participation and decreased the rate of tax evasion in the country. Ecuador has also improved its tax administration system to more easily identify tax evasion.

In December 2012, the National Assembly enacted the Comprehensive Law of Redistribution of Income for Social Expenditures, which went into effect on January 1, 2013. This law expands the scope of the VAT to certain financial services provided by credit card administrators and private financial entities that were previously exempt.

In August 2014, a U.S.\$42 flat tariff rate was introduced for all international purchases under U.S.\$400 that are delivered by courier and weigh up to 4 kilograms. Before the introduction of this flat tariff, only international purchases delivered by courier in excess of U.S.\$400 and 4 kilograms were subject to tariffs. This flat tariff is intended to encourage local market consumption by discouraging small online purchases made outside the country. The tariff is imposed on courier services for each package that enters the country. Packages shipped through certain state-owned postal services subject to international treaties will be exempt from the tariff. Books for students for educational purposes are also exempt.

The Organic Law for Development, Investment, Employment and Fiscal Stability, enacted on August 21, 2018, established a reduced income tax rate for capital gains on the sale of stock in a range from 0 to 10%.

Foreign Aid

As of 2012, Ecuador is no longer listed as a country in need of foreign aid based on revenue per capita requirements from the World Bank.

Central Government Expenditures

In 2014, Central Government expenditures represented U.S.\$26,794 million before decreasing to U.S.\$24,149 million in 2015. In 2015, while wages and salaries, increased by 4.8% from 2014 to U.S.\$8,761 million (constituting 36% of Central Government spending and 8.7% of total GDP), fixed capital expenditures, decreased by 33.1% from 2014 to U.S.\$5,542 million (constituting 23% of Central Government spending and 5.5% of total GDP). This decrease in capital expenditure is primarily due to decreased investment in Government projects as a result of budget adjustment, with the previously budgeted capital expenditure being deferred to later years. In 2016, Central Government expenditures represented U.S.\$24,103 million before increasing to U.S.\$24,312 million in 2017. This increase in capital expenditure is primarily due to an increase of U.S.\$1,116 million in current expenditure principally due to interest payments and increases in institutional salaries like teaching, the health care professions, the armed forces, and police, among others. Expenses for goods and services also increased in 2017 due to the opening of hospitals, schools, and community police units while capital expenditure decreased due to an optimization of investment projects. For more information, see “The Ecuadorian Economy – Strategic Sectors of the Economy.”

2017 and 2018 Budgets

For 2017, the Ministry of Economy and Finance's estimated projection for financing needs (both internal debt and external debt) was U.S.\$18.7 billion. The Ministry of Economy and Finance estimates that approximately U.S.\$8.7 billion will derive from international financing and approximately U.S.\$10.0 billion from domestic financing. With respect to international financing, the Ministry of Economy and Finance expects that such financing may come from various sources, including drawdowns under existing loan facilities, new bilateral and multilateral lending facilities, bond issuances and other methods of providing liquidity that the Republic has previously utilized, such as oil sector related transactions, among others. With respect to domestic financing, the Ministry of Economy and Finance expects that such financing may derive from rollovers of existing debt, new placements by the Ministry of Economy and Finance, the Central Bank and other public institutions, certain projects and domestic operations. While the Ministry of Economy and Finance has expectations as to the approximate amounts to be derived from the various sources, such allocation is subject to market conditions as well as the policies of the new administration and such amounts and the use of the financing sources set forth in this paragraph is subject to change.

Article 118 of the Public Planning and Finance Code grants the Ministry of Economy and Finance the authority to modify any approved budget in an amount of up to 15% of any approved allocation. From time to time, the Ministry of Economy and Finance revises and adjusts the sources and uses of funds initially provided for in the budget. Pursuant to Article 295 of the 2008 Constitution, during a presidential election year, the national budget must be presented for National Assembly approval within the first 90 days of the term of the newly elected president. Accordingly, the 2017 Draft Budget was presented for National Assembly approval on August 7, 2017, within the first 90 days of the term of President Moreno, which began on May 24, 2017. The National assembly had 30 days from August 7, 2017 to approve or comment on the 2017 Draft Budget. On August 31, 2017, the National Assembly approved the 2017 Draft Budget (the "2017 Budget"). The 2017 Budget proposed a budget of U.S.\$36.8 billion, an increase of 2% from the U.S.\$36.0 billion codified budget for 2016. In 2016, the 2016 initial budget was U.S.\$29.8 billion. The 2017 Budget assumed an average crude oil price of U.S.\$41.69 per barrel and estimates the export of 136.6 million barrels of crude oil and the import of 45.2 million barrels of petroleum derivatives during 2017. The 2017 Budget estimated the budget deficit to amount to U.S.\$4,700 million. The 2017 Budget also estimated GDP rate growth of 0.7%. The 2017 Budget also sought budget deficit reduction for the non-financial public sector from 7.6% of GDP in 2016 to less than 2% of GDP in 2021. The 2017 Budget provided for projected revenues of about U.S.\$14,760 million in taxes, U.S.\$1,609 million in rates and contributions, U.S.\$3,322 million in transfers from public companies and the Central Bank and U.S.\$3,241 million in transfers and donations of capital and investments. The 2017 Budget provided for projected expenses of about U.S.\$9,192 million in personnel, U.S.\$7,034 in the amortization of public debt, U.S.\$5,123 in consumer goods and services and U.S.\$4,060 million in transfers and donations of capital. The 2017 Budget allocated about U.S.\$18,876 million to the national treasury sector, U.S.\$5,198 million to the education sector, U.S.\$2,779 million to the health sector, U.S.\$3,453 million to the security, risks and defense sector, U.S.\$1,157 million to the housing sector and U.S.\$1,048 billion to the social welfare sector.

On November 1, 2017, President Moreno presented the 2018 Draft Budget to the National Assembly for approval. On November 17, 2017, the *Comisión del Régimen Económico* (the "Committee for Economic Regime") approved the 2018 Draft Budget and issued a report making recommendations with respect to it. Later, on November 29, 2017, the National Assembly approved the 2018 Draft Budget (the "2018 Budget"). The 2018 Budget provides for a budget of approximately U.S.\$34.8 billion, a 5.3% decrease from the U.S.\$36.8 billion approved for the 2017 Budget. The 2018 Budget assumes an average crude oil price of U.S.\$41.92 per barrel, estimates a GDP rate growth of 2.04% and an average annual inflation rate of 1.38%. The 2018 Budget provides for about U.S.\$18,325 million in tax revenues, U.S.\$6,539 million in non-tax revenues and U.S.\$9,988 million in financial revenues. On June 28, 2018, the Ministry of Economy and Finance issued Resolution No. 54 reducing the 2018 Budget by U.S.\$500 million.

PUBLIC DEBT

General

Public sector aggregate debt, including internal and external debt of the financial and non-financial public sector and the external Central Bank debt balance, was U.S.\$32,771.2 million as of December 31, 2015, compared to U.S.\$30,140.2 million as of December 31, 2014, U.S.\$22,846.7 million as of December 31, 2013, U.S.\$18,652.3 million as of December 31, 2012 and U.S.\$14,561.8 million as of December 31, 2011. Since October 2016, pursuant to Decree 1218, the consolidated methodology is the legal methodology in Ecuador to calculate public sector debt to GDP in Ecuador and is in accordance with the IMF methodology, the IMF GFS. However, the methodology for the calculation of the public sector to GDP ratio is expected to change. See *“Risk Factors—Risk Factors relating to Ecuador—The Republic may incur additional debt beyond what investors may have anticipated as a result of a change in methodology in calculating the public debt to GDP ratio for the purpose of complying with a 40% limit under Ecuadorian law, which could materially adversely affect the interests of Noteholders”* and *“Risk Factors—The Office of the Comptroller General has issued a report with conclusions from its audit to the Republic’s internal and external debt”* in this Supplement. Public sector consolidated debt, including internal and external debt of the financial and non-financial public sector and the external Central Bank debt balance, was U.S.\$34,772.1 million as of June 30, 2018 and U.S.\$29,525.9 million as of June 30, 2017. The increase in public sector debt from June 30, 2017 to June 30, 2018 was primarily due to disbursements of existing loans with the China Development Bank, the issuance of the 2023 Notes, the 2027 Notes, the Second 2027 Notes, the 2028 Notes, the PAM Second Remarketing Notes and the Republic’s entrance into the GSI Loan Facility. For more information on the GSI Loan Facility, see “GSI Loan Facility” below. Public sector consolidated debt, including internal and external debt of the financial and non-financial public sector and the external Central Bank debt balance, was U.S.\$35,203.7 million as of July 31, 2018 and U.S.\$29,582.8 million as of July 31, 2017. The ratio of total public sector consolidated debt to GDP increased from 21.4% as of December 31, 2015 to 27.2% as of December 31, 2016. The ratio of total public sector consolidated debt to GDP increased from 27.2% as of December 31, 2016 to 32.5% as of December 31, 2017.

Since April 2018, and until the governing body of public finances issues a new regulation implementing a new accounting methodology within 90 days from August 21, 2018, as mandated by the Organic Law for Development, Investment, Employment and Fiscal Stability, Ecuador is using the aggregation methodology to calculate public debt to GDP ratio. Public sector aggregate debt, including internal and external debt of the financial and non-financial public sector and the external Central Bank debt balance, was U.S.\$47,978.3 million as of June 30, 2018, compared to U.S.\$ 43,542.2 million as of June 30, 2017. The ratio of total public sector aggregate debt to GDP increased from 42.3% as of June 30, 2017 to 46.1% as of June 30, 2018. As of June 30, 2018, interest payments on all debt obligations represent approximately 1.40% of GDP. As of July 31, 2018, public sector aggregate debt, including internal and external debt of the financial and non-financial public sector and the external Central Bank debt balance, was U.S.\$48,409.7 million, and the ratio of total public sector aggregate debt to GDP was 46.5%. The Organic Law for Development, Investment, Employment and Fiscal Stability, which became effective on August 21, 2018, provides for a waiver of the 40% public debt to GDP ratio ceiling for the period 2018-2021, and until the public debt reaches a level below such 40% debt to GDP ratio.

During former President Correa's term, beginning in 2007, Ecuador changed the focus of its public debt. Ecuador now focuses on its relationships with Latin American-based multilateral entities and new bilateral partners, such as China. Ecuador has entered into several loan agreements with China in the past seven years and continues to collaborate with long-time partners such as Spain and Brazil. In Latin America, Ecuador has strengthened ties with IDB, CAF, and FLAR.

Under the 2008 Constitution, the National Assembly has the power to adopt legislation governing the issuance of public debt and to appropriate funds required for debt service. Acting pursuant to this constitutional mandate, the National Assembly approved the Public Planning and Finance Code, which governs the procedures that must be observed in all public debt matters. The Public Planning and Finance Code rules concerning public debt apply to the Ministry of Economy and Finance, which is the only Government institution allowed to contract for the issuance of sovereign debt by the Republic of Ecuador, as well as obligations of the municipalities guaranteed by the Government.

Because all public debt governed by the Public Planning and Finance Code must comply with the public indebtedness policies adopted by the executive branch, the Ministry of Economy and Finance must obtain the approval of the Debt and Finance Committee of the Republic of Ecuador before signing any agreement with respect to sovereign debt including the Notes. See “Monetary System—Fiscal Policy.” This requirement is established by Article 289 of the 2008 Constitution and Article 139 of the Public Planning and Finance Code. Approval is not required for any obligation that is less than 0.15% of the General State Budget and does not have a sovereign guarantee. Any contract entered into by the Ministry of Economy and Finance that required, but did not obtain the approval of the Debt and Finance Committee is null and void and unenforceable and may give rise to civil and criminal liability for the individuals involved. Approval of the Debt and Finance Committee is evidenced by a signed memorandum signed by each member of the Debt and Finance Committee. Once the Ministry of Economy and Finance obtains approval of the Debt and Finance Committee, it may sign the agreement incurring debt obligations, provided that the Attorney General of Ecuador has approved any clauses providing for the application of foreign law and/or arbitration in a foreign jurisdiction. Loan proceeds are disbursed to the Ministry of Economy and Finance, which in turn, transfers such proceeds to the ultimate borrower.

The use of proceeds for public debt is limited by Article 126 of the Public Planning and Finance Code. Under the Public Planning and Finance Code, proceeds of public debt transactions may only be used to: (1) finance Government programs, (2) finance infrastructure projects that have the capacity to repay the debt obligation and (3) refinance an existing external debt obligation on more favorable terms. The Public Planning and Finance Code prohibits public transactions for the purpose of paying ongoing expenses, with the exception of expenses related to health, education, and justice, under exceptional circumstances as determined by the President.

Although public debt service is the primary responsibility of the entity for whose benefit the loan was received, debt governed by the Public Planning and Finance Code is an obligation of the Government. Accordingly, transfers from the Government to any entity pursuant to the annual budget take into account debt service obligations for the following year.

This external debt process is in place as a mechanism to ensure that Ecuador does not reach the high levels of debt it had incurred before the Correa administration. The system of authorization through the Constitution and the Debt and Finance Committee, plus the 40% of debt to GDP limit and other provisions from the Public Planning and Finance Code, seek to maintain a stable external debt and have resulted in a low debt to GDP ratio as compared to other countries.

Following the issuance of the Additional Notes, the total public debt to GDP ratio will not suffer variations as the Additional Notes are considered *pasivo contingente* (“contingent liability”) pursuant to the Organic Law for Development, Investment, Employment and Fiscal Stability, which became effective on August 21, 2018, and Article 123 of the Public Planning and Finance Code and therefore not counted for purposes of the debt to GDP ratio calculation. However, the Purchase Price (as defined under the section “GSI Repo Transaction” below) will be considered as public debt. See “Organic Law for Development, Investment, Employment and Fiscal Stability” below.

External Debt

The total external debt of the public sector in Ecuador was U.S.\$31.75 billion as of December 31, 2017 compared to U.S.\$25.68 billion as of December 31, 2016, U.S.\$20.23 billion as of December 31, 2015, U.S.\$17.58 billion as of December 31, 2014, and U.S.\$12.92 billion as of December 31, 2013.

The increase in public sector external debt since December 31, 2013 was primarily the result of the disbursements of loans to develop various major infrastructure projects, mostly related to hydroelectric energy in Ecuador, to promote energy independence and reduce reliance on non-renewable energy sources, and the issuance of the 2020 Notes and 2024 Notes. Public external debt as of June 30, 2018 was U.S.\$34,000.0 million, an increase from U.S.\$28,552.1 million as of June 30, 2017 due primarily to disbursements of loans from the China Development Bank, the issuance of the 2023 Notes, the 2027 Notes, the Second 2027 Notes, the 2028 Notes, the PAM Second Remarketing Notes and the Republic’s entrance into the GSI Loan Facility. As of July 31, 2018, public external debt was U.S.\$34,459.3 million.

The following table sets forth information regarding Ecuador's public sector external debt as of dates indicated.

Public Sector External Debt							
(by debtor, in billions of U.S. dollars at the end of the year, except percentages)							
	As of December 31,					As of June 30,	
	2013	2014⁽¹⁾	2015⁽²⁾	2016⁽³⁾	2017	2017	2018⁽⁴⁾
Central Government	11.86	15.43	18.18	23.14	28.30	25.42	30.64
Public financial and non-financial entities	1.06	2.15	2.04	2.54	3.45	3.13	3.36
Total	12.92	17.58	20.22	25.68	31.75	28.55	34.00
External public debt as a percentage of nominal GDP ⁽⁴⁾	13.6%	17.2%	20.2%	26.7%	30.8%	27.7%	32.7%

Source: June 30, 2017 Figures from Ministry of Economy and Finance June 2017 Bulletin. December 31 and 2018 Figures from Ministry of Economy and Finance June 2018 Bulletin.

(1) Includes the 2024 Notes.

(2) Includes the 2024 Notes and the 2020 Notes.

(3) Includes the 2024 Notes, the 2020 Notes, the 2022 Notes and the 2026 Notes.

The following table shows the composition of the Republic's external public debt by type of creditor for the periods presented. Provincial governments and municipalities may incur debt through the Ministry of Economy and Finance if they follow certain requirements established by law, and certain provincial and municipal governments have issued external debt, which is included in the table above under the heading of "Public financial and non-financial entities."

Public Sector External Debt by Type of Creditor
(in billions of U.S. dollars)

	As of December 31,					As of June 30,	
	2013	2014	2015	2016	2017	2017	2018
Multilateral	6.01	6.56	7.93	8.25	8.49	8.22	8.33
Bilateral	5.75	6.15	6.42	8.00	7.40	7.70	6.83
Commercial and Bonds	1.16	4.88	5.87	9.43	15.86	12.63	18.84
Total Public Sector External Debt	12.92	17.59	20.22	25.68	31.75	28.55	34.00

Source: June 30, 2017 Figures from Ministry of Economy and Finance June 2017 Bulletin. December 31 and 2018 Figures from Ministry of Economy and Finance June 2018 Bulletin.

The increase in bilateral debt of the Republic and public financial and non-financial entities from December 31, 2013 to December 31, 2017 was due mainly to the disbursements of existing loans with the China Development Bank, China Exim Bank and the French Development Agency.

Total indebtedness owed to multilateral institutions was U.S.\$8.33 billion as of June 30, 2018. Total indebtedness owed to multilateral institutions was U.S.\$8.49 billion as of December 31, 2017. Total indebtedness owed to multilateral institutions was U.S.\$8.25 billion as of December 31, 2016. The Republic is current on all its obligations to multilateral institutions.

As of December 31, 2014, the top three bilateral lenders to Ecuador were China, Brazil and Spain, with debt levels of U.S.\$5,074.4 million (63.7% of the total bilateral debt), U.S.\$302.8 million (3.8% of the total bilateral debt) and U.S.\$158.1 million (1.9% of the total bilateral debt), respectively.

As of December 31, 2015, the top three bilateral lenders to Ecuador continued to be China, Brazil and Spain, with debt levels of U.S.\$5,295.4 million (85.4% of the total bilateral debt), U.S.\$295.5 million (4.5% of the total bilateral debt) and U.S.\$140.6 million (2.2% of the total bilateral debt), respectively.

As of December 31, 2016, the top three bilateral lenders to Ecuador were China, Brazil, and Spain, with debt levels of U.S.\$6,974.5 million (89.5% of the total bilateral debt), U.S.\$227.7 million (2.92% of the total bilateral debt) and U.S.\$133.4 million (1.71% of the total bilateral debt), respectively.

As of December 31, 2017, the top three bilateral lenders to Ecuador were China, the United States, and Spain, with debt levels of U.S.\$7,547.1 million (77.7% of the total bilateral debt), U.S.\$537.5 million (5.5% of the total bilateral debt) and U.S.\$420.2 million (4.3% of the total bilateral debt), respectively.

As of July 31, 2018, the top three bilateral lenders to Ecuador were China, the United States, and Spain, with debt levels of U.S.\$7,159.6 million (75.3% of the total bilateral debt), U.S.\$528.8 million (5.6% of the total bilateral debt) and U.S.\$457.9 million (4.8% of the total bilateral debt), respectively. As of July 31, 2018, total indebtedness owed to bilateral entities was U.S.\$9.51 billion. The Republic is current on all of its obligations to bilateral lenders.

From 2010 to 2014, Ecuador has entered into three separate loan agreements with China Development Bank totaling U.S.\$5 billion, which are related to a multi-party contractual structure that involves crude oil delivery contracts entered into with PetroChina and Unipetec. Deliveries under these contracts are based upon international spot prices, such as WTI plus or minus a spread, plus a premium paid due to the term of the contracts. The spread is calculated using Argus, a crude oil price assessment publication (“Argus”) and the quality of crude oil as measured by the American Petroleum Institute. Under these agreements, Ecuador is required to invest the loaned amounts in specific infrastructure projects or programs in Ecuador. The first loan agreement, signed in 2010, totaling U.S.\$1 billion, was repaid in its entirety, at the end of its original four-year term. The second loan agreement, signed in 2011, totaling U.S.\$2 billion, has an eight-year term. The third loan agreement, signed in 2012, totaling U.S.\$1 billion, has an eight-year term.

On January 7, 2015, Ecuador entered into a memorandum of understanding with China Development Bank in connection with a loan of up to U.S.\$1.5 billion. The proceeds of the loan under the memorandum of understanding were used for eligible infrastructure and development projects in Ecuador.

On April 29, 2016, Ecuador entered into a fourth loan agreement with China Development Bank for U.S.\$2 billion with a maturity of eight years as a result of the memorandum of understanding entered into between the parties on January 7, 2015, initially contemplating an amount of U.S.\$1.5 billion. The agreement was related to a multi-party contractual structure involving a crude oil delivery contract entered into with PetroChina.

On December 22, 2016 the Municipality of Ibarra entered into a U.S.\$52.5 million loan with the World Bank for a transport infrastructure improvement project. The loan has a term of twenty-four years and is guaranteed by Ecuador acting through the Ministry of Economy and Finance.

On December 22, 2016, Ecuador, acting through its Ministry of Economy and Finance, entered into a 12 year term loan facility for U.S.\$167.4 million with Bank of China Limited, Beijing Branch, Bank of China Limited Liaoning Branch, Bank of China Limited, Panama Branch, Bank of China, Hong Kong Branch and Deutsche Bank AG, Hong Kong Branch. The proceeds of the facility were used to finance the construction of schools in Ecuador and purchase of related goods and equipment.

On December 22, 2016, Ecuador entered into a U.S.\$90.5 million loan with the World Bank for a term of 35 years to finance a project to increase the enrollment of technical and technological educational programs in Ecuador and strengthen the institutional management of such programs.

On December 28, 2016, Ecuador entered into a U.S.\$72.9 million credit agreement with a term of twenty years with the European Investment Bank to finance the construction, renovation and equipment of 21 technical and technological institutes of higher education in Ecuador.

On February 2, 2017, the IESS entered into a U.S.\$25 million credit agreement with Consorcio NHQ with 50% of the total principal amount due 30 days from the date of execution of the agreement and the remaining 50%

of the total principal amount due 24 months from the date of execution of the agreement and will be used to partially finance the construction and equipment of a hospital in the city of Quito.

On February 21, 2017, Ecuador entered into a U.S.\$50 million loan with the JBIC with a term of 12 years to finance an energy efficiency project related to residential water heating.

On March 14, 2017, Ecuador entered into a U.S.\$200 million loan with the CAF with a term of two years to partially finance projects relating to the generation, distribution and transmission of electricity.

On April 1, 2017, Ecuador entered into a U.S.\$75 million loan with the French Development Agency (“AFD”) with a term of 20 years to finance certain educational projects.

On April 18, 2017, Ecuador entered into a U.S.\$60 million loan with the IDB with a term of 25 years to finance the reconstruction of electrical infrastructure in areas affected by the Pedernales Earthquake and the incorporation of seismic resistant infrastructure in the provinces of Esmeraldas, Manabí and Santo Domingo.

On May 22, 2017, the IESS entered into a seven year U.S.\$47 million credit agreement with Deutsche Bank, Sociedad Anónima Española, Banco Santander, S.A. and Banco Popular Español, S.A. guaranteed by Ecuador to partially finance the construction and the purchase of equipment for the IESS hospital in the city of Quito.

On August 11, 2017, Ecuador entered into a U.S.\$65 million credit facility agreement with the AFD with the principal amount due in semi-annual installments and with the last installment due on December 1, 2036. The proceeds will be used to finance the reconstruction of housing by CFN or CONAFIPS adding earthquake resistant features and to reactivate the main productive sectors in the Ecuadorian provinces most affected by the Pedernales Earthquake.

On October 2, 2017, the FLAR approved a loan of U.S.\$637.8 million for Ecuador for a term of three years with a year of grace for the payment of principal. It is expected that the proceeds of this loan will be used to improve Ecuador’s balance of payments. The loan was disbursed on July 5, 2018.

On October 20, 2017, the Ecuadorian Development Bank entered into an eight year U.S.\$200 million facility agreement with China Development Bank guaranteed by Ecuador, acting through its Ministry of Economy and Finance. The first tranche of U.S.\$120 million will be used for on-lending by DBE to eligible Ecuadorian state-owned enterprises and government agencies for purposes of financing projects in Ecuador that are approved by China Development Bank. As of the date of this Supplement, U.S.\$64 million corresponding to the first tranche have been disbursed. The second tranche of U.S.\$80 million will be used for on-lending by DBE to eligible Ecuadorian state-owned enterprises and government agencies for purposes of financing payments to be made to suppliers in connection with telecommunications, road construction, transportation and equipment, sewage, potable water and sanitation projects. As of the date of this Supplement, no amount corresponding to the second tranche has been disbursed.

On December 20, 2017, the Republic entered into a credit facility agreement with the AFD for an amount of up to U.S.\$35 million to finance, in part, housing and reconstruction in Ecuadorian areas affected by the Pedernales Earthquake. The first installment is due and payable on December 1, 2022 and the last installment is due and payable on June 1, 2037.

On December 29, 2017, the Republic entered into a financing agreement with the International Fund for Agricultural Development to finance the Revitalizing Project of Inclusive Alliances in Value Chains with the purpose of improving the income of small producers of cacao, blueberry and cape gooseberry within a designated area. The financing agreement establishes a facility for an amount of U.S.\$25.66 million with a repayment term of 18 years and a donation for an amount of U.S.\$250,000.

On June 30, 2018, the Republic entered into a financing agreement with the FLAR for an amount of U.S.\$368.8 million. This financing facility establishes a repayment term of three years with a year of grace for the payment of principal.

The following table lists current material bilateral and multilateral indebtedness by agreement and lender.

Material Public External Debt (in millions U.S.\$)					
Creditor	Interest Rate Type	Currency	Date Issued	Maturity	Balance as of June 30, 2018
Multilateral					
IBD	4,598.52	U.S.\$	1966- 2016	2016-2049	4,650.0
CAF	3,239.64	U.S.\$	2005- 2016	2016-2031	3,212.9
FLAR.....	40.40	U.S.\$	2014	2017	0
Others ⁽¹⁾	390.25	Euro, U.S.\$	1968-2016	2016-2051	468.6
Total Multilateral Debt					8,331.5
China	6,705.95	RMB, U.S.\$	2010-2017	2019-2036	5,762.06
Brazil	198.10	U.S.\$	2000-2013	2018-2023	155.33
Spain	166.40	U.S.\$	1987-2016	2016-2042	206.70
Italy	4.13	Euro	1995-2015	2025-2048	4.07
Japan.....	37.45	Yen	1988-2014	2018-2028	83.90
Others ^{(2) (3)}	616.08	DEG, Won, Libra, Chf	1985-2015	2016-2053	619.92
Total Bilateral Debt					6,831.97
Other Debt ⁽⁴⁾					18,836.57
Total External Debt					34,000

Source: Ministry of Economy and Finance as of June 2018.

(1) Other multilateral loans include loans with the International Fund for Agricultural Development and the *Banco Internacional de Reconstrucción y Fomento*.

(2) Includes amounts from loans from Paris Club members.

(3) Other bilateral lenders include South Korea, Germany, France, and the United States, among others.

(4) "Other debt" includes commercial debt and amounts owed under the 2030 Notes, the 2020 Notes, the 2022 Notes, the 2024 Notes, the 2026 Notes, the 2023 Notes, the 2027 Notes, the Second 2027 Notes, the 2028 Notes, the PAM 2019 Notes, the PAM First Remarketing Notes, the PAM Second Remarketing Notes, the Brady Bonds and under the GSI Loan Facility.

The following table shows the rates of interest applicable to the outstanding principal balance of the Republic's public external debt at the dates indicated.

Interest on Public Sector External Debt

	At December 31, 2016		At December 31, 2017		At June 30, 2018	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
	(in millions of U.S. dollars, except percentages)		(in millions of U.S. dollars, except percentages)		(in millions of U.S. dollars, except percentages)	
Fixed Rate						
0-3%.....	982.2	3.8%	1,662.1	5.23%	1,499.1	4.4%
3-5%.....	125.8	0.5%	580.7	1.83%	433.0	1.3%
5-8% ⁽¹⁾	9,319.5	36.3%	8,192.1	25.80%	7,594.9	22.3%
More than 8% ⁽²⁾	4,624.1	18.0%	10,439.1	32.88%	13,446.6	39.5%
Floating Rate	10,627.7	41.4%	10,875.8	34.25%	11,026.4	32.4%
Total	25,679.3	100%	31,749.8	100%	34,000.0	100%

Source: 2016 Figures from Ministry of Economy and Finance December 2016 Bulletin; 2017 Figures from Ministry of Economy and Finance December 2017 Bulletin, 2018 Figures from Ministry of Economy and Finance June 2018 Bulletin.

(1) Reflect the amounts under the 2024 Notes.

(2) Reflects the amounts under the 2015 Notes, 2020 Notes, 2022 Notes, 2026 Notes, 2023 Notes, the 2027 Notes, the Second 2027 Notes, the 2028 Notes, the PAM 2019 Notes, the PAM First Remarketing Notes, the PAM Second Remarketing Notes, the 2030 Notes and under the GSI Loan Facility.

The following table sets forth scheduled debt service for the Republic's total public external debt for the periods presented.

Public Sector External Debt Service Maturity 2018-2028

(in millions of dollars)

For the Year Ending December 31,

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Central Government	4,099	4,118	5,936	3,358	5,018	3,725	4,342	2,036	3,452	5,336	4,199
Principal.....	2,111	2,021	3,976	1,614	3,465	2,399	3,213	1,044	2,506	4,642	3,938
Interest.....	1,988	2,097	1,960	1,744	1,553	1,325	1,129	991	947	694	261
Rest of Public Sector	1,034	1,024	829	336	265	241	218	188	136	117	89
Principal.....	845	869	716	250	192	178	165	143	98	84	60
Interest.....	189	155	114	86	73	62	53	45	38	33	29
Total Debt Service	5,133	5,142	6,765	3,694	5,283	3,965	4,560	2,224	3,588	5,453	4,288

Source: Ministry of Economy and Finance as of June 2018.

Internal Debt

The Government's internal debt consists of obligations to both public sector and private entities. Public sector aggregate internal debt increased from U.S.\$7.78 billion as of December 31, 2012 to U.S.\$12.55 billion as of December 31, 2015, due primarily to increased issuances of long and short-term government notes. Total public aggregate internal debt decreased by U.S.\$0.09 billion from U.S.\$12.55 billion in December 31, 2015 to U.S.\$12.46 billion in December 31, 2016 because the amount of debt repaid at maturity exceeded the amount of debt incurred during this period. Total public aggregate internal debt increased by U.S.\$2.33 billion from U.S.\$12.46 billion in December 31, 2016 to U.S.\$14.79 billion in December 31, 2017. This increase was primarily due to bond issuances by the Republic. As of June 30, 2018, public sector aggregate internal debt was U.S.\$13.98 billion, a decrease from U.S.\$14.99 billion as of June 30, 2017. As of July 31, 2018, public sector aggregate internal debt was U.S.\$13.95 billion.

The following table sets forth the public sector aggregate internal debt for the periods presented.

Public Sector Aggregate Internal Debt (in billions of U.S. dollars, except percentage)							
	As of December 31,					As of June 30,	
	2013	2014	2015	2016	2017	2017	2018
Central Government Notes	9.12	11.78	11.78	11.70	14.02	14.22	13.22
Governmental Entities ⁽¹⁾	0.80	0.78	0.77	0.76	0.76	0.77	0.76
Total⁽²⁾	9.93	12.56	12.55	12.46	14.79	14.99	13.98
Internal public debt as a percentage of nominal GDP ⁽³⁾	10.4%	12.3%	12.6%	12.6%	14.3%	14.5%	13.4%

Source: Ministry of Economy and Finance June 2018 Bulletin.

(1) Direct issuances backed by IESS and the Ecuadorian Development Bank. Government is the debtor under all internal debt issuances.

(2) Total public sector internal debt under the aggregation methodology.

(3) Calculated using Central Bank GDP data.

As of December 31, 2017, approximately 94.8% of Ecuador's internal public indebtedness consists of long-term originally issued dollar-denominated notes. Currently, all internal debt obligations are issued through the Ministry of Economy and Finance. As of December 31, 2017, approximately 5.2% of Ecuador's internal public indebtedness is held by Governmental Entities, such as IESS and the Ecuadorian Development Bank.

As of June 30, 2018, the Ministry of Economy and Finance's obligations with the Central Bank with respect to financial investments through long-term Government bonds amount to U.S.\$3,613.3 million.

The Ministry of Economy and Finance's short-term obligations with the Central Bank are only a CETE for an amount of U.S.\$100 million with maturity on October 12, 2018, and a CETE for an amount of U.S.\$11 million with maturity on March 23, 2019.

On May 18, 2017, the Ministry of Economy and Finance transferred assets consisting in shares of financial institutions controlled by the Republic worth U.S.\$2,136.55 million in payment of debt incurred with the Central Bank for U.S.\$2,121.78 million plus accrued interest for U.S.\$14.77 million. As a result, public internal debt decreased by U.S.\$2,121.78 million.

On April 24, 2017, the Ministry of Economy and Finance transferred Central Bank Certificates to Petroamazonas' primary vendors and service providers, in exchange for U.S.\$150 million of accounts payable with such entities, satisfying Petroamazonas' obligations. Furthermore, on September 4, 2017, the Ministry of Economy and Finance transferred additional Central Bank Certificates to Petroamazonas' primary vendors and service providers, in exchange for U.S.\$100 million of accounts payable with such entities, satisfying Petroamazonas' obligations.

The Ministry of Economy and Finance and COSEDE, acting as trustees, temporarily assumed the debts and assets of AGD. They were then permanently transferred to CFN. For further information on these transfers, see "Monetary System—The Financial Safety Net-Deposit Insurance." Notes issued by the AGD matured and were fully paid off by the Government, in December 2014.

Public Sector Aggregate Internal Debt
(in millions of U.S.\$, except percentages)

	As of December 31,										As of June 30	
	2013		2014		2015		2016		2017		2018	
	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%
Short-term notes	—	—	—	—	—	—	—	—	—	—	—	—
Long-term notes ⁽¹⁾	8,992	90.6	11,779	93.8	11,780	93.9	11,695	93.9	14,021	94.8	13,215	94.5
AGD notes ⁽²⁾	133	1.3	—	—	—	—	—	—	—	—	—	—
CFN notes ⁽³⁾	—	—	—	—	—	—	—	—	—	—	—	—
Total notes	9,125	91.9	11,779	93.8	11,780	93.9	11,695	93.9	14,021	94.8	13,215	94.5
Governmental Entities ⁽⁴⁾ ...	802	8.1	780	6.2	767	6.1	762	6.1	765	5.2	763	5.5
Total internal debt ⁽⁵⁾	9,927	100	12,559	100	12,547	100	12,457	100	14,785	100	13,978	100

Source: Ministry of Economy and Finance June 2018.

- (1) Securities placed by Ecuador according to decrees and resolutions issued to finance projects from the state budget and annual investment plan.
- (2) Law 98-17 of November 26, 1998, published in Official Gazette No. 78 of December 1, 1998 ("Law 98-17") authorized the issuance of government bonds as part of the resources for the operations of the Deposit Guarantee Agency. These bonds were issued for a term of 15 years, with payment of principal at maturity and annual interest payments at a rate of 12%.
- (3) These bonds issued under Law 98-17 as a capital contribution to the National Finance Corporation. The value of these bonds was U.S.\$424.9 million. They had 7-year and 11-year terms with semi-annual payments of principal and interest at Libor plus 180 days margin.
- (4) Direct issuances backed by IESS and the Ecuadorian Development Bank.
- (5) Total public sector internal debt under the aggregation methodology.

As of June 30, 2018, Ecuador has not issued any short-term debt (*i.e.*, with a maturity equal to or less than one year). Ecuador's medium-term and short-term obligations have generally been issued to finance development projects and to restructure or provide for revenue shortfalls in the Government's budget for a given year. Notes issued for development projects are generally privately held by entities contracted to undertake these development projects. Notes issued for budget restructuring, which generally have a maturity greater than one year, are placed on the Ecuadorian Stock Exchanges, and are currently held by both public and private holders.

Decree 1218

On October 25, 2016, pursuant to Article 147, Clause 13 of the 2008 Constitution, former President Correa exercised his presidential authority to issue implementing regulations and signed Decree 1218, which modified Article 135 of the General Rules to the Public Planning and Finance Code. Decree 1218 changed the methodology that the Ministry of Economy and Finance uses to calculate the total public debt to GDP ratio for the purpose of establishing whether the total public debt ceiling of 40% established in Article 124 of the Public Planning and Finance Code has been exceeded. Under Decree 1218, the Ministry of Economy and Finance has been using the total consolidated public debt methodology set out in the Manual of Public Finance Statistics of the IMF. The IMF GFS, which was published in 2001, provides that the presentation of government financial statistics, including total public debt, should be calculated on a consolidated basis rather than on an aggregate basis. According to the IMF GFS, the consolidation methodology presents statistics for a group of units as if accounting for a single unit. In the context of total public debt, this means that debt that flows between governmental units or entities or between the central government and these governmental units or entities ("intra-governmental debt") is not included in the calculation of total public debt. This principle is reaffirmed in the preamble of the Organic Law for Development, Investment, Employment and Fiscal Stability, approved by the National Assembly on June 21, 2018. In contrast, the aggregation methodology, which the Ministry of Economy and Finance used prior to Decree 1218, does include intra-governmental debt in the calculation of total public debt. By changing the method of calculating total public debt from an aggregation methodology to a consolidation methodology, Decree 1218 effectively eliminated certain types of debt from the calculation and, by extension, reduced the amount of public debt taken into account for purposes of the 40% public debt to GDP ceiling. Following the enactment of Decree 1218, the Ministry of Economy and Finance has been in communication with the IMF with respect to methodologies used for measuring public debt. Since the Office of the Comptroller General issued its CGR Audit Report, the Ministry of Economy and Finance has only been releasing public debt to GDP ratio information applying the aggregation methodology, even though Decree 1218 has not been repealed through official procedures.

On June 21, 2018, the National Assembly approved the Organic Law for Development, Investment, Employment and Fiscal Stability (submitted by President Moreno), which became effective on August 21, 2018, which among other things, provides certainty as to the nature of certain activities as *pasivo contingente* (“contingent liability”) for purposes of the calculation of the debt to GDP ratio, and provides for a waiver of the 40% public debt to GDP ratio ceiling for the period 2018-2021, and until the public debt reaches a level below such 40% debt to GDP ratio. This new law provides that for the period 2018-2021, a fiscal stability plan shall be implemented by the governing body of public finances, for these purposes the Ministry of Economy and Finance, in light of the 40% public debt to GDP ratio ceiling having been exceeded had Decree 1218 not been in place. The new law sets forth that in each subsequent fiscal year after the period 2018-2021, the General State Budget must be presented with a fiscal program aimed at reducing in the long term the amount of total public debt with respect to GDP, until it reaches a level below such 40% debt to GDP ratio. The new law also mandates that the governing body of public finances will issue within 90 days from August 21, 2018, a new regulation implementing a new accounting methodology (which will replace the consolidation methodology established by Decree 1218), which shall be in accordance with Article 123 of the Public Planning and Finance Code (as amended), internationally accepted standards and best practices for the registration and disclosure of public debt (see “Organic Law for Development, Investment, Employment and Fiscal Stability” below).

Certain of the total public debt and public debt to GDP ratio information set forth in this Supplement is based on the aggregation methodology and certain of the total public debt and public debt to GDP ratio information is based on the consolidation methodology. The table below sets forth the total aggregate public debt and total aggregate public debt as a percentage of GDP.

Debt to GDP Ratio

(in millions of U.S.\$, other than percentages)

	As of December 31,					As June 30,	
	2013	2014	2015	2016	2017	2017	2018
Aggregate Total Debt.....	22,846.7	30,140.2	32,771.2	38,136.6	46,535.6	43,542.2	47,978.3
Aggregate Debt to GDP Ratio.....	24.0	29.6	33.0	38.7	45.2	42.3	46.1 ⁽¹⁾

Source: Ministry of Economy and Finance June 2018 Bulletin

(1) Based on Ministry of Economy and Finance’s estimate of projected GDP, which differs from look-back data from the Central Bank.

Decree 1218 does not affect external debt as external debt is owed to entities outside of the Ecuadorian government and is, therefore, not affected by the exclusion of intra-governmental debt. Using the aggregation methodology, the total internal debt of Ecuador as of June 30, 2018 was U.S.\$13.98 billion, compared with U.S.\$14.99 billion as of June 30, 2017. This decrease is primarily due to the repayment of certain notes upon maturity. Using the consolidation methodology, the total internal debt of Ecuador, as of June 30, 2018, was U.S.\$772.1 million, compared with U.S.\$973.8 million as of June 30, 2017. This decrease in internal debt under the consolidation methodology is primarily due to the repayment of certain notes upon maturity. The U.S.\$13,206.2 million under the aggregation methodology figure for June 30, 2018 that is excluded from the equivalent consolidation methodology figure corresponds to intra-governmental obligations, mainly between the BIESS, IESS, state-owned banks and the Central Bank. Because only obligations owed to private, non-governmental entities are counted toward the total internal debt of Ecuador under the consolidation methodology, the total consolidated internal debt figure is lower than the total aggregate internal debt figure. Using the aggregation methodology, the total internal debt of Ecuador as of July 31, 2018 was U.S.\$13.95 billion. Using the consolidation methodology, the total internal debt of Ecuador, as of July 31, 2018, was U.S.\$744.4 million.

Following the execution of the GSI Repo Transaction (see “GSI Repo Transaction” below), and the payment by GSI to the Republic of a purchase price of U.S.\$500,000,000 related to the GSI Repo Transaction, it is expected that the total public debt to GDP ratio will be approximately 47%, under the aggregation methodology, using the debt to GDP ratio information as of July 2018. Pursuant to the Organic Law for Development, Investment, Employment and Fiscal Stability a new accounting methodology shall be established within 90 days from August 21, 2018, which will replace the consolidation methodology established by Decree 1218. This ratio may therefore change.

Under the General Comptroller Law, the Office of the Comptroller General has the authority to examine the use of public resources by both public and private institutions. Following the amendment to the 2008 Constitution on December 21, 2015, the Office of the Comptroller General does not have the authority to audit the management of public resources under principles of effectiveness, efficiency and economy (*auditoria de gestión*), but it may still conduct a legality, financial and/or administrative audit. More specifically, according to Article 19 of the General Comptroller Law, the Office of the Comptroller General has the authority to carry out special audits to verify limited aspects of governmental activities under these parameters.

On July 31, 2017, the Office of the Comptroller General headed by Dr. Pablo Celi announced pursuant to *Acuerdo* 024-CG-2017 its intention to conduct a special audit on the legality, sources and uses of all the internal and external debt of the Republic incurred between January 2012 and May 2017. The entities under review are, among others, the Ministry of Economy and Finance, the Central Bank and SENPLADES. The Special Audit is being carried out by the Production, Environment and Finance Audit Department of the Office of the Comptroller General, and will be led by a Supervisory Auditor. *Acuerdo* 024-CG-2017 also included provided that the Office of the Comptroller General may obtain specialized technical advice, in accordance with Article 89 of the General Comptroller Law, and provided for the establishment by invitation of a citizen oversight organization composed of nationally recognised professionals to participate in different stages of the special audit — a possibility not expressly regulated by law.

On January 8, 2018, the Office of the Comptroller General announced the creation of the citizen oversight organization composed of Ecuadorian professionals, including former high-level public officials such as a former Vice-president of the Republic, two former Comptrollers General, and a former Minister of Economy and Finance (the “Citizen Oversight Organization”) to observe the procedures and methodology of the Special Audit. The Comptroller General indicated that, “the observers will be able to look into the findings, conclusions and recommendations” and “contribute with their technical criteria, specialized opinions, analytical perspective and even with complementary information.” The Office of the Comptroller General also declared that the Citizen Oversight Organization does not replace the Comptroller General in its functions and powers, and that its findings will not be binding; rather it is intended that the participation of the Citizen Oversight Organization will promote transparency.

In relation to the Special Audit and the creation of the Citizen Oversight Organization, the Office of the Presidency issued a press release, on January 10, 2018, indicating that the Government “ratifies its respect for the independence and autonomy of the different entities and of control bodies of the State” and that the decision to set up an ad-hoc oversight organization to participate in the Special Audit being conducted by the Office of the Comptroller General on the Special Audit shall be conducted “within the constitutional, legal and current regulations to guarantee its legality and objectivity.” Also, the Office of the Presidency reiterated that the Republic has “the political will and the financial capacity to guarantee the strict compliance with all its international financial commitments under the terms and conditions on which they were contracted.”

The Special Audit concluded on April 6, 2018, when the Office of the Comptroller General issued its CGR Audit Report including: (i) conclusions of the Special Audit conducted; and (ii) recommendations regarding actions related to specific contracts or methodologies (according to the law, these recommendations are mandatory for public entities and cannot be challenged). The Special Audit did not result in the annulment of previous acts, or the invalidation of existing contracts, which may only occur with judicial intervention in a proceeding initiated before Ecuadorian courts.

Among others, the CGR Audit Report concluded that certain rules that clearly defined the methodology to calculate public debt were repealed by the Public Planning and Finance Code when enacted in October 2010 and replaced by laws and regulations that allow a discretionary application and use of certain concepts related to public debt; and, that the amounts of advance payments pursuant to certain commercial agreements providing for the advance payment of a portion of the purchase price of future oil deliveries should have been categorized as public debt and considered for the calculations of the public debt to GDP ratio. The CGR Audit Report also concluded that Decree 1218 established a methodology for the calculation of the public debt in relation to the GDP (based on the total consolidated public debt methodology set out in the Manual of Public Finance Statistics of the IMF) which was not consistent with Article 123 of the Public Planning and Finance Code and moved away from the historical tradition of using the aggregation public debt methodology for the purpose of establishing whether the total public debt ceiling of 40% had been exceeded, and thus allowed certain debt transactions to be entered into without

obtaining the prior approval of the National Assembly despite the fact that, according to the Office of the Comptroller General, the total public debt to GDP ratio would have exceeded the 40% limit established in Article 124 of the Public Planning and Finance Code had Decree 1218 not been in place.

The CGR Audit Report also included some conclusions and recommendations regarding: certain inter-institutional agreements between the Ministry of Economy and Finance and Petroecuador; deficiencies in the filing of debt documentation; the implementation of the agreed joint office for the management and monitoring of certain credit agreements between the Ministry of Economy and Finance and China Development Bank; and, the confidential character of certain finance documents relating to public debt

On April 9, 2018, during the presentation of the CGR Audit Report to the public, the Office of the Comptroller General announced that the Special Audit resulted in (i) indications of administrative liability of public officials, which may lead to the dismissal of public officials; (ii) indications of civil liability of current or former public officials, which may lead to payment of damages by the public officials being due to the Republic if found to have acted in breach of their duties; and (iii) indications of criminal liability of former or current public officials. Civil and administrative indications of liability are reviewed by the Office of the Comptroller General. If the Office of the Comptroller General finds that the former or current officials acted in breach of their duties, it will issue a resolution determining civil and/or administrative liability. A final resolution from the Office of the Comptroller General may be appealed before the district administrative courts, in which case the courts will finally determine whether those officials are civilly and/or administratively liable.

On April 9, 2018, the Office of the Comptroller General delivered to the Office of the Prosecutor General a report regarding the indications of criminal liability of former or current public officials. Based on that report of the Office of the Comptroller General, on April 10, 2018, the Office of the Prosecutor General initiated a criminal investigation against the former President Rafael Correa, three former Ministers of Finance and another seven former or current public officials of the Ministry of Economy and Finance. During the preliminary criminal investigation phase, which may last up to two years, the Office of the Prosecutor General will collect all the evidentiary elements that will serve to determine if a crime has been committed. Once the preliminary investigation is completed, the Office of the Prosecutor General may request the competent judge that an indictment hearing is held. If the judge determines that there are grounds for an indictment, a 90-day period will commence in which the Office of the Prosecutor General will conclude its investigation and issue a final report. The final report will be presented before the competent criminal court before which the hearing to call the alleged offenders to trial will be held. The alleged offenders will not be considered criminally liable until a trial is conducted and a decision determining criminal liability is issued.

The Office of the Comptroller General had previously conducted audits, in 2015 and 2017, of all internal and external debt issued between 2009 and 2015 without finding any illegalities in the process of borrowing or issuing debt.

Organic Law for Development, Investment, Employment and Fiscal Stability

On June 21, 2018, the National Assembly passed the Organic Law for Development, Investment, Employment and Fiscal Stability which became effective on August 21, 2018. In addition to the reforms described under section “The Ecuadorian Economy—Economic and Social Policies—Organic Law for Development, Investment, Employment and Fiscal Stability,” the Organic Law for Development, Investment, Employment and Fiscal Stability amends certain provisions of the Public Planning and Finance Code as recommended by the Office of the Comptroller General in its CGR Audit Report, in order to reconcile amounts comprising public debt in application of Article 123 of the Public Planning and Finance Code, for purposes of being able to ascertain the actual value of total public debt and determine if the latter has surpassed the legal limit of 40% debt to GDP set out in Article 124 of the Public Planning and Finance Code. In addition, the Organic Law for Development, Investment, Employment and Fiscal Stability added provisions that establish a temporary regime for public debt operations for purposes of reducing the debt to GDP ratio.

In particular, the Organic Law for Development, Investment, Employment and Fiscal Stability reforms Article 123 of the Public Planning and Finance Code by expressly confirming that a *pasivo contingente* (“contingent

liability”) may originate from the activities listed below, and therefore will not be included in the calculation of total public debt to GDP ratio. These activities are:

- When the Central Government grants a sovereign guarantee for the benefit of public sector entities that enter into public debt, containing those provisions that are required for their payment,
- The issuance of notes that are linked to duly documented payment obligations,
- The execution of guarantees to secure the proper use of non-reimbursable contributions received by any applicable entity, and
- Contingent liabilities taken by the public sector, in accordance with applicable law, or other liabilities taken within the context of agreements with international credit agencies.

The above provides legal certainty as to which transactions should not be included within the calculation of the debt to GDP ratio as, pursuant to Article 123 of the Public Planning and Finance Code, contingent liabilities should only be considered public debt in such amount and to the extent the obligation is due and payable. Hence, the Additional Notes will not be considered in the calculation of public debt, unless there is an event of default under the terms of the August GSI Repo Transaction. However, the Purchase Price (as defined under the section “GSI Repo Transaction” below) will be considered as public debt.

The Organic Law for Development, Investment, Employment and Fiscal Stability provides for a waiver of the 40% public debt to GDP ratio ceiling for the period 2018-2021, and until the public debt reaches a level below such 40% debt to GDP ratio. This new law provides that for the period 2018-2021, a fiscal stability plan shall be implemented by the governing body of public finances, for these purposes the Ministry of Economy and Finance, in light of the 40% public debt to GDP ratio ceiling having been exceeded had Decree 1218 not been in place. The new law sets forth that in each subsequent fiscal year after the period 2018-2021, the General State Budget must be presented with a fiscal program aimed at reducing in the long term the amount of total public debt with respect to GDP, until it reaches a level below such 40% debt to GDP ratio. The new law also mandates that a new accounting methodology be established within 90 days from August 21, 2018 (which will replace the consolidation methodology established by Decree 1218).

The Office of the Comptroller General had previously conducted audits, in 2015 and 2017, of all internal and external debt issued between 2009 and 2015 without finding any illegalities in the process of borrowing or issuing debt. For a description of the risks of any action by the Government in relation to the 40% public debt to GDP ceiling and related accounting methodologies, see *“Risk Factors—Risk Factors relating to Ecuador—The Republic may incur additional debt beyond what investors may have anticipated as a result of a change in methodology in calculating the public debt to GDP ratio for the purpose of complying with a 40% limit under Ecuadorian law, which could materially adversely affect the interests of Noteholders”* and *“Risk Factors— The Office of the Comptroller General has issued a report with conclusions from its audit to the Republic's internal and external debt”* in this Supplement.

Debt Obligations

Brady Bonds and Eurobonds

In May 1994, the Government reached an agreement with its commercial bank creditors to restructure the Republic’s medium-term and long-term commercial bank debt (the “Brady Plan”). The Brady Plan offered creditors the opportunity to exchange existing principal for either: (i) 30-year notes of the same face amount (the “Par Notes”), with interest initially fixed at 3% incrementally increased over the first ten years up to a rate of 5% or (ii) 30-year notes with a face amount equal to 55% of the face value of the debt exchanged (the “Discount Notes” together with the Par Notes, the “Brady Bonds”) and bearing interest at the London Interbank Offered Rate (“LIBOR”) plus 13-16%. The principal of Par Notes and Discount Notes was fully collateralized by 30-year U.S. Treasury notes and interest on those Notes was collateralized on a 12-month rolling basis. The Brady Plan also offered creditors the

opportunity to exchange accrued and unpaid interest for two instruments: (i) 20-year notes bearing interest at LIBOR plus 13-16% (the “PDI Notes”) and (ii) ten-year notes bearing interest at LIBOR plus 13-16% and representing certain accrued and unpaid overdue interest under the Consolidation Agreement (the “IE Notes”).

On December 21, 1994, the Republic issued U.S.\$191.0 million of IE Notes. On February 28, 1995, the Republic issued U.S.\$1.9 billion, U.S.\$1.4 billion and U.S.\$2.4 billion of Par Notes, Discount Notes and PDI Notes, respectively. The Republic also agreed to make certain additional cash payments in respect of overdue interest.

On April 25, 1997, the Republic issued U.S.\$350 million of its 11.25% Fixed Rate Eurobonds due 2002 and U.S.\$150 million of its Floating Rate Eurobonds due 2004 (together, the “Eurobonds”). In late 1999 and early 2000, the Republic defaulted on its Par Bonds, Discount Bonds, 11.25% Fixed Rate Eurobonds due 2002, Floating Rate Eurobonds due 2004, IE Notes and PDI Notes (together, the “Old Notes”). In June 2000, the Republic launched a global exchange offer whereby it offered U.S. dollar Denominated Global Notes due 2012 (the “2012 Notes”) and U.S. dollar Denominated Step-Up Global Notes due 2030 (the “2030 Notes” together with the 2012 Notes, the “2012 and 2030 Notes”) together with a cash payment for any and all of the Old Notes.

In December 2005, the Republic successfully launched an issuance of notes due 2015 (the “2015 Notes”). The use of the proceeds of the 2015 Notes was to buy back certain of the 2012 Notes in accordance with their terms. The Republic successfully repaid all principal and interest on the 2015 Notes on December 15, 2015.

2012 and 2030 Notes and tender offer

In 2008, Ecuador defaulted on its interest payments for the 2012 and 2030 Notes in the aggregate amount of approximately U.S.\$157 million and principal payments of approximately U.S.\$3,200 million. The 2012 and 2030 Notes were originally issued in exchange for prior debt offerings of the Republic in order to extend the maturity dates of those prior obligations. This default followed the publication of a report in 2008 by the CAIC, a committee composed of representatives from both the Ecuadorian government and private sector organizations and members of civil society. CAIC reviewed Ecuador’s debt obligations from 1976 to 2006. This report made a number of findings regarding the legitimacy of Ecuador’s debt obligations (including the 2012 and 2030 Notes), in particular relating to concerns involving the public assumption of private debt, appropriate authorizations, sovereign immunity, and the relevant economic terms of the debt obligations incurred. After the default, which occurred during the first term of former President Correa’s administration, Ecuador offered to repurchase the 2012 and 2030 Notes. In April 2009 and November 2009, the Republic launched tender offers, in cash, to holders of the 2012 and 2030 Notes. Approximately 93.22% of the notes were tendered in the April 2009 and the November 2009 tender offers and were bought out at 35 cents on the dollar. Although some holders continue to hold the defaulted 2012 and 2030 Notes, Ecuador has since successfully repurchased additional 2012 and 2030 Notes from remaining holders. As of the date hereof, the total aggregate amount of outstanding principal on the 2012 and 2030 Notes is U.S.\$52 million, which represents 1.6% of the original aggregate principal amount of the 2012 and 2030 Notes.

2024 Notes

On June 17, 2014, the Republic successfully issued U.S.\$2 billion of notes due June 2024, with a coupon of 7.95% at 100% of the purchase price (the “2024 Notes”). The most recent interest payment on the 2024 Notes, which was due on December 20, 2017, was paid by the Republic in accordance with the relevant indenture. The Republic is current on its financial obligations under the 2024 Notes and intends to make all payments as they become due and payable. The Republic used the proceeds of the 2024 Notes to finance its various hydroelectric projects and other infrastructure projects contemplated in the National Development Plan.

2020 Notes

On March 24, 2015, the Republic successfully issued U.S.\$750 million of notes due March 2020 with a coupon of 10.50%, the Original 2020 Issuance, at 100% of the purchase price. The Republic reopened the Original 2020 Issuance on May 19, 2015 and successfully issued an additional U.S.\$750 million of notes at a price of 107.789%, also due 2020. The most recent interest payment on the 2020 Notes, which was due on September 24,

2017, was paid by the Republic in accordance with the relevant indenture. The Republic is current on its financial obligations under the 2020 Notes and intends to make all payments as they become due and payable. The Republic used the proceeds of the 2020 Notes to finance the various hydroelectric projects and other infrastructure projects contemplated in the National Development Plan.

2022 Notes

On July 28, 2016, the Republic successfully issued U.S.\$1.0 billion of notes due 2022 with a coupon of 10.75%, the Original 2022 Issuance, at 100% of the purchase price. The Republic reopened the Original 2022 Issuance on September 30, 2016 and successfully issued an additional U.S.\$1.0 billion of notes at a price of 100%, also due 2022. The Republic is current on its financial obligations under the 2022 Notes and intends to make all payments as they become due and payable. The Republic used the proceeds of the 2022 Notes to finance its various hydroelectric projects and other infrastructure projects contemplated in the National Development Plan. The Republic reopened the Original 2022 issuance on October 16, 2017, and successfully issued an additional U.S.\$378 million of notes at a price of 112.878%, also due 2022, within the context of a loan with GSI. See “GSI Loan Facility” below.

2026 Notes

On December 13, 2016, the Republic successfully issued U.S.\$750 million of notes due 2026 with a coupon of 9.650% at 100% of the purchase price (the “2026 Notes”). The Republic reopened the Original 2026 Issuance on January 13, 2016 and successfully issued an additional U.S.\$1.0 billion of notes at a price of 103.364% also due 2026. The Republic is current on its financial obligations under the 2026 Notes and intends to make all payments as they become due and payable. The Republic used the proceeds of the 2026 Notes to (1) finance Government programs, (2) finance infrastructure projects that have the capacity to repay the related debt obligations and (3) refinance an existing external debt obligation on more favorable terms. The Republic reopened the Original 2026 issuance on October 16, 2017, and successfully issued an additional U.S.\$41 million of notes at a price of 106.664%, also due 2026, within the context of a loan with GSI. See “GSI Loan Facility” below.

Petroamazonas notes

In February 2017, Petroamazonas issued two tranches of notes guaranteed by Ecuador. Under the first tranche, Petroamazonas issued U.S.\$355,225,848.25 notes due 2019 with a coupon of 2.000% and not subject to a remarketing (the “PAM 2019 Notes”) pursuant to an indenture entered into between Petroamazonas, Ecuador as guarantor and The Bank of New York Mellon as trustee. Under the second tranche, Petroamazonas issued U.S.\$315,339,980.55 notes due 2020 with a coupon of 4.625% (the “PAM First Remarketing Notes”) pursuant to an indenture entered into between Petroamazonas, Ecuador as guarantor, and The Bank of New York Mellon. In May 2017, the holders of the PAM First Remarketing Notes sold the PAM First Remarketing Notes to subsequent purchasers in the international capital markets.

On November 6, 2017, Petroamazonas issued U.S.\$300,000,000 of its 4.625% notes due 2020, guaranteed by Ecuador, and later remarketed those notes on December 11, 2017 (the “PAM Second Remarketing Notes”). The PAM Second Remarketing Notes were issued pursuant to an indenture entered into between, among others, Petroamazonas, Ecuador as guarantor and The Bank of New York Mellon as trustee.

2023 Notes and 2027 Notes

On June 2, 2017, the Republic successfully issued two tranches of notes. Under the first tranche, the Republic issued U.S.\$1.0 billion of notes due 2023 with a coupon of 8.750% at 100% of the purchase price (the “2023 Notes”). Under the second tranche, the Republic issued U.S.\$1.0 billion of notes due 2027 with a coupon of 9.625% at 100% of the purchase price (the “2027 Notes”). The Republic is current on its financial obligations under the 2023 Notes and under the 2027 Notes. The Republic used the proceeds of the 2023 Notes and the 2027 Notes to (1) finance Government Programs, (2) finance infrastructure projects that have the capacity to repay the related debt obligations and (3) refinance an existing external debt obligation on more favorable terms. The Republic reopened

the Original 2023 issuance on October 16, 2017, and successfully issued an additional U.S.\$187 million of notes at a price of 104.412%, also due 2023, within the context of a loan with GSI. See “GSI Loan Facility” below.

Second 2027 Notes

On October 23, 2017, the Republic successfully issued U.S.\$2.5 billion of notes due 2027 with a coupon of 8.875% at 100% of the purchase price (the “Second 2027 Notes”). The Republic is current on its financial obligations under the Second 2027 Notes. The Republic used the proceeds of the Second 2027 Notes in accordance with the limitations of the Public Planning and Finance Code which indicates that the Republic may only use the proceeds to (1) finance Government programs, (2) finance infrastructure projects that have the capacity to repay the related debt obligations and (3) refinance an existing external debt obligation on more favorable terms.

2028 Notes

On January 23, 2018, the Republic successfully issued U.S.\$3.0 billion of notes due 2028 with a coupon of 7.875% at 100% of the purchase price (the “2028 Notes”). The Republic is current on its financial obligations under the 2028 Notes and intends to make all payments as they become due and payable. The Republic used the proceeds of the 2028 Notes in accordance with the limitations of the Public Planning and Finance Code which indicates that the Republic may only use the proceeds to (1) finance Government programs, (2) finance infrastructure projects that have the capacity to repay the related debt obligations and (3) refinance an existing external debt obligation on more favorable terms.

GSI Loan Facility

On October 11, 2017 the Republic and Goldman Sachs International (“GSI”) entered into a U.S.\$500 million 35-month loan facility (the “GSI Loan Facility”) governed by Ecuadorian law.

On October 11, 2017, the Central Bank and GSI entered into a three-year gold derivative transaction in which the Central Bank transferred to GSI an initial 300,000 ounces of gold (valued at the date of the transaction at approximately U.S.\$387 million, “Gold”) (the “Gold Derivative Transaction”) and in return received a fixed rate from GSI on the value of the Gold transferred. The Gold Derivative Transaction is similar to the gold transaction that the Central Bank entered into with GSI on May 2014, which terminated at maturity in February 2017. In addition, on the same date as the Gold Derivative Transaction, the Central Bank entered into a three-year bond derivative transaction (the “Bond Derivative Transaction”) in which the Central Bank transferred to GSI U.S.\$606 million nominal amount of notes issued by the Republic (the “2017 Reopened Notes”) (with a market value at the date of the transaction of U.S.\$650 million) and in return received the interest amounts on the 2017 Reopened Notes (with any interest generated for any delays in such transfer from GSI to the Central Bank) in addition to a fixed rate on the value of the 2017 Reopened Notes transferred to GSI. The 2017 Reopened Notes constitute “Further Notes” (as defined in each of the Offering Circulars) of the following existing series of notes currently being traded in the international markets: (a) the 2022 Notes, (b) the 2023 Notes, and (c) the 2026 Notes. The issue of the 2017 Reopened Notes was authorized by the Republic’s Debt and Finance Committee under *Acta Resolutiva* No. 014 dated October 10, 2017. The 2017 Reopened Notes were issued on October 16, 2017 and exchanged with the Central Bank for a scheduled term of 3 years pursuant to an *Acuerdo de Permuta* (the “Swap Agreement”) between the Central Bank and the Ministry of Economy and Finance dated October 11, 2017 for U.S.\$650 million of notes issued by the Republic in the domestic market (“Locally Issued Notes”), owned by the Central Bank at the date of the transaction. The 2017 Reopened Notes were issued on October 16, 2017 in consideration for the transfer to the Republic of the Locally Issued Notes subject to the terms of the Swap Agreement. The 2017 Reopened Notes are fully fungible with the 2022 Notes, the 2023 Notes and the 2026 Notes, respectively, and constitute general, direct, unsecured, unsubordinated and unconditional obligations of the Republic backed by the full faith and credit of the Republic and, based on an opinion of the Ministry of Economy and Finance of the Republic, have been legally and validly issued.

Under the terms of the Bond Derivative Transaction and the Gold Derivative Transaction, upon maturity, the Central Bank is entitled to receive the return of an equivalent amount of the Gold (under the Gold Derivative Transaction) and equivalent property to the 2017 Reopened Notes (under the Bond Derivative Transaction) (the

“2017 Equivalent Property”) from GSI, without payment by the Central Bank, provided that certain credit events relating to the Republic do not occur. GSI will post investment-grade securities to a custodial account at The Bank of New York Mellon as collateral for the Central Bank’s exposure to GSI. Under the Bond Derivative Transaction, GSI can sell or otherwise transfer any interest in the 2017 Reopened Notes at any time to any third party, although it will retain economic exposure to the 2017 Equivalent Property for so long as GSI has a future obligation, whether or not contingent, to deliver the 2017 Equivalent Property. Upon the occurrence of a credit event, GSI will retain the Gold and the 2017 Equivalent Property, although the Central Bank may repurchase the Gold if it pays GSI its dollar value at that point in time at market price. In the event the combined value of Gold and 2017 Equivalent Property declines and is worth less than approximately U.S.\$807 million, the Central Bank must deliver an additional amount of cash, gold or U.S. treasuries (the “Additional Assets”) in order to make up the difference (with the amount of additional Gold capped at 100,000 additional ounces). Accordingly, the Republic’s gold reserves, cash and investments in U.S. treasuries (if any) could decrease in the event that the combined value of the Gold, the 2017 Equivalent Property and the Additional Assets declines or if a credit event occurs. In addition, in certain limited circumstances the excess amount of the equivalent Additional Assets will be returned to the Central Bank if the combined value of the Gold, 2017 Equivalent Property and Additional Assets increases above a certain threshold.

Under the Swap Agreement, the Central Bank is required to transfer to the Ministry of Economy and Finance the full interest amounts (together with any interest generated for any delays in such transfer by GSI to the Central Bank) that it receives under the Bond Derivative Transaction (excluding the additional fixed rate the BCE receives from GSI on the value of the 2017 Reopened Notes transferred to GSI) and is required to transfer to the Ministry of Economy and Finance 2017 Equivalent Property upon the maturity of the Swap Agreement in exchange for the return of the Locally Issued Notes. If a credit event occurs under the Bond Derivative transaction, the rights of the Central Bank under the Bond Derivative Transaction, and of the Ministry of Economy and Finance under the Swap Agreement, to receive amounts paid under the 2017 Reopened Notes will terminate, but the Ministry of Economy and Finance will continue to be required to make all payments of principal and interest in respect of the 2017 Reopened Notes to the applicable holders of the 2017 Reopened Notes, and will have certain remedies against the Central Bank.

Article 133 of the Rules to the Public Planning and Finance Code sets forth that it is incumbent on the Ministry of Economy and Finance to prepare the statements of public debt and to issue technical regulations to calculate the public debt to GDP ratio. On October 25, 2016, pursuant to Article 147, Clause 13 of the 2008 Constitution, the Government issued implementing regulations through the enactment of Decree 1218, which is currently in effect; however, subject to being repealed pursuant to the Organic Law for Development, Investment, Employment and Fiscal Stability as further discussed under “Public Debt-Decree 1218”. Decree 1218, currently establishes that the Ministry of Economy and Finance shall use the consolidation methodology set out in the IMF GFS for the preparation of statements of public debt in order to calculate the total public debt to GDP. See “Public Debt-Decree 1218.” On August 31, 2017 the Legislative Assembly of Ecuador approved the 2017 Draft Budget prepared by the Ministry of Economy and Finance in which the consolidation methodology, mandated by Decree 1218, has been used to calculate the total public debt to GDP ratio.

Accordingly, the Ministry of Economy and Finance did not consider the aggregate amount of the 2017 Reopened Notes in the calculation of total public debt to GDP ceiling as described above, and accounted them as a *pasivo contingente* (“contingent liability”) as stated in the Public Planning and Finance Code. According to Section 3.95 of the IMF GFS, contingencies are “conditions or situations that may affect the financial performance or position of the general government sector depending on the occurrence or nonoccurrence of one or more future events” and under Section 3.96 of the IMF GFS, the IMF GFS does “not treat any contingencies as financial assets or liabilities because they are not unconditional claims or obligations.” Under Section 7.142 of the IMF GFS, debt “consists of all liabilities that require payment or payments of interest and/or principal by the debtor to the creditor at a date or dates in the future.” It is the view of both the Ministry of Economy and Finance and the Debt and Finance Committee of the Republic that, as of the time of issuance, the 2017 Reopened Notes were to be treated as contingencies under the IMF GFS and in the Public Planning and Finance Code because they formed part of a series of transactions which contemplated that any interest amounts on the 2017 Reopened Notes would be returned to the Central Bank as provided in the Bond Derivative Transaction and through the Swap Agreement to the Republic, GSI agreed to retain economic exposure to the 2017 Equivalent Property and, unless a credit event occurs, GSI is required to return 2017 Equivalent Property to the Central Bank upon maturity (and the Central Bank to the Ministry of Economy and

Finance under the Swap Agreement). According to the Ministry of Economy and Finance, as of the time of issuance, the 2017 Reopened Notes (as part of the Bond Derivative Transaction) were contingencies and not “debt” to be accounted in the consolidated statement of public debt which would count towards the calculation of the total public debt to GDP ceiling. For similar reasons, the Ministry of Economy and Finance excluded the Reopened Notes from certain other unconsolidated measures which reflected the amount of its indebtedness owed to the Central Bank and other governmental agencies. These views were affirmed by the amendment to Article 123 of the Public Planning and Finance Code pursuant to the Organic Law for Development, Investment, Employment and Fiscal Stability, whereby the issuance of notes that are linked to duly documented payment obligations are expressly considered contingent liabilities and therefore not included in the calculation of total public debt to GDP ratio.

As of the date of the Bond Derivative transaction, there was no precedent in Ecuador for similar transactions being treated as a contingency, such as the 2017 Reopened Notes in the context of the Bond Derivative Transaction, as the IMF GFS guidelines had been recently implemented and adopted through Decree 1218. The treatment of the 2017 Reopened Notes as a contingency may be subject to a subsequent Presidential decree implementing other methodologies or different interpretation of the IMF GFS guidelines; however, the amendment to Article 123 of the Public Planning and Finance Code provides legal certainty to this position. If the 2017 Reopened Notes were not treated as contingencies but instead included in the calculation of the public debt to GDP ratio, as of the close of August 2017, the public debt to GDP ratio would have increased by approximately 0.6% to 30.4% following the consolidation methodology. The Organic Law for Development, Investment, Employment and Fiscal Stability, which became effective on August 21, 2018, provides for a waiver of the 40% public debt to GDP ratio ceiling for the period 2018-2021, and until the public debt reaches a level below such 40% debt to GDP ratio. According to the Ministry of Economy and Finance, as of the close of July 2018, it is estimated that the Republic’s total public debt to GDP ratio under the aggregation methodology will be approximately 47% (after taking into account the effect of the payment of the purchase price paid by GSI to the Republic under the GSI Repo Transaction). For a description of the risks of any action by the Government in relation to the 40% public debt to GDP limit, see *“Risk Factors—Risk Factors relating to Ecuador—The Republic may incur additional debt beyond what investors may have anticipated as a result of a change in methodology in calculating the public debt to GDP ratio for the purpose of complying with a 40% limit under Ecuadorian law, which could materially adversely affect the interests of Noteholders”* and *“Risk Factors— The Office of the Comptroller General has issued a report with conclusions from its audit to the Republic’s internal and external debt”* in this Supplement.

Following the publication of the CGR Audit Report, the Office of the Comptroller General announced that other additional audits would be conducted. There is an ongoing examination of the GSI Loan Facility, the Gold Derivative Transaction and the Bond Derivative Transaction. As of the date of this Supplement, the Office of the Comptroller General has not published any audit report on the GSI Loan Facility, the Gold Derivative Transaction and the Bond Derivative Transaction.

GSI Repo Transaction

On August 28, 2018 the Republic and GSI entered into a master repurchase agreement governed by English law which is based upon the standard Global Master Repurchase Agreement (“GMRA”) published by the International Securities Market Association and also includes a negotiated annex (“Annex”) dated as of August 28, 2018 (the GMRA and Annex collectively, the “GSI-Ecuador GMRA”).

Pursuant to a Confirmation dated as of August 28, 2018 (the “August 2018 Repo Confirmation”, collectively with the GSI-Ecuador GMRA, the “August 2018 GSI-Ecuador Repurchase Agreement”), the Republic sold and transferred (such sale, transfer and repurchase pursuant to the terms of the August 2018 GSI-Ecuador Repurchase Agreement, the “August 2018 GSI-Ecuador Repurchase Transaction”) to GSI U.S.\$1,201,616,000 nominal amount of the Additional Notes (with a market value at the date of the transaction of U.S.\$1,250,000,000) and in return received from GSI a purchase price of U.S.\$500,000,000 (the “Purchase Price”), the value of the Republic’s residual interest in the August 2018 GSI-Ecuador Repurchase Transaction and the interest amounts three business days prior to the date on which they are paid by the Republic on the Additional Notes. The Republic is also required to pay to GSI, on a quarterly basis, a price differential on the purchase price based upon Libor plus a spread. The Additional Notes constitute “Further Notes” (as defined in each of the Offering Circulars) of the

following existing series of notes currently being traded in the international markets: (a) the 2020 Notes; and (b) the 2022 Notes. The issue of the Additional Notes and the execution of the 2018 GSI-Ecuador Repurchase Agreement were authorized by the Republic's Debt and Finance Committee under *Acta Resolutiva No. 003* dated August 25, 2018. The Additional Notes were issued on August 31, 2018 in consideration for the transfer to the Republic of the Purchase Price, the ongoing payment to the Republic of the interest amounts on the Additional Notes and the value of the Republic's residual interest in the August 2018 GSI-Ecuador Repurchase Transaction, subject to the terms of the August 2018 GSI-Ecuador Repurchase Agreement. The two series of Additional Notes are fully fungible with the 2020 Notes and the 2022 Notes, respectively, and constitute general, direct, unsecured, unsubordinated and unconditional obligations of the Republic backed by the full faith and credit of the Republic and, based on an opinion of the Ministry of Economy and Finance of the Republic, have been legally and validly issued.

Under the terms of the August 2018 GSI-Ecuador Repurchase Agreement, upon certain scheduled amortization dates, the Republic is required to pay amounts in installments to GSI which in aggregate equal the amount originally paid as the Purchase Price. The Republic is also required to pay to GSI, on a quarterly basis, a price differential on the purchase price based upon Libor plus a spread (such amount, together with the aforementioned amounts in installments, being the "Repurchase Price"). Upon the scheduled repurchase date, being 48 months from the commencement of the August 2018 GSI-Ecuador Repurchase Transaction, GSI is required to sell and transfer to the Republic equivalent property to the Additional Notes (the "2018 Equivalent Property") against payment by the Republic of the final installment of the Repurchase Price, provided that certain events of default relating to the Republic have not occurred. In addition, the Republic may be required to repurchase 2018 Equivalent Property and pay the remaining Repurchase Price (to the extent not already paid) to GSI prior to the scheduled repurchase date if certain termination events occur. Under the August 2018 GSI-Ecuador Repurchase Transaction, GSI can sell or otherwise transfer any interest in the Additional Notes at any time to any third party, although GSI is required to retain economic exposure to the 2018 Equivalent Property for so long as GSI has a future obligation, whether or not contingent, to deliver the 2018 Equivalent Property. Upon the occurrence of an event of default, if GSI elects to sell 2018 Equivalent Property to a third party in order to determine the amounts due between the parties under the August 2018 GSI-Ecuador Repurchase Transaction, the Republic will have the right to submit a bid to purchase such 2018 Equivalent Property and GSI will be obliged to accept such bid if such bid is the highest bid received, subject to the terms of the August 2018 GSI-Ecuador Repurchase Agreement.

In the event that the value of the 2018 Equivalent Property declines and is worth less than certain thresholds then, within two business days of the delivery of a notice from GSI to the Republic, an additional amount (an "Additional Amount") in USD must be paid by the Republic to GSI (subject to any such Additional Amount being at least 2% of the remaining Repurchase Price). Accordingly, the Republic may be required to pay Additional Amounts prior to the scheduled amortization dates and scheduled repurchase date when the value of the Additional Notes declines, even where no event of default or termination event has occurred. In addition, under certain circumstances and at certain times, the Republic may request that GSI return to the Republic an amount of 2018 Equivalent Property, either in cash or by transfer of the corresponding excess 2018 Equivalent Property, if the value of 2018 Equivalent Property increases above certain thresholds or following certain scheduled amortization dates. Any Additional Amounts paid by the Republic to GSI shall reduce the Repurchase Price, and any cash amounts returned by GSI to the Republic shall increase the Repurchase Price.

Under the August 2018 GSI-Ecuador Repurchase Transaction, GSI is required to transfer to the Republic an amount equivalent to all interest amounts to be paid by the Republic on the Additional Notes three business days prior to the date on which such interest amounts are to be paid by the Republic. GSI is also required to transfer to the Republic the 2018 Equivalent Property upon payment of the Repurchase Price in full. If an event of default occurs under the August 2018 GSI-Ecuador Repurchase Transaction, the rights of the Republic to receive an amount equivalent to all interest amounts that are to be paid by the Republic on the Additional Notes will terminate, but the Republic will continue to be required to make all payments of principal and interest in respect of the Additional Notes to the applicable holders of the Additional Notes.

At any time during the term of the August 2018 GSI-Ecuador Repurchase Agreement, either GSI or the Republic may request that the Additional Notes be substituted for other identified Equivalent Securities issued by the Republic, subject to certain conditions, including that the market value of the other Equivalent Securities to be

substituted is equivalent to the market value of the Additional Notes that are being substituted. Any substitution of Equivalent Securities for such new identified Equivalent Securities will be subject to the consent of both GSI and the Republic, each in their sole discretion other than any substitution request made by GSI to exchange Equivalent Securities for Equivalent Securities issued prior to the date of the August 2018 GSI-Ecuador Repurchase Agreement.

Pursuant to the amendment of Article 123 of the Public Planning and Finance Code by the Organic Law for Development, Investment, Employment and Fiscal Stability, which expressly provides that notes issued in connection with repurchase transactions are “contingent liabilities” (*pasivos contingentes*) and are not taken into account as public debt until they are no longer contingent, the Ministry of Economy and Finance has not considered the aggregate amount of the Additional Notes in the calculation of the total public debt to GDP ceiling. See “Public Debt-Organic Law for Development, Investment, Employment and Fiscal Stability.” Were the Additional Notes no longer considered to be contingent, such as upon the occurrence of event of default, the entire outstanding face amount of the Additional Notes may be considered in the calculation of the total public debt to GDP ceiling. If the entire face amount of the Additional Notes at issuance is taken into account in calculating the debt to GDP ratio, the debt to GDP ratio will be approximately 47.66%, under the aggregation methodology using the debt to GDP ratio information as of July 2018 (which does not include the Purchase Price, as defined above).

Other obligations

In June 2003, the Republic agreed with its Paris Club creditors to reschedule U.S.\$81 million of bilateral debt. Payments due on official development aid loans were rescheduled over a period of 20 years; those on other credits were rescheduled over a period of 18 years. As of the date of this Supplement, the Republic was in compliance with all of the terms of its Paris Club loans. Further, in recent years, the Republic has launched successful debt exchanges in Germany, Spain and Italy.

On January 7, 2015, Ecuador entered into a framework agreement for future cooperation with The Export-Import Bank of China. This agreement allows the Ministry of Economy and Finance (f.k.a. the Ministry of Finance) to regularly submit priority lists of projects which it proposes to be financed by The Export-Import Bank of China, within three years of the date of the agreement. The initial priority list include six projects to be financed at a total cost of U.S.\$5.3 billion. The rights and obligations of the parties will be stipulated in relevant loan agreements to finance specific projects.

On February 26, 2015, Ecuador entered into a Foreign Purchase Credit Agreement with Deutsche Bank, Sociedad Anónima Española. The proceeds of the first disbursement of the loan were used to purchase radar equipment and other equipment for the air defense of Ecuador. This agreement provides for a U.S.\$88 million facility to be repaid during a term of nine years.

On March 31, 2015, Ecuador entered into a 13 year, U.S.\$85.7 million facility agreement with the Bank of China Limited, Panama Branch (U.S.\$60.0 million commitment) and Deutsche Bank AG, Hong Kong Branch (U.S.\$25.7 million commitment). The proceeds from the first disbursement of this facility were used for the restoration and improvement of the Sigchos—Chugchilán and Buena Vista—Vega Rivera—Paccha—Zaruma Highways.

In January 2016, Petroecuador entered into a credit agreement for a facility of up to U.S.\$970 million from a consortium of banks led by Industrial and Commercial Bank of China Limited, The Export-Import Bank of China, and China Minsheng Banking Corp., Ltd. The facility relates to a multiparty contractual structure involving a crude oil delivery contract entered into with PetroChina. The credit has a term of five years and is guaranteed by the Republic of Ecuador acting through its Ministry of Economy and Finance. The first tranche of U.S.\$820 million was disbursed on February 2016. On November 2017, the parties entered into an amendment agreement to the credit facility agreement. The second tranche of U.S.\$150 million was disbursed shortly thereafter.

In February 2016, the Republic entered into a U.S.\$198 million loan agreement with China Exim Bank, to finance the first phase of Yachay as part of the framework agreement for future cooperation entered into between the parties on January 7, 2015. The loan agreement has a 3% interest rate and a term of 20 years.

In February 2016, the Republic entered into a U.S.\$198 million loan agreement with The Export-Import Bank of China, to finance the first phase of Yachay as part of the framework agreement for future cooperation entered into between the parties on January 7, 2015. The concessional loan agreement has a term of 20 years. On July 15, 2016, Ecuador's Ministry of Economy and Finance and the *Instituto de Crédito Oficial* (the Official Credit Institute of Spain), acting for Spain, entered into a U.S.\$183.6 million credit agreement for the financing of the supply of rolling stock, auxiliary vehicles, workshop tools and equipment and parts for Quito's first metro line.

On July 28, 2016, IESS entered into two loans for U.S.\$65.0 million and U.S.\$13.3 million, respectively, both with Deutsche Bank, Sociedad Anónima Española, as agent, various other financial institutions, as mandated lead arrangers and Ecuador, acting through its Ministry of Economy and Finance, as guarantor. The loans are to be repaid over a term of seven years and are to be used to finance the construction and outfitting of hospitals in the cities of Guayaquil and Machala, respectively.

On September 23, 2016, Ecuador entered into a U.S.\$100 million bilateral loan agreement with CAF to finance costs related to damages to infrastructure and housing caused by the Pedernales Earthquake.

On October 31, 2016, the Republic entered into two loans with IDB for U.S.\$160 million and U.S.\$143 million, respectively. The Republic is using the proceeds of the loans to support education and energy programs.

On November 14, 2016, the Republic entered into a U.S.\$175 million loan with the European Investment Bank. The Republic intends to use the proceeds of the loan towards reconstruction efforts in those areas affected by the Pedernales Earthquake.

On November 17, 2016, the Republic, acting through its Ministry of Economy and Finance, entered into a 20-year, U.S.\$102.6 million loan facility with The Export-Import Bank of China to be used to finance the survey, design and construction of the Santa Ana Aqueduct Hydraulic Stage One Project as part of the framework agreement for future cooperation entered into between the parties on January 7, 2015.

On November 29, 2016, the Republic entered into a U.S.\$19.7 million loan facility with a final amortization date of October 15, 2041 with IDB to finance costs related to its emergency response program for reconstruction efforts in those areas affected by the Pedernales Earthquake.

On December 1, 2016, Petroecuador signed a crude oil sale and purchase contract with PTT Trading International Pte Ltd ("PTT International"), pursuant to which Petroecuador will receive initial prepayments of U.S.\$600 million shortly after signing for crude oil to be delivered to PTT International during the five-year term of the contract. On December 6, 2016, Petroecuador signed a fuel oil sale and purchase contract with Oman Trading International Ltd ("OTI"), pursuant to which Petroecuador will receive an initial prepayment of U.S.\$300 million shortly after signing for fuel oil to be delivered to OTI during the 30-month term of the contract. In connection with each contract, the Republic has agreed to refund to the purchasers any amounts of the prepayments and related surcharges for advance payment which are not otherwise satisfied through the delivery of crude oil or fuel oil, respectively, or refunded by Petroecuador in accordance with the contracts.

On December 22, 2016 the Municipality of Ibarra entered into a U.S.\$52.5 million loan with the World Bank for a transport infrastructure improvement project. The loan has a term of twenty-four years and is guaranteed by Ecuador acting through the Minister of Finance.

On December 22, 2016, Ecuador, acting through its Ministry of Economy and Finance, entered into a 12 year term loan facility for U.S.\$167.4 million with Bank of China Limited, Beijing Branch, Bank of China Limited Liaoning Branch, Bank of China Limited, Panama Branch, Bank of China, Hong Kong Branch and Deutsche Bank

AG, Hong Kong Branch. The proceeds of the facility were used to finance the construction of schools in Ecuador and purchase of related goods and equipment.

On December 22, 2016, Ecuador entered into a U.S.\$90.5 million loan with the World Bank for a term of 35 years to finance a project to increase the enrollment of technical and technological educational programs in Ecuador and strengthen the institutional management of such programs.

On December 28 2016, Ecuador entered into a U.S.\$72.9 million credit agreement with a term of twenty years with the European Investment Bank to finance the construction, renovation and equipment of 21 technical and technological institutes of higher education in Ecuador.

On February 2, 2017, the IESS entered into a U.S.\$25 million credit agreement with Consorcio NHQ with 50% of the total amount due 30 days from the date of execution of the agreement and the remaining 50% of the total amount due 24 months from the date of execution of the agreement and will be used to partially finance the construction and equipment of a hospital in the city of Quito.

On February 21, 2017, Ecuador entered into a U.S.\$50 million loan with the JBIC with a term of 12 years to finance an energy efficiency project related to residential water heating.

On March 14, 2017, Ecuador entered into a U.S.\$200 million loan with the CAF with a term of two years to partially finance projects relating to the generation, distribution and transmission of electricity.

On April 1, 2017, Ecuador entered into a U.S.\$75 million loan with the AFD with a term of 20 years to finance certain educational projects.

On April 18, 2017, Ecuador entered into a U.S.\$60 million loan with the IDB with a term of 25 years to finance the reconstruction of electrical infrastructure in areas affected by the Pedernales Earthquake and the incorporation of seismic resistant infrastructure in the provinces of Esmeraldas, Manabí and Santo Domingo.

On May 22, 2017, the IESS entered into a seven year U.S.\$47 million credit agreement with Deutsche Bank, Sociedad Anónima Española, Banco Santander, S.A. and Banco Popular Español, S.A. guaranteed by Ecuador to partially finance the construction and the purchase of equipment for the IESS hospital in the city of Quito.

On August 11, 2017, Ecuador entered into a U.S.\$65 million credit facility agreement with the AFD with the principal amount due in semi-annual installments and with the last installment due on December 1, 2036. The proceeds will be used to finance the reconstruction of housing by CFN or CONAFIPS adding earthquake resistant features and to reactivate the main productive sectors in the Ecuadorian provinces most affected by the Pedernales Earthquake.

On October 2, 2017, the FLAR approved a loan of U.S.\$637.8 million for Ecuador for a term of three years with a year of grace for the payment of principal. It is expected that the proceeds of this loan will be used to improve Ecuador's balance of payments. As of the date of this Supplement, this loan has not been disbursed.

On October 20, 2017, the Ecuadorian Development Bank entered into an eight year U.S.\$200 million facility agreement with China Development Bank guaranteed by Ecuador, acting through its Ministry of Economy and Finance. The first tranche of U.S.\$120 million will be used for on-lending by DBE to eligible Ecuadorian state-owned enterprises and government agencies for purposes of financing projects in Ecuador that are approved by China Development Bank. As of the date of this Supplement, U.S.\$64 million corresponding to the first tranche have been disbursed. The second tranche of U.S.\$80 million will be used for on-lending by DBE to eligible Ecuadorian state-owned enterprises and government agencies for purposes of financing payments to be made to suppliers in connection with telecommunications, road construction, transportation and equipment, sewage, potable water and sanitation projects. As of the date of this Supplement, no amount corresponding to the second tranche has not been disbursed.

On December 20, 2017, the Republic entered into a credit facility agreement with the AFD for an amount of up to U.S.\$35 million to finance, in part, housing and reconstruction in Ecuadorian areas affected by the Pedernales Earthquake. The first installment is due and payable on December 1, 2022 and the last installment is due and payable on June 1, 2037.

On December 29, 2017, the Republic entered into a financing agreement with the *Fondo Internacional de Desarrollo Agrícola* (the “International Fund for Agricultural Development”) to finance the *Proyecto Dinamizador de Alianzas Inclusivas en Cadenas de Valor* (the “Revitalizing Project of Inclusive Alliances in Value Chains”) with the purpose of improving the income of small producers of cacao, blueberry and cape gooseberry within a designated area. The financing agreement establishes a facility for an amount of U.S.\$25.66 million with a repayment term of 18 years and a donation for an amount of U.S.\$250,000.

On June 30, 2018, the Republic entered into a financing agreement with the FLAR for an amount of U.S.\$368.8 million. This financing facility establishes a repayment term of three years with a year of grace for the payment of principal.

PLAN OF DISTRIBUTION

The Republic will sell the Additional Notes at the offering price set forth on the cover page of this Supplement outside the United States in reliance on Regulation S. The price at which the Additional Notes are offered may be changed at any time without notice.

The Additional Notes have not been and will not be registered under the Securities Act or any state securities law and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except in transactions exempt from, or not subject to, the registration requirements of the Securities Act. With respect to the offer and sale of the Additional Notes by the Republic, no Additional Notes will be offered and sold in the United States or to U.S. persons. See “*Transfer Restrictions*” on each Offering Circular.

Although an application has been made to list the Additional Notes on the Official List of the Luxembourg Stock Exchange and to have the Additional Notes trade on the Euro MTF Market, the listing does not assure that a trading market for the Additional Notes will develop. No assurance can be given as to how liquid the trading market for the Additional Notes will be. The Republic cannot provide any assurances that the prices at which the Additional Notes will trade in the market after this offering will not be lower than the initial offering price or that an active trading market for the Additional Notes will develop and continue after this offering.

See sections “Selling Restrictions” in each of the Offering Circulars.

No action has been taken by the Republic that would, or is intended to, permit a public offer of the Additional Notes in any country or jurisdiction where any such action for that purpose is required.

Accordingly, the Republic will not, directly or indirectly offer or sell any Additional Notes or distribute or publish any Offering Circular Supplement, this Supplement and the Offering Circulars, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of Additional Notes by it will be made on the same terms.

Notice to Ecuadorian Residents

The Additional Notes are not registered in the *Catastro Público del Mercado de Valores*, CPMV (“Securities Market Public Registry of Ecuador”) subject to the control and supervision of the Superintendence of Companies, Securities and Insurance (“SCVS”).

As unregistered securities, the Republic is not required to disclose public information about the Additional Notes in Ecuador. The Additional Notes may not be publicly offered in Ecuador unless they are registered in the CPMV.

This Supplement and other offering materials relating to the offer of the Additional Notes do not constitute a public offer of, or an invitation to subscribe for or purchase, the Additional Notes in the Republic of Ecuador, and the contents herein have not been approved by the SCVS.

VALIDITY OF THE ADDITIONAL NOTES

The validity of the Additional Notes will be passed upon on behalf of the Republic by the *Coordinador General Jurídico* of the Ministry of Economy and Finance of the Republic, Ecuadorian counsel to the Republic, and by Hogan Lovells US LLP, U.S. counsel to the Republic. As to all matters of Ecuadorian law, Hogan Lovells US LLP will rely on the opinion of the *Coordinador General Jurídico* of the Ministry of Economy and Finance of the Republic.

In connection with the issuance of the Additional Notes, the Attorney General will issue a “Pronouncement” in relation to the Additional Notes, which will constitute the required authorizations for the Ministry of Economy and Finance to be able to agree to the laws of the State of New York as the governing law of the Additional Notes, as well as the submission to arbitration provisions set out therein.

GENERAL INFORMATION

1. The Global Notes have been accepted for clearance and settlement through Euroclear and Clearstream, Luxembourg.

The common codes for the Regulation S Global Note and the Restricted Global Note with respect to the 2020 Notes are 119992982 and 119993032, respectively, and the International Securities Identification Numbers for the Regulation S Global Note and the Restricted Global Note are XS1199929826 and XS1199930329, respectively.

The common codes for the Regulation S Global Note and the Restricted Global Note with respect to the 2022 Notes are 145851467 and 145851696, respectively, and the International Securities Identification Numbers for the Regulation S Global Note and the Restricted Global Note are XS1458514673 and XS1458516967, respectively.

2. The Republic has obtained all necessary consents, approvals and authorizations in the Republic of Ecuador in connection with the issue and performance of the Additional Notes.

The issue of the original 2020 Notes was authorized by the Republic's Debt and Finance Committee under *Acta Resolutiva* No. 006 dated March 13, 2015 and *Acta Resolutiva* No. 007 dated March 18, 2015.

The issue of the reopened 2020 Notes was authorized by the Republic's Debt and Finance Committee under *Acta Resolutiva* No. 010 dated May 13, 2015.

The issue of the original 2022 Notes was authorized by the Republic's Debt and Finance Committee under *Acta Resolutiva* No.013 dated June 20, 2016.

The issue of the reopened 2022 Notes was authorized by the Republic's Debt and Finance Committee under *Acta Resolutiva* No.020 dated September 27, 2016 and *Acta Resolutiva* No. 0014 dated October 10, 2017.

The issue of the Additional Notes was authorized by the Republic's Debt and Finance Committee under *Acta Resolutiva* No. 003 dated August 25, 2018.

3. The Republic is involved in certain litigation and administrative arbitration proceedings. See "*Legal Proceedings*" on each of the Offering Circulars and "*Recent Developments – Legal Proceedings*" in this Supplement.

4. On November 28, 2017, Moody's Investors Service affirmed the Republic's long-term Government bond ratings at "B3" with a "stable outlook." On September 30, 2017, Standard & Poor's Ratings Services affirmed the Republic's foreign long-term issuer rating at "B" with a "stable outlook." On June 29, 2017, Standard & Poor's Ratings Services revised the Republic's foreign long-term issuer rating to "B-" and affirmed the "stable" rating outlook. On September 6, 2016, the Republic's long-term foreign currency issuer default rating by Fitch Ratings was affirmed at "B," but the rating outlook was revised from "stable" to "negative." On September 13, 2017, Fitch Ratings affirmed the Republic's long-term foreign currency issuer default rating at "B" with a "negative" rating outlook. On August 17, 2018, Fitch Ratings downgraded the Republic's long-term foreign currency issuer default rating to "B-" from "B" and revised the rating outlook to "stable" from "negative". Ratings are not a recommendation to purchase, hold or sell securities and may be changed, suspended or withdrawn at any time. The Republic's current ratings and the rating outlooks currently assigned to the Republic are dependent upon economic conditions and other factors affecting credit risk that are outside the control of the Republic. Any adverse change in the Republic's credit ratings could adversely affect the trading price for the Additional Notes. Each rating should be evaluated independently of the others. Detailed explanations of the ratings may be obtained from the rating agencies.

5. Application has been made to list the Additional Notes on the Official List of the Luxembourg Stock Exchange and to have the Additional Notes admitted to trading on the Euro MTF Market. So long as any of the Additional Notes are listed on the Luxembourg Stock Exchange, the Republic will maintain a paying agent and transfer agent in Luxembourg.

6. Copies of the following documents may be obtained, free of charge, on any business day (Saturdays, Sundays and public holidays excepted) at the office of the Paying Agent in Luxembourg so long as any of the Additional Notes are listed on the Luxembourg Stock Exchange:

- (a) each Indenture incorporating the forms of the respective Global Notes,
- (b) this Supplement,
- (c) each Offering Circular,
- (d) copies of the 2008 Constitution, and the Legislative Decrees of the Republic referred to in paragraph 2 above (in Spanish), and
- (e) copies of the Republic's consolidated public sector fiscal accounts for the last calendar year (as and when available in English).

7. Other than as disclosed herein and in the Offering Circulars, there has been no material adverse change in the financial condition of the Republic which is material in the context of the issue of the Additional Notes.

8. Save as disclosed in "*Legal Proceedings*" in the Offering Circulars and "*Recent Developments – Legal Proceedings*" in this Supplement, the Republic is not involved in any litigation or arbitration proceeding relating to claims or amounts which are material in the context of the issue of the Additional Notes nor, as far as the Republic is aware, is any litigation pending or threatened.

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ISSUER

The Republic of Ecuador

Ministry of Economy and Finance
Av. Amazonas entre Pereira y Unión Nacional de Periodistas.
Plataforma Gubernamental de Gestión Financiera. Pisos 10 y 11.
Quito, Ecuador

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Plataforma Gubernamental de Gestión Financiera.
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Quito, Ecuador

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Vertigo Building – Polaris
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Luxembourg

You should rely only on the information contained in the Offering Circulars and this Supplement or to which the Republic of Ecuador has referred you. Ecuador has not authorized anyone to provide information that is different from the information contained in the Offering Circulars and this Supplement. This Supplement and the Offering Circulars may only be used where it is legal to sell these Additional Notes. The information in this Supplement may only be accurate on the date of this Supplement.



The Republic of Ecuador

**U.S.\$701,616,000 10.500% Notes
due 2020**

**U.S.\$500,000,000 10.750% Notes
due 2022**

Offering Circular Supplement

September 3, 2018

APPENDIX A:
Offering Circular dated March 24, 2015, and its supplement
dated May 14, 2015, with respect to the 2020 Notes

OFFERING CIRCULAR



The Republic of Ecuador

U.S.\$750,000,000 10.500% Notes due 2020

The Republic of Ecuador (the "Republic" or "Ecuador") is offering U.S.\$750,000,000 aggregate principal amount of its 10.500% Notes due March 24, 2020 (the "Notes"). Interest on the Notes will be payable semi-annually in arrears on March 24 and September 24 of each year commencing on September 24, 2015. The Notes will mature on March 24, 2020.

The Notes will contain provisions, commonly known as "collective action clauses," regarding acceleration of the Notes and voting on future amendments, modifications and waivers to the terms and conditions of the Notes. These provisions, which are described in the sections entitled "Description of the Notes — Events of Default" and "Description of the Notes — Modifications — Collective Action," differ from those applicable to certain of the Republic's outstanding External Indebtedness (as defined herein). Under such provisions, the Republic may: (a) amend the payment provisions of the Notes and certain other reserved matters with the consent of the holders of 75% of the aggregate amount of the outstanding Notes and other non-reserved matters with the consent of the holders of 66 ⅔% of the aggregate amount of the outstanding Notes; (b) make reserved matter modifications affecting two or more series of debt securities with the consent of (x) holders of at least 66⅔% of the aggregate principal amount of the outstanding debt securities of all series that would be affected by that reserved matter modification (taken in aggregate) and (y) holders of more than 50% of the aggregate principal amount of the outstanding debt securities of each affected series (taken individually); or (c) make reserved matter modifications affecting two or more series of debt securities with the consent of holders of at least 75% of the aggregate principal amount of the outstanding debt securities of all affected series (taken in aggregate), provided that the Uniformly Applicable condition is satisfied, as more fully described in "Description of the Notes — Modifications — Collective Action."

Except as described herein, payments on the Notes will be made without deduction for or on account of withholding taxes imposed by the Republic. There is currently no public market for the Notes. Application has been made to list the Notes on the Official List of the Luxembourg Stock Exchange and to have the Notes admitted to trading on the Euro MTF Market. This Offering Circular constitutes a prospectus for the purpose of the Luxembourg Law dated July 10, 2005 on prospectuses for securities, as amended. The Notes are and will be issued in registered form and, in limited circumstances, definitive form in minimum denominations of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof.

See "Risk Factors" beginning on page 28 regarding certain risk factors you should consider before investing in the Notes.

Price:100.000%

plus accrued interest, if any, from March 24, 2015

Delivery of the Notes will be made on or about March 24, 2015.

The Notes have not been and will not be registered under the Securities Act of 1933, as amended (the "Securities Act"). The Notes may not be sold within the United States or to U.S. persons except to qualified institutional buyers in reliance on the exemption from registration provided by Rule 144A under the Securities Act and offered and sold to certain persons in offshore transactions in reliance on Regulation S under the Securities Act. You are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A under the Securities Act.

The Notes will be represented by one or more permanent global notes in fully registered form without interest coupons, deposited with a common depository for Euroclear Bank S.A./N.V. ("Euroclear") and Clearstream Banking, *société anonyme* ("Clearstream"). Beneficial interests of Euroclear participants in the global notes will be shown on, and transfers thereof between Euroclear participants will be effected only through, records maintained by Euroclear and its direct and indirect participants, including Clearstream Banking, *société anonyme*. See "Book-Entry Settlement and Clearance."

ANY OFFER OR SALE OF NOTES IN ANY MEMBER STATE OF THE EUROPEAN ECONOMIC AREA (THE "EEA") THAT HAS IMPLEMENTED DIRECTIVE 2003/71 EC (THE "PROSPECTUS DIRECTIVE") MUST BE ADDRESSED TO QUALIFIED INVESTORS (AS DEFINED IN THE PROSPECTUS DIRECTIVE).

Lead Manager and Global Coordinator

Citigroup

The date of this Offering Circular is March 24, 2015



IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE REPUBLIC AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND THE RISKS INVOLVED.

You should rely only on the information contained in this Offering Circular or to which the Republic of Ecuador has referred you. Ecuador has not, and the Lead Manager has not, authorized anyone to provide you with information that is different from the information contained in this Offering Circular. This Offering Circular may only be used where it is legal to sell these Notes. The information in this Offering Circular may only be accurate on the date of this Offering Circular.

This Offering Circular may only be used for the purposes for which it has been published.

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NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A NOTE IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT THE EXEMPTION OR EXCEPTION IS AVAILABLE FOR A NOTE OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, NOTE OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT, ANY

REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

The Notes will be general, direct, unsecured, unsubordinated and unconditional obligations of Ecuador, will be backed by the full faith and credit of Ecuador and will rank equally in terms of priority with Ecuador's External Indebtedness (other than Excluded Indebtedness), as defined in "Description of the Notes", provided, that, such ranking is in terms of priority only and does not require that Ecuador make ratable payments on the Notes with payments made on its other External Indebtedness.

The Notes will be issued in registered form only. Notes sold in offshore transactions in reliance on Regulation S under the Securities Act ("Regulation S") will be represented by one or more permanent global notes in fully registered form without interest coupons (the "Regulation S Global Note") and Notes sold in the United States to qualified institutional buyers (each a "qualified institutional buyer") as defined in, and in reliance on, Rule 144A under the Securities Act ("Rule 144A") will be represented by one or more permanent global notes in fully registered form without interest coupons (the "Restricted Global Note" and, together with the Regulation S Global Note, the "Global Notes"), in each case deposited with a common depositary for, and registered in the nominee name of a common depositary for Euroclear Bank S.A./N.V. ("Euroclear") for the respective accounts at Euroclear as such subscribers may direct. Beneficial interests of Euroclear participants (as defined under "Book-Entry Settlement and Clearance") in the Global Notes will be shown on, and transfers thereof between Euroclear participants will be effected only through, records maintained by Euroclear and its direct and indirect participants, including Clearstream. See "Book-Entry Settlement and Clearance." Except as described herein, definitive Notes will not be issued in exchange for beneficial interests in the Global Notes. See "Description of the Notes – Definitive Notes." For restrictions on transfer applicable to the Notes, see "Transfer Restrictions" and "Subscription and Sale."

The Republic has taken reasonable care to ensure that the information contained in this Offering Circular is true and correct in all material respects and not misleading as of the date hereof, and that, to the best of the knowledge and belief of the Republic, there has been no omission of information which, in the context of the issue of the Notes, would make this Offering Circular as a whole or any information included in this Offering Circular, misleading in any material respect. The Republic accepts responsibility accordingly.

This Offering Circular does not constitute an offer by, or an invitation by or on behalf of, the Republic or the Lead Manager to subscribe to or purchase any of the Notes. Each recipient shall be deemed to have made its own investigation and appraisal of the financial condition of the Republic. The distribution of this Offering Circular or any part of it and the offering, possession, sale and delivery of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Republic and the Lead Manager to inform themselves about and to observe any such restrictions. See "Subscription and Sale" and "Transfer Restrictions" for a description of further restrictions on the offer, sale and delivery of Notes, the distribution of this Offering Circular, and other offering material relating to the Notes.

Each purchaser of Notes sold outside the United States in reliance on Regulation S will be deemed to have represented that it is not purchasing Notes with a view to distribution thereof in the United States.

Each person purchasing Notes pursuant to Rule 144A will be deemed to:

- represent that it is purchasing the Notes for its own account or an account with respect to which it exercises sole investment discretion and that it or such account is a qualified institutional buyer (as defined in Rule 144A); and
- acknowledge that the Notes have not been and will not be registered under the Securities Act or any State securities laws and may not be reoffered, resold, pledged or otherwise transferred except as described under "Transfer Restrictions."

Each person purchasing Notes pursuant to Rule 144A also acknowledges that:

- it has been afforded an opportunity to request from the Republic and to review, and it has received, all additional information considered by it to be necessary to verify the accuracy of the information herein and acknowledges that the preliminary and final offering circulars supersede any other information or presentation regarding the Republic;
- it has not relied on the Lead Manager or any person affiliated with the Lead Manager in connection with its investigation of the accuracy of the information contained in this Offering Circular or its investment decision; and
- no person has been authorized to give any information or to make any representation concerning the Republic or the Notes other than those contained in this Offering Circular and, if given or made, such information or representation should not be relied upon as having been authorized by the Republic or the Lead Manager.

IN CONNECTION WITH THIS ISSUANCE OF NOTES, THE LEAD MANAGER MAY, ITSELF OR THROUGH ITS AFFILIATES, OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE NOTES AT A LEVEL WHICH MIGHT NOT OTHERWISE PREVAIL IN THE OPEN MARKET, TO THE EXTENT PERMITTED BY APPLICABLE LAWS. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

PRESENTATION OF INFORMATION

Unless otherwise specified or the context requires, references to "U.S. dollars," "\$" and "U.S.\$" are to United States dollars.

References to the "Republic" and "Ecuador" are to the Republic of Ecuador, references to the "Government" are to the Government of the Republic of Ecuador and the use of the term "Governmental" shall be with regards to the Government of the Republic of Ecuador.

References to "FOB" are to exports free on board and to "CIF" are to imports including cost, insurance and freight charges.

Certain figures included in this Offering Circular have been rounded for ease of presentation. Percentage figures included in this Offering Circular have not in all cases been calculated on the basis of such rounded figures but on the basis of such amounts prior to rounding.

Certain economic and financial data in this Offering Circular is derived from information previously published by *Banco Central del Ecuador* (the "Central Bank") and other Governmental entities of Ecuador. This data is subject to correction and change in subsequent publications.

FORWARD-LOOKING STATEMENTS

This Offering Circular contains certain forward-looking statements (as such term is defined in the Securities Act) concerning the Republic. These statements are based upon beliefs of certain Government officials and others as well as a number of assumptions and estimates that are inherently subject to significant uncertainties, many of which are beyond the control of the Republic. Future events may differ materially from those expressed or implied by such forward-looking statements. Such forward-looking statements include information contained in the sections "Offering Circular Summary and Recent Developments," "The Republic of Ecuador," "The Ecuadorian Economy," "Balance of Payments and Foreign Trade," "Monetary System," "Public Sector Finances" and "Public Debt" as well as:

- External factors, such as:

- lower petroleum and mineral prices, which could adversely affect Ecuador's economy, fiscal accounts and International Reserves (defined herein);
- damage to and volatility in the international capital markets for emerging markets issuers caused by economic conditions in other emerging markets and the international capital markets generally, which could affect Ecuador's ability to engage in planned borrowing;
- changes in import tariffs and exchange rates of other countries, which could harm Ecuador's exports and, as a consequence, have a negative impact on the growth of Ecuador's economy;
- recession or low growth in the economies of Ecuador's trading partners, particularly of the United States and the European Union, which could lead to fewer exports and affect Ecuador's growth;
- a deterioration in relations between Ecuador and other countries in the region or other disruptions to Ecuador's international relations;
- changes in credit rating of the Republic;
- the impact of changes in the international price of commodities;
- higher international interest rates, which could increase Ecuador's debt service requirements and require a shift in budgetary expenditures toward additional debt service; and
- terrorist attacks in the United States or elsewhere, acts of war, or any general slowdown in the global economy.
- Internal factors, such as:
 - social and political unrest in Ecuador;
 - Ecuador's ability to continue to attract foreign investment;
 - continued public support for Ecuador's current economic policies;
 - Ecuador's level of domestic debt;
 - general economic and business conditions in Ecuador; and
 - other factors identified or discussed under "Risk Factors."

In addition, in those and other portions of this Offering Circular, the words "anticipates," "believes," "contemplates," "estimates," "expects," "plans," "intends," "projections" and similar expressions, as they relate to the Republic, are intended to identify forward-looking statements.

Undue reliance should not be placed on forward-looking statements, which are based on current expectations. Forward-looking statements are not guarantees of future performance. They involve risks, uncertainties and assumptions. Future results may differ materially from those expressed in forward-looking statements. Many of the factors that will determine these results and values are beyond the Republic's ability to control or predict. Because of the risks and uncertainties involved, an investment decision based on the estimates and forward-looking statements should not be made. All forward-looking statements and risk factors included in this Offering Circular are made as of the date on the front cover of this Offering Circular, based on information available to the Republic as of such date, and Ecuador assumes no obligation to update any forward-looking statement or risk factor

ARBITRATION AND ENFORCEABILITY

The Republic is a foreign sovereign state. Consequently, it may be difficult for investors to obtain or realize upon judgments in the courts of the United States or otherwise to enforce the Republic's obligations under the Notes. Under its Constitution, the Republic recognizes arbitration, mediation and other alternative dispute resolution proceedings for the resolution of controversies. The Republic has not consented to the jurisdiction of any court in connection with actions arising out of or based on the Notes and has submitted itself to arbitration under the LCIA Rules (as defined below), which allow state courts to decide certain matters as described below. See "Description of the Notes – Sovereign Immunity." The Republic has agreed to the following arbitration provisions (which shall be governed by English law) as part of the terms and conditions of the Notes:

- (a) Any dispute, controversy or claim of any nature arising out of, relating to or having any connection with the Indenture, including any dispute as to the existence, validity, interpretation, performance, breach, termination or consequences of the nullity of the Indenture (a "Dispute") where the Republic is either a party, claimant, respondent or otherwise is necessary thereto, will not be referred to a court of any jurisdiction and will instead be referred to and finally resolved by arbitration under the Rules of the LCIA ("LCIA Rules") as at present in force as modified by the Indenture, in which LCIA Rules are deemed to be incorporated by reference. In particular:
 - (i) There will be three arbitrators.
 - (ii) Each arbitrator will be an English or New York qualified lawyer of at least 15 years' standing with experience in relation to international banking or capital markets disputes. At least one of those arbitrators will be a lawyer qualified in New York.
 - (iii) If there are two parties to the Dispute, each party will be entitled to nominate one arbitrator. If there are multiple claimants and/or multiple respondents, all claimants and/or all respondents will attempt to agree upon their respective nomination(s) such that the claimants will together be entitled to nominate one arbitrator and the respondents will together be entitled to nominate one arbitrator. If any such party or multiple parties fail to nominate an arbitrator within thirty (30) days from and including the date of receipt of the relevant request for arbitration, an arbitrator will be appointed on their behalf by the LCIA Court in accordance with the LCIA Rules and applying the criteria at clause (ii) above. In such circumstances, any existing nomination or confirmation of the arbitrator chosen by the party or parties on the other side of the proposed arbitration will be unaffected, and the remaining arbitrator(s) will be appointed in accordance with the LCIA Rules.
- (b) The third arbitrator and chairman of the arbitral tribunal will be appointed by the LCIA Court in accordance with the LCIA Rules and applying the criteria at clause (ii) above.
- (c) The seat, or legal place, of arbitration will be London, England.
- (d) The language to be used in the arbitration will be English. The arbitration provisions contained in the Indenture will be governed by English law.
- (e) Without prejudice to any other mode of service allowed by law, the Republic hereby appoints Law Debenture Corporate Services Limited, with its registered office at 5/F, 100 Wood Street, EC2V 7EX, London, England (the "Process Agent") as its agent under the Indenture for service of process in relation to any proceedings before the English courts in relation to any arbitration contemplated by the Indenture or in relation to recognition or enforcement of any such arbitral award obtained in accordance with the Indenture.

If the Process Agent is unable to act as the Republic's agent under the Indenture for the service of process, the Republic must immediately (and in any event within ten (10) days of the event taking place) appoint another agent (a "Replacement Agent") on terms acceptable to the Trustee.

The Republic agrees that failure by the Process Agent or, as applicable, a Replacement Agent, to notify the Republic of the process will not invalidate the proceedings concerned.

Under the terms of the Notes, each holder of the Notes is deemed to have agreed to the use of arbitration under the Rules of the LCIA to resolve any dispute, controversy or claim of any nature arising out of, relating to or having any connection with the Notes. Accordingly, any court proceedings brought against the Republic by a holder of the Notes (other than to enforce an arbitration award) may be stayed in favor of arbitration.

The Republic has not waived sovereign immunity in relation to the Notes. The Republic has, however, undertaken not to invoke any defence on the basis of any kind of immunity, for itself and/or its assets, which do not constitute "Immune Property" in respect of legal actions or proceedings in connection with the Notes.

"Immune Property", in accordance with the provisions of the laws of the Republic, means:

- (a) any property which is used or designated for use in the performance of the functions of the diplomatic mission of Ecuador or its consular posts;
- (b) aircraft, naval vessels and other property of a military character or used or designated for use in the performance of military functions;
- (c) property forming part of the cultural heritage of Ecuador or part of its archives;
- (d) unexploited natural non-renewable resources in Ecuador;
- (e) funds managed in the national Treasury Account;
- (f) assets and resources comprising available monetary reserves of Ecuador;
- (g) public domain assets used for providing public services in Ecuador; and
- (h) national assets located in the territory of Ecuador and belonging to the Republic, such as streets, bridges, roads, squares, beaches, sea and land located over 4,500 meters above sea level.

The decision of any arbitral tribunal shall be final to the fullest extent permitted by law. The Republic submits to the jurisdiction of any Ecuadorian court or of any court outside the Republic in connection with a properly obtained arbitral award, and such an arbitral award may be enforced in any jurisdiction in accordance with the New York Convention on the Recognition and Enforcement of Arbitral Awards 1958. The Republic also submits to the jurisdiction of the English courts in connection with any proceedings invoking the supervisory jurisdiction of those courts in relation to an arbitration conducted pursuant to the Indenture.

Any judgment rendered by an arbitral tribunal properly constituted under the Purchase Agreement, the Indenture or the Notes (as the case may be), would be enforceable against the Republic without re-examination of the issues, by a first instance civil court in Ecuador in accordance with Article 32 of the *Ley de Arbitraje y Mediación*, which provides, inter alia, that any award rendered outside Ecuador may be enforced by Ecuadorian courts, provided that a certified copy of the award, granted by the secretary of the arbitral tribunal, the director of the relevant arbitration center, or the arbitrator or arbitrators, is submitted, with a declaration of being final.

The Indenture contains a further provision which provides that any dispute between the Trustee and the holders of the Notes only, will be subject to the non-exclusive jurisdiction of the courts of New York. This provision is as follows:

Any Dispute between the Trustee and any holders or holders only and where the Republic is not a party, claimant, respondent or otherwise is necessary thereto, will be subject to the non-exclusive jurisdiction of any New York state or United States federal court sitting in the Borough of Manhattan, the City of New York, and any appellate court from any thereof, in any action or proceeding arising out of or relating to the Indenture (except actions or proceedings arising under or in connection with U.S. federal and state securities laws), and the Trustee and the holders hereby irrevocably submit to such jurisdiction and agree that all claims in respect of such Dispute may be heard and determined in such New York state or United States federal court.

EXCHANGE RATE INFORMATION

In January of 2000, following several weeks of severe exchange-rate depreciation of the sucre, the Republic announced that it would dollarize the economy. On March 1, 2000, the Ecuadorian Congress approved the *Ley para la Transformación Económica del Ecuador* ("Ecuadorian Economic Transformation Law"), or the "Dollarization Program"), which made the U.S. dollar the legal tender in Ecuador. The Ecuadorian Economic Transformation Law provided for the Central Bank to exchange, on demand, sucres at a rate of 25,000 sucres per U.S.\$1. In addition to providing an official basis to dollarize the economy, the law contained reforms aimed at strengthening fiscal stability, improving banking supervision and establishing rules to encourage direct investment. Since the passage of the Ecuadorian Economic Transformation Law, the U.S. dollar has been the legal tender in Ecuador. Due to the Dollarization Program, the ability of the Republic, and/or the Central Bank to adjust monetary policy and interest rates in order to influence macroeconomic trends in the economy is limited.

OFFERING CIRCULAR SUMMARY AND RECENT DEVELOPMENTS

The following summary does not purport to be complete and is qualified in its entirety by, and is subject to, the detailed information appearing elsewhere in this Offering Circular.

The Republic of Ecuador

Ecuador is one of the smallest countries in South America, covering an area of approximately 99,054 square miles (256,549 square kilometers). Located on the northwestern coast of the continent, it shares a 950-mile border with Peru to the south and the east, a 373-mile border with Colombia to the north, and a 1,452-mile coastline to the Pacific Ocean to the west. The country encompasses a wide range of geographic areas and climates, including the Pacific coastal plains, the Sierra (consisting of the Andean highland region), the Oriente (characterized by the Amazonian tropical rain forest) and the Galapagos Islands region located in the Pacific Ocean approximately 600 miles from the coast.

In 2006, current president Rafael Correa was elected with 56.67% of the vote. Prior to President Correa taking office, protests in Quito contributed to the mid-term ouster of three of Ecuador's last four democratically elected Presidents. President Correa was reelected in general elections held in February 2013 with 57.17% of the vote.

Upon taking office, President Correa believed that significant reforms were necessary to rectify years of corruption, especially in regards to economic and financial matters. To do so, President Correa called for a referendum to write a new constitution, which was approved by the electorate and the National Assembly (the "2008 Constitution"). The 2008 Constitution provided the foundation for the economic and financial reform initiatives of his administration. These reforms were consistent with the Correa administration's objective to promote economic growth, while reducing poverty and inequality and fostering social progress.

On June 26, 2014, the President of the National Assembly submitted a request to the Constitutional Court soliciting their opinion as to whether certain proposals, including one that would allow for re-election of the President of Ecuador for an indefinite number of terms, were constitutional amendments or constitutional reforms. Constitutional amendments require only the approval of two-thirds of the National Assembly while constitutional reforms require both the approval of a two-thirds vote in the National Assembly and a majority of the population eligible to vote in a popular referendum. On November 1, 2014, the Constitutional Court ruled that the proposals were constitutional amendments and therefore did not require a popular referendum. Drafts of the amendments were presented on November 2014 and are currently being debated by the National Assembly. As of the date of this Offering Circular, the National Assembly has not scheduled a vote regarding the proposed amendment.

The Ecuadorian Economy

The U.S. dollar is the legal tender in Ecuador. In each of five years from 2009 through 2013 the Ecuadorian economy registered positive rates of growth. During 2009 to 2013, the Ecuadorian economy grew from a nominal gross domestic product ("GDP") of U.S.\$62,520 million in 2009 to U.S.\$94,473 million in 2013. During the same five-year period, GDP per capita, grew from U.S.\$4,242 in 2009 to U.S.\$5,988 in 2013. In 2013 the economy of Ecuador grew by 4.6%, in real terms, which was mainly driven by continued increases in fixed capital formation and public sector consumption, which increased by 10.7% and 7.7% respectively. GDP for the first nine months of 2014 was U.S.\$75,100 million, which represents an increase of 6.9% compared to the first nine months of 2013 when GDP was U.S.\$70,226 million. This increase of GDP during the first nine months of 2014 is principally due to an increase in petroleum exports and increased construction activity during the time period. However, petroleum exports, in terms of U.S. dollars, decreased in the last quarter of 2014 (when exports totaled U.S.\$2.5 billion) as compared to the last quarter of 2013 (when exports totaled U.S.\$5.1 billion) due to the decline in oil prices in the last quarter of 2014. The decrease caused year-end 2014 petroleum exports to register a 2.9% decrease as compared to year-end 2013 petroleum exports.

Inflation declined from 4.3% in 2009 to 3.7% in 2014 and unemployment declined during the same period from 6.5% in 2009 to 3.8% in 2014. The rate of unemployment decreased from 4.2% in 2013 to 3.8% in 2014 due to increased job creation in the services and commerce industries. Inflation increased from 2.7% in 2013 to 3.7% in 2014 due to an increase in the prices of housing, water and electricity services during the time period.

In 2013, petroleum was the largest sector measured by percentage of GDP (12.25%), followed by manufacturing (12.12%), construction (10.74%), trade (10.38%), community services (7.89%) and agriculture (7.78%). In the first nine months of 2014, manufacturing (12.27%) was the largest sector due to the growth of meat and shrimp processing activities and metal products manufacturing during the time period, followed by petroleum (12.21%) and construction (10.86%). Petroleum, manufacturing, and construction were also the largest sectors in the first nine months of 2013 (12.46%, 12.10%, and 10.76%, respectively).

Oil field crude production, including that of private and state-owned companies, reached 203.1 million barrels in 2014, an amount that represented a 5.7% increase from the 192.1 million barrels produced in 2013 (and an increase of 5.7% in barrels per day ("bpd")). This increase was principally due to the introduction of new technologies that increased the production capacity of existing oil fields. Despite the decline of oil prices in the last quarter of 2014, the Government has no plans to decrease crude oil production or decrease investment in crude oil production.

Other than in 2009, when there was a decrease in the price of oil, crude oil exports as measured in U.S. dollars steadily increased from 2010 to 2013. Ecuador's crude oil exports reached U.S.\$13,016 million in 2014, down 2.9% from U.S.\$13,412 million in 2013. This decrease was due to the decrease in the price of crude oil that occurred in late 2014.

The Republic considers the following four sectors to be the most important strategic sectors of the economy: water, telecommunications, natural resources, and electricity. During the period from 2009 through 2014, the total Government investment in these strategic sectors has increased from U.S.\$2,841 million in 2009 to U.S.\$7,135 million in 2014. The U.S.\$7,135 million investment in 2014 is an increase from the U.S.\$6,397 million investment in 2013.

The Government has targeted the electricity sector for significant capital investment. In 2014, the Government invested U.S.\$1,325 million in the electricity sector, a 204% increase from 2009, where the Government invested U.S.\$436 million in the sector. Currently, hydroelectric plants supply 46% of the power in Ecuador. By 2016, the Government predicts that hydroelectric plants will generate 93% of the power in Ecuador. Ecuador's objective in developing hydroelectric power is to reduce its consumption of oil through oil-based generators, thereby decreasing oil imports and electric energy imports and improving energy independence.

In June 2014, President Correa announced on national radio that the Republic will amend its existing mining laws. In an interview, the Minister of Coordination of Strategic Sectors (defined herein) has stated the principal objective of these new laws will be to attract investment in the mining sector. In the same month, the Ministry of Labor Relations (defined herein) announced that it would submit a proposal to amend the existing labor laws. The objective of this new proposal is to conform the existing labor laws to the 2008 Constitution.

In February 2015, the National Assembly enacted the *Ley Orgánica de Telecomunicaciones* ("Telecommunications Law") to improve access to quality telecommunications services and to increase the use of information technology in rural sectors. The objective of the law is to foster competition among telecommunication providers in order to increase the quality of telecommunication services in the country. The law applies to all companies that provide or facilitate the transmission of voice, video, data or any other type of signal via physical or wireless means. Under the Telecommunications Law, companies whose market share exceeds certain thresholds must pay a corresponding tax to the Government, which tax increases depending on the percentage of market share held. For example, companies that hold a market share higher than 75% must pay the government a tax equal to 9% of their total revenues for the year. In addition, the law provides that telecommunications companies must provide their services in Shuar and Quechua as well as in Spanish.

A draft of a new Civil Procedure Code ("*Proyecto de Código Orgánico General de Procesos*") is under second review by the National Assembly. This draft if enacted would create a homologation process for the enforcement of foreign arbitration awards in Ecuador.

Balance of Payments and Foreign Trade

Between 2009 and 2013, Ecuador experienced fluctuations between balance of payment deficits and surpluses. While there were surpluses in 2011 and 2013, there were deficits for in 2009, 2010 and 2012. In 2013, an improvement in the financial account that was the result of an increase in bilateral debt and corresponding loan disbursements contributed to a balance of payments surplus of U.S.\$1,845.9 million. However, the current account deficit of U.S.\$983.8 million registered in 2013 represents an increase in the deficit compared to the U.S.\$163.8 million current account deficit registered in 2012. This deficit is primarily the result of a deficit in the trade balance, due to an increase in imports, particularly with respect to imported capital goods and raw materials.

In the third quarter of 2014, Ecuador experienced a balance of payment surplus of U.S.\$877.1 million as a result of an increase in the capital and financial account. The 2014 third quarter current account showed a deficit of U.S.\$78.9 million and the 2014 third quarter capital and financial account showed a surplus of U.S.\$1,061.5 million, which was primarily due to the issuance of the 2024 Bonds (defined herein).

In Ecuador, total direct foreign investment has increased over the five-year period from 2009 through 2013, from U.S.\$307.8 million in 2009 to U.S.\$728.3 million in 2013. This increase was due to continuing investment in Ecuador's infrastructure, in particular, its electricity and water sectors. Total direct foreign investment for the third quarter of 2014 equaled U.S.\$432.1 million, a decrease compared to the U.S.\$516.2 million in direct foreign investment for the third quarter of 2013. This decrease was principally the result of a decrease in both investment in services rendered to businesses and investment in construction and agriculture.

In 2014, despite a 2.9% decrease in oil exports, overall exports increased to U.S.\$25,732 million, an increase of 3.56%, compared to 2013. The increase was primarily due to the improved banana (11%) and cacao (35%) production, as well as a sharp increase in shrimp exports (44%).

Although the levels of imports have increased since 2009, the rate of increase has declined over the last six years due to the Republic's promotion of domestic production. In 2010, imports increased by 37.7% as compared to the previous year, while the rate declined to 18.3% in 2011, 5.5% in 2012, and 6.8% in 2013. In 2014, imports totaled U.S.\$27,739 million, compared to U.S.\$27,146 million for 2013.

On December 12, 2014, representatives from Ecuador's Ministry of Foreign Commerce signed a trade agreement with the European Union, which requires approval of each the Constitutional Court, the National Assembly, the European Parliament, and the legislatures of the 28 EU member countries in order to be effective. The agreement is intended to provide expanded access to the European market for Ecuadorian exports and lower tariff duties on European imports into the Ecuadorian market. As part of the agreement, Ecuador will be a beneficiary of the European Union's Generalized Scheme of Preferences Plus program until 2016 or until the trade agreement is in place. This benefit allows Ecuador to not pay tariffs on exports of Ecuadorian products into the European Union.

On January 25, 2015, the *Empresa Publica Cementera Nacional* (the "National Cement Company" or "EPCN") and Peru's Cementos Yura S.A. signed a U.S.\$230 million contract for the construction of a clinker production plant. The plant will be built in the city of Riobamba and will produce an estimated 2,400 tons of clinker per day. As part of the agreement, Cementos Yura S.A. will hold a 63.5% stake in EPCN. The Government has stated that the domestic production of clinker through this agreement will reduce imports of cement products into the Republic.

Monetary System

Since taking office the Government of President Correa has prioritized the stabilization of the monetary system and promoted the safety of the financial system. As of December 31, 2014, the Ecuadorian banking system had a total of 25 banking institutions, of which one was a foreign-owned bank and one was a state-owned bank.

Banking deposits constitute the principal source of financing for the banking system. From December 31, 2009 through December 31, 2013, total deposits increased 76%, from U.S.\$13,748.8 million to U.S.\$24,250.5 million. As of December 31, 2014, banking deposits totaled U.S.\$26,874.5 million, an increase of 10.8% from December 31, 2013. Total assets of the banking system increased from U.S.\$17.5 billion in 2009 to U.S.\$30.7 billion in 2013. As of December 31, 2014, total assets for the banking system totaled U.S.\$33.6 billion, an increase of 9% since December 31, 2013. This increase in total assets is due to an increase in consumer, commercial and housing loans during the period.

With respect to the various sectors, most loan interest rates declined during the period 2009 through 2014. This reduction of interest rates from 2009 to 2014 resulted in increased credit, with loans increasing by 108% from 2009 to 2014.

Average loan interest rates on short-term and long-term loans decreased from 9.2% in 2009, to 8.2% in 2014 primarily due to a policy of the Republic to reduce maximum lending rates. During the same period, the average interest rates on deposits decreased from 5.2% in 2008 to 4.5% in 2013 due to the decrease in loan interest rates. In 2014, the average interest rate on deposits rose to 5.1% due to the increase in demand deposits with high interest rates.

From 2009 to 2013, the banking system's delinquency rate has gradually improved and past-due loans declined from 2.9% in 2009 to 2.6% in 2013. In 2014, the delinquency rate increased to 2.9%, as a result of the increase in delinquency rates in consumer credits from 4.7% to 5.5%.

On July 30, 2014, the Executive Board of the International Monetary Fund (the "IMF") concluded an Article IV consultation with Ecuador, its first since 2008. The consultation took place in Washington D.C. through discussions with officials, and via video and telephone conferences with individuals in the public and private sector in Ecuador. In its published report, the IMF noted the significant improvements in Ecuador's social and economic indicators over the past decade and noted that Ecuador's growth prospects are generally favorable and that risks are broadly balanced. The results of the consultation were announced in an August 20, 2014 press release by the IMF which is available on the IMF's website. The press release is not incorporated into this Offering Memorandum.

In September 2014, the National Assembly enacted the *Código Orgánico Monetario y Financiero* (the "Monetary and Financial Law") in order to address weaknesses of the Republic's financial system stemming from the banking crisis in 2000. To achieve its objectives, the Monetary and Financial Law creates a new regulatory body, the *Junta de Política y Regulación Monetaria y Financiera* (the "Committee of Monetary and Financial Policy Regulation") to oversee and regulate the execution of monetary, foreign exchange, financial, insurance, and securities policies of the country. The committee is comprised of delegates from the Ecuador's Ministry of Finance, *Ministerio de Industrias y Productividad* (the "Ministry of Production and Industrialization"), *Ministerio Coordinador de Política Económica* (the "Ministry of Economic Policy"), office of the National Secretary of Planning and Development, and a delegate appointed by the President. The principal function of the committee is to oversee and monitor the liquidity requirements of the Government's financial system, ensuring that liquidity remains above certain levels (to be determined by the Committee of Monetary and Financial Policy Regulation). The law also creates a separate internal auditor for the Government's financial entities, establishes certain norms for the Central Bank and the Superintendent of Banks (defined herein) regarding their budget, purpose, and their supervision, and sets forth reporting requirements to the Committee of Monetary and Financial Policy Regulation. The law also explicitly establishes that certain

accounts in the Central Bank, including the accounts used for the deposits of the COSEDE and the Liquidity Fund, are subject to sovereign immunity and cannot be subject to attachment of any kind.

The law further establishes that all transactions, monetary operations and accounts in the Republic of Ecuador will be expressed in U.S. dollars. Other sections of the law make reference to an electronic payment system to facilitate payments to vendors. Through this voluntary electronic payment system, Ecuadorians will be allowed to make online payments to participating vendors through a payment system managed by the Government. Payments made through the system will be deducted or credited directly from accounts that vendors can establish within the Central Bank and will be backed by liquid assets in the Central Bank. On August 7, 2014, mobile phone carrier Movistar signed an agreement with the Central Bank to establish accounts to use the electronic payment system. In December 2014, the electronic payment system began operations. According to the Central Bank, the Government is seeking to sign contracts with other vendors and projects that, by year-end 2015, would result in approximately U.S.\$10 million being managed through the system. Further details regarding this payment system will be set forth by the Committee of Monetary and Financial Policy Regulation in regulations that have not yet been promulgated. For more information regarding the Monetary and Financial Law see "Monetary System – Supervision of the Financial System."

On October 11, 2014, there occurred a merger of Promerica Financial Corporation and Banco de la Producción Produbanco S.A. At the time of the merger, Banco de la Producción Produbanco S.A. represented 9.5% of the Ecuadorian banking system, with U.S.\$3,028 million in assets, while Promerica Financial Corporation represented 2.8% of the banking system with assets of U.S.\$843.5 million.

On December 29, 2014 the National Assembly enacted a corporate tax reform relating to the taxation of shareholders of Ecuadorian companies who reside in tax havens. The reform increases the corporate tax rate to 25% from 22% if an Ecuadorian company's owners are tax haven residents who own collectively more than 50% of the company. In addition, the tax reform exempts companies from corporate taxes, for a period of 10 years, for profits related to new and productive investments as defined by the Production Code. For more information on these laws and other tax reforms see "Public Sector Finances –Taxation and Customs."

Public Sector Finances

Other than in 2009, for the five-year period from 2009 to 2013, the amount of total revenues met the approximate budgeted targeted amount. During the five-year period from 2009 through 2013, the Central Government budget deficit as a percentage of GDP increased slightly from 4.2% in 2009 to 5.8% in 2013. In 2013, the non-financial public sector registered a deficit of U.S.\$4,348 million, equivalent to 4.6% of GDP, an increase from a deficit of U.S.\$824 million in 2012, which was equivalent to 0.9% of GDP. Total expenditures totaled U.S.\$41,607 million (equivalent to 44.0% of GDP) and total revenues totaled U.S.\$37,259 million (equivalent to 39.4% of GDP). The increased deficit from 2012 to 2013 was the result of increased spending on infrastructure projects.

Total revenues of the Central Government in the first nine months of 2014 totaled U.S.\$15,380 million, while total expenditures totaled U.S.\$18,232 million, resulting in a deficit of U.S.\$2,852,1 million, equivalent to 3.8% of GDP. Ecuador's deficit in the first nine months of 2014 exceeded the deficit in the corresponding period in 2013 primarily due to an increase in wages and salaries paid to government employees as a result of minimum wage increases. In the corresponding period in 2013, Ecuador incurred a deficit of U.S.\$2,100 million. Total revenues of the non-financial public sector in the first nine months of 2014 totaled U.S.\$29,863 million, while total expenditures totaled U.S.\$30,733 million, resulting in a deficit of U.S.\$870 million, equivalent to 1.2% of GDP, as compared to a deficit of U.S.\$472 million in the first nine months of 2013. This deficit was the result of increases in wages and salaries and current expenses.

According to data from the Ministry of Finance, the 2014 budget was modified during the year. As of June 30, 2014, Ecuador increased the 2014 budget to U.S.\$36.2 billion. The modification was due to increases in construction costs of the Republic's hydroelectric plants and reflects a 5.53% increase from the initial budget for 2014. Since this increase is within 15% of the approved 2014 budget, National Assembly approval for the aforementioned modifications was not required. See "Public Sector Finances – Budget Process."

On October 31, 2014, the executive branch presented the 2015 draft budget to the National Assembly. The draft budget proposes a budget of U.S.\$36.3 billion for the year, which is a 5.8% increase from the U.S.\$34.3 billion budget for 2014. The draft budget projects tax revenues of U.S.\$15.6 billion, a 14.7% increase from the projected tax revenue for the 2014 budget. It assumes an average crude oil price of U.S.\$79.7 per barrel, which represents a 7.8% decrease from the U.S.\$86.4 assumption in the 2014 budget. GDP growth is targeted to be approximately 4.1% with a 3.9% inflation rate compared to 4.5% to 3.2%, respectively, in the 2014 budget. The draft budget also estimates that there will be a budget deficit of U.S.\$5.4 billion, which is the same estimate made in the 2014 budget. The draft budget, as presented, was approved by the National Assembly on November 20, 2014 and became effective on January 1, 2015.

On January 2015, in response to the decline of oil prices in the last quarter of 2014, Ecuador reduced its 2015 budget by U.S.\$1.4 billion, resulting in a modified budget of U.S.\$34.9 billion for 2015. The 2015 budget, as modified in January 2015, assumes an average crude oil price of U.S.\$60 per barrel. The Minister of Finance has announced that the adjustments will include a reduction of U.S.\$839.8 million in investment expenditures and U.S.\$580 million in current expenditures. These reductions are made primarily in the following sectors: national treasury (U.S.\$276 million), education (U.S.\$255 million), communications (U.S.\$229 million), health (U.S.\$169 million), agriculture and fishing (U.S.\$100 million). In addition to the reduction in expenditures, it is expected that the reduction in oil revenues will be compensated for by inflows from several sources, such as external financing (including loans from Chinese government entities issued pursuant to memorandums of understanding, as further described in "Public Debt- Debt Obligations" and a contingent credit with the IDB for U.S.\$300 million,) corporate tax increases in the aggregate amount of approximately U.S.\$518 million (see "The Ecuadorian Economy-Economic and Social Policies-Tax Reforms") and increased tariff duties of approximately U.S.\$240 million.

Public Debt

Total public external debt increased from U.S.\$7.39 billion in 2009 or 11.8% of GDP to U.S.\$12.92 billion in 2013, which represented 13.7% of GDP. This increase in debt was primarily due to increased debt from bilateral lenders. The total external debt of the public sector in Ecuador as of December 31, 2014 was U.S.\$17.58 million compared to U.S.\$12.92 million on December 31, 2013. This increase is primarily due to the issuance of the 2024 Bonds.

As of December 31, 2013, the top three bilateral lenders to Ecuador were China, Brazil and Spain, with debt levels of U.S.\$4,633.9 million (79.2% of the total bilateral debt), U.S.\$292.6 million (5.1% of the total bilateral debt) and U.S.\$190.7 million (3.3% of the total bilateral debt) respectively. As of December 31, 2014, the top three bilateral lenders to Ecuador continued to be China, Brazil and Spain, with debt levels of U.S.\$5,074.4 million (63.7% of the total bilateral debt), U.S.\$302.8 million (3.8% of the total bilateral debt) and U.S.\$158.1 million (1.9% of the total bilateral debt) respectively. The Government is current on all of its obligations to bilateral lenders.

In 2008, Ecuador defaulted on its interest payments for the 2012 and 2030 Bonds (as defined in "Public Debt – Debt Obligations" herein) in the aggregate amount of approximately U.S.\$157 million and principal payments of approximately U.S.\$3,200 million. In 2009 the Republic launched cash tender offers to the holders of the 2012 and 2030 Bonds and from 2009 through the date of this Offering Circular has repurchased additional 2012 and 2030 Bonds. As of the date hereof, the total aggregate amount of outstanding principal on the 2012 and 2030 Bonds is U.S.\$78.7 million, which represents 2.5% of the original aggregate principal amount of the 2012 and 2030 Bonds.

In December 2005, the Republic successfully launched an issuance of Bonds due 2015 (the "2015 Bonds"). The last interest payment on the 2015 Bonds, which was due on December 15, 2014, was paid by the Republic in accordance with the relevant indenture. The Republic is current on its financial obligations under the 2015 Bonds and intends to make all remaining payments on the 2015 Bonds as they become due and payable. The 2015 Bonds will mature in December 2015.

On June 17 2014, the Republic successfully issued U.S.\$2,000 million of Bonds due June 2024 (the "2024 Bonds") with a coupon of 7.95%. The most recent interest payment on the 2024 Bonds, which was due

on December 20, 2014, was paid by the Republic in accordance with the relevant indenture. The Republic is current on its financial obligations under the 2024 Bonds and intends to make all payments as they become due and payable. The Republic is using the proceeds of the 2024 Bonds to finance its various hydroelectric projects and other infrastructure projects contemplated in its National Development Plan.

Ecuador's other significant external debt transactions in 2014 include a U.S.\$116 million 2-year loan from Deutsche Bank to finance projects of the Ecuadorian air force and a U.S.\$400 million 3-year loan facility from Goldman Sachs. In April of 2014, the World Bank extended a U.S.\$1,000 million line of credit to Ecuador intended to help provide additional financing for Ecuador's hydroelectric projects. In September 2014, Noble Americas Corp. ("Noble") extended a U.S.\$1,000 million facility agreement to Petroecuador. The loan agreement with Noble is linked to a supply contract with Petroecuador to purchase diesel and naphtha products from Noble. Both the supply contract and the loan agreement have a term of 5 years. Also, in September 2014, the Latin American Reserve Fund ("FLAR"), extended a U.S.\$617 million three-year loan to finance Ecuador's current account deficit. In October 2014, the Republic entered into a U.S.\$100 million seven-year facility with Credit Suisse to finance roads and housing projects and a U.S.\$509 million 15-year facility with China Exim Bank to finance the construction of a 500kV transmission line project.

On November 24, 2014, Ecuador entered into a facility agreement with Bank of China Limited, Panama Branch (U.S.\$218 million commitment) and Deutsche Bank AG, Hong Kong Branch (U.S.\$93 million commitment) as the lenders. The total commitment of this credit facility is U.S.\$311 million. The loans are to be used to pay for up to 85% of the amount payable by the Ministry of Transportation and Public Works to SINOHYDRO Corporation Limited in connection with several highway and bridge construction projects. The facility has a final maturity date of November 24, 2027.

On December 1, 2014, Ecuador entered into a U.S.\$124.8 million facility agreement with the European Investment Bank. The loan is to be used for the financing of public infrastructure companies in Ecuador and provides for a term of four years.

On January 7, 2015, Ecuador entered into a memorandum of understanding with the China Development Bank Corporation in connection with a loan of up to U.S.\$1.5 billion. The proceeds of the loan are to be used for eligible infrastructure and development projects in Ecuador. On the same date, Ecuador entered into a framework agreement for future cooperation with China Exim Bank. This agreement allows the Ministry of Finance to regularly submit priority lists of projects which it proposes to be financed by China Exim Bank, within three years of the date of the agreement. The initial priority list includes six projects to be financed at a total cost of U.S.\$5.3 billion. The rights and obligations of the parties will be stipulated in relevant loan agreements to finance specific projects.

On February 26, 2015, Ecuador, entered into a Foreign Purchase Credit Agreement with Deutsche Bank, Sociedad Anónima Española. The loan is to be used to purchase radar equipment and other equipment for the air defense of Ecuador. This agreement provides for a U.S.\$88 million facility to be repaid in a term of nine years.

Selected Economic Indicators ⁽¹⁾

	For the Year Ended December 31,						For the 9 Months Ended September 30,	
	2009	2010	2011	2012	2013	2014	2014	2013
(in millions of U.S. dollars, except percentages and where noted)								
The Economy								
Nominal GDP	62,520	69,555	79,277	87,623	94,473	n/a ⁽⁷⁾	75,100	70,226
Real GDP ⁽¹⁾	54,558	56,481	60,925	64,105	67,081	n/a	51,983	50,011
Real GDP growth	0.6%	3.5%	7.9%	5.2%	4.6%	n/a	3.9%	4.4%
Annual inflation	4.3%	3.3%	5.4%	4.2%	2.7%	3.7%	n/a	n/a
Unemployment ⁽²⁾	6.5%	5.0%	4.2%	4.1%	4.2%	3.8%	n/a	n/a
Non-Financial Public Sector								
Total revenues	18,378	23,186	31,190	34,570	37,260	n/a	29,863	28,039
Total expenditures	20,610	24,123	31,290	35,394	41,607	n/a	30,733	28,511
Surplus/Deficit	-2,232	-937	-101	-824	-4,348	n/a	-870	-472
As % of GDP	-3.6	-1.3	-0.1	-0.9	-4.6	n/a	-1.2	-0.7
Central Government								
Total revenues	11,583	15,076	17,198	19,523	20,400	n/a	15,380	15,388
Total expenditures	14,218	16,207	18,435	21,239	25,861	n/a	18,232	17,488
Surplus/Deficit	-2,635	-1,131	-1,236	-1,717	-5,461	n/a	-2,852.1	-2,100
As % of GDP	-4.2	-1.6	-1.6	-2.0	-5.8	n/a	-3.8	-3.0
External Debt (in billions)⁽⁵⁾								
Total Public External Debt	7.39	8.67	10.06	10.87	12.92	17.58	16.72	12.52
Total External Debt (as % of GDP)	11.8%	12.4%	12.7%	12.4%	13.7%	n/a	16.5%	13.3%
Total Internal Debt	2.8	4.7	4.5	7.8	9.9	12.6	11.3	8.7
Total Internal Debt (as % of GDP)	4.5%	6.7%	5.7%	8.9%	10.5%	n/a	11.2%	9.3%
	For the Year Ended December 31,						For the Third Quarter of	
	2009	2010	2011	2012	2013	2014	2014	2013
Balance of Payments ^{(2) (6)}								
Exports ⁽³⁾	14,412.0	18,137.1	23,082.3	24,568.9	25,685.7	n/a	6,742.3	6,620.3
Imports ⁽³⁾	-14,268.4	-19,641.1	-23,242.6	-24,518.9	-26,178.2	n/a	-6,736.3	-6,651.0
Trade balance ⁽³⁾	143.6	-1,504.0	-160.3	49.9	-492.5	n/a	6.1	-30.7
Services balance ⁽³⁾	-1,281.8	-1,522.4	-1,562.7	-1,391.1	-1,495.3	n/a	-300.3	-347.9
Current account surplus/deficit of the balance of payments ⁽³⁾	309.4	-1,586.2	-260.1	-163.8	-983.8	n/a	-78.9	-64.8
International reserves ⁽⁴⁾	3,792.1	2,622.1	2,957.6	2,482.5	4,360.5	3,949.1	6,689.2	4,233.5

Source: Unless indicated below, information is from the Central Bank January 2015 Monthly Bulletin

(1) Real GDP measures the Gross Domestic Product of Ecuador minus the effect of inflation. The Central Bank of Ecuador uses 2007 as its base year for all real number calculations. GDP Information is from the Central Bank Quarterly Bulletin for the Third Quarter of 2014.

(2) Unemployment figures based on figures from *Instituto Nacional de Estadística y Censos* ("National Institute of Statistics" or "INEC").

(3) Figures reflect figures from "Balance of Payments" table.

(4) Data corresponds to freely disposable international reserves. Before dollarization, Ecuador kept international monetary reserves with the aim of supporting the exchange rate of the sucre. Currently, Ecuador keeps freely disposable international reserves ("International Reserves"), whose variations are explained by the change in the deposits from Ecuador's financial institutions and non-financial public sector institutions held in the Central Bank. Data for 2009 to 2012 based on figures from the Central Bank's 2013 Yearly Bulletin.

(5) Debt figures in this Offering Circular are based on information from the Ministry of Finance's December 2014 Debt Bulletin and reflect data for December 2014.

(6) Balance of payments data is published by the Central Bank on an annual and quarterly basis. Numbers reflect third quarter 2014 information.

(7) Data marked as "n/a" is not publicly available data as of the date of this Offering Circular, or in the case of labor and inflation figures, is not available for the time specified.

THE OFFERING

The following summary does not purport to be complete and is qualified in its entirety by, and is subject to, the detailed information appearing elsewhere in this Offering Circular.

Issuer:	The Republic of Ecuador.
Issue Amount:	U.S.\$750,000,000.
Securities Offered:	U.S.\$750,000,000 principal amount of 10.500% notes due 2020.
Issue Format:	Rule 144A/Regulation S.
Issue Price:	100.000% plus accrued interest, if any, from March 24, 2015.
Issue Date:	March 24, 2015.
Maturity Date:	March 24, 2020.
Interest:	10.500% per annum, computed on the basis of a 360-day year of twelve 30 day months.
Interest Payment Dates:	Each March 24 and September 24, commencing on September 24, 2015.
Form:	The Notes will be represented in the form of global notes, without coupons, registered in the nominee name of the common depositary for Euroclear and Clearstream for the accounts of its participants. Notes in definitive certificated form will not be issued in exchange for the global notes except under limited circumstances.
Denominations:	The Republic will issue the Notes only in denominations of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof.
Ranking:	The Notes will be general, direct, unsecured, unsubordinated and unconditional obligations of Ecuador, will be backed by the full faith and credit of Ecuador and will rank equally in terms of priority with Ecuador's External Indebtedness (other than Excluded Indebtedness), provided, that, such ranking is in terms of priority only and does not require that Ecuador make ratable payments on the Notes with payments made on its other External Indebtedness.
Withholding Tax and Additional Amounts:	Unless otherwise required by law, Ecuador will make all principal and interest payments on the Notes without withholding or deducting any present or future taxes imposed by Ecuador or any of its political subdivisions or taxing authorities. If Ecuador is required by law to

deduct or withhold taxes, except to the extent provided for in "Description of the Notes – Additional Amounts," Ecuador will pay the holders of the Notes such additional amounts as may be necessary to ensure that they receive the same amount as they would have received without any withholding or deduction.

Representations and Covenants: The Republic will agree to comply with, among others, the following covenants:

- a) The Republic will obtain and maintain in full force and effect all Ecuadorian Authorizations necessary under the laws of Ecuador for the execution and delivery of, and performance by the Republic under, the Notes and the Indenture or for their validity or enforceability, and take all necessary and appropriate Governmental and administrative action in Ecuador in order to be able to make all payments to be made by it under the Notes and the Indenture.
- b) The Republic will ensure that at all times its obligations under the Notes are general, direct, unsecured, unsubordinated and unconditional obligations of Ecuador and will be backed by the full faith and credit of Ecuador and ensure that the Notes will rank equally in terms of priority with Ecuador's External Indebtedness (other than Excluded Indebtedness), provided, that, such ranking is in terms of priority only and does not require that the Republic make ratable payments on the Notes with payments made on its other External Indebtedness.
- c) The Republic will use its reasonable best efforts to list and thereafter to maintain the listing of the Notes on the Luxembourg Stock Exchange.
- d) The Republic will not create or suffer to exist, or permit the Central Bank to create or suffer to exist, any Lien upon any of its present or future assets or revenues to secure or otherwise provide for the payment of any External Indebtedness of Ecuador or the Central Bank unless, on or prior to the date such Lien is created or comes into existence, the obligations of the Republic under the Notes and the Indenture are secured equally and ratably with such External Indebtedness.

Events of Default: The Notes will contain, among others, the following events of default, the occurrence of which may result in the acceleration of the Republic's obligations under the Notes prior to maturity:

- a) The Republic fails, on the applicable payment date, to (i) make any payment of principal or Make-Whole Amount on the Notes (unless such non-payment is due to an administrative or technical error and is remedied within five Business Days of the date when such

payment is due) or (ii) make any payment of an interest amount or Additional Amount on the Notes within 30 days of the date when such payment is due.

- b) The Republic fails to perform or comply with any other obligation under the Notes or under the Indenture and Ecuador does not or cannot cure that failure within 30 days after it receives written notice from the Trustee or holders of at least 25% of the aggregate principal amount of the Notes then outstanding regarding that default.
- c) The Republic, or a court of proper jurisdiction, declares a moratorium with respect to the payment of principal of, or interest on, Ecuador's External Indebtedness (other than Excluded Indebtedness).
- d) The Republic fails to make any payment in respect of any External Indebtedness (other than Excluded Indebtedness) in an aggregate principal amount in excess of U.S.\$50,000,000 (or its equivalent in any other currency) when due (as such date may be extended by virtue of any applicable grace period or waiver).
- e) The holders of at least 25% of the aggregate outstanding principal amount of any External Indebtedness (other than Excluded Indebtedness) having an aggregate principal amount in excess of U.S.\$50,000,000 (or its equivalent in any other currency), accelerate or declare such External Indebtedness to be due and payable, or required to be prepaid (other than by a regularly scheduled prepayment), prior to its stated maturity, as a result of Ecuador's failure to pay the principal or interest on such External Indebtedness, and such acceleration, declaration or prepayment is not annulled or rescinded within 30 days.
- f) The Republic denies, repudiates or contests any of its payment obligations under the Notes or the Indenture in a formal administrative, legislative, judicial or arbitral proceeding or any constitutional provision, treaty, law, regulation, decree, or other official pronouncement of the Republic, or any final decision by any court in the Republic having jurisdiction, renders it unlawful for the Republic to pay any amount due on the Notes or to perform any of its obligations under the Notes or the Indenture.
- g) The Republic fails to maintain its membership in the IMF.
- h) The Republic fails to maintain its membership in, or its eligibility to use the general resources or equivalent of, any of CAF, FLAR and IDB.
- i) There shall have been entered against the Republic or the Central Bank in a matter related to External Indebtedness (other than

Excluded Indebtedness) a final judgment, decree or order by a court of competent jurisdiction from which no appeal may be made, or is made within the time limit for doing so, for the payment of money in excess of U.S.\$50,000,000 (or its equivalent in another currency) and 120 days shall have passed since the entry of any such order without Ecuador having satisfied such judgment.

- j) There shall be made against the Republic or the Central Bank in a matter related to External Indebtedness (other than Excluded Indebtedness) an arbitral award by a tribunal of competent jurisdiction from which no appeal or application to a tribunal or court of competent jurisdiction to set aside may be made, or is made within the time limit for doing so, for the payment of money in excess of U.S.\$50,000,000 (or its equivalent in another currency) and 120 days shall have passed since the making of any such award without the Republic having satisfied the award.

Use of Proceeds:

The Republic will use the proceeds of U.S.\$750,000,000 of the Notes in accordance with the limitations of the Public Planning and Finance Code (defined herein), as further described in "Use of Proceeds."

Collective Action Clauses:

The Notes will contain provisions, commonly known as "collective action clauses," regarding acceleration of the Notes and voting on future amendments, modifications and waivers to the terms and conditions of the Notes. These provisions, which are described in the sections entitled "Description of the Notes — Events of Default" and "Description of the Notes — Modifications – Collective Action," differ from those applicable to certain of the Republic's outstanding External Indebtedness (as defined herein). Under such provisions, the Republic may: (a) amend the payment provisions of the Notes and certain other reserved matters with the consent of the holders of 75% of the aggregate amount of the outstanding Notes and other non-reserved matters with the consent of the holders of 66 ⅔% of the aggregate amount of the outstanding Notes; (b) make reserved matter modifications affecting two or more series of debt securities with the consent of (x) holders of at least 66⅔% of the aggregate principal amount of the outstanding debt securities of all series that would be affected by that reserved matter modification (taken in aggregate) and (y) holders of more than 50% of the aggregate principal amount of the outstanding debt securities of each affected series (taken individually); or (c) make reserved matter modifications affecting two or more series of debt securities with the consent of holders of at least 75% of the aggregate principal amount of the outstanding debt securities of all affected series (taken in aggregate), provided that the Uniformly Applicable condition is satisfied, as more fully described in "Description of the Notes – Modifications – Collective Action."

Transfer Restrictions:	The Notes have not been and will not be registered under the Securities Act, and will be subject to restrictions on transferability and resale. See "Transfer Restrictions."
Listing:	Application has been made to list the Notes on the Luxembourg Stock Exchange and to have the Notes admitted to trading on the Euro MTF Market.
Absence of a Public Market for the Notes:	The Notes will be a new issue of securities, and there is currently no established market for the Notes. The Republic and the Lead Manager cannot provide any assurances that a liquid market for the Notes will develop. The Lead Manager has advised the Republic that it currently intends to make a market in the Notes. However, it is not obligated to do so, and any market-making with respect to the Notes may be discontinued without notice.
Trustee, Registrar and Transfer Agent:	The Bank of New York Mellon.
London Paying Agent:	The Bank of New York Mellon, London Branch.
Luxembourg Listing Agent, Transfer Agent and Luxembourg Paying Agent:	The Bank of New York Mellon (Luxembourg) S.A.
Governing Law:	The Notes will be governed by the laws of the State of New York, except for the terms concerning submissions to arbitration which will be governed by English law.
Submission to Arbitration:	Any dispute, controversy or claim of any nature arising out of, relating to or having any connection with the Indenture, including any dispute as to the existence, validity, interpretation, performance, breach, termination or consequences of the nullity of the Indenture (a "Dispute") where the Republic is either a party, claimant, respondent or otherwise is necessary thereto, will not be referred to a court of any jurisdiction and will instead be referred to and finally resolved by arbitration under the Rules of the LCIA ("LCIA Rules") as at present in force as modified by the Indenture which LCIA Rules are deemed to be incorporated by reference. In particular: (a) There will be three arbitrators. (i) Each arbitrator will be an English or New York qualified lawyer of at least 15 years' standing with experience in relation to

international banking or capital markets disputes. At least one of those arbitrators will be a lawyer qualified in New York.

- (ii) If there are two parties to the Dispute, each party will be entitled to nominate one arbitrator. If there are multiple claimants and/or multiple respondents, all claimants and/or all respondents will attempt to agree upon their respective nomination(s) such that the claimants will together be entitled to nominate one arbitrator and the respondents will together be entitled to nominate one arbitrator. If any such party or multiple parties fail to nominate an arbitrator within thirty (30) days from and including the date of receipt of the relevant request for arbitration, an arbitrator will be appointed on their behalf by the LCIA Court in accordance with the LCIA Rules and applying the criteria at clause (ii) above. In such circumstances, any existing nomination or confirmation of the arbitrator chosen by the party or parties on the other side of the proposed arbitration will be unaffected, and the remaining arbitrator(s) will be appointed in accordance with the LCIA Rules.
- (b) The third arbitrator and chairman of the arbitral tribunal will be appointed by the LCIA Court in accordance with the LCIA Rules and applying the criteria at clause (ii) above.
- (c) The seat, or legal place, of arbitration will be London, England.
- (d) The language to be used in the arbitration will be English. The arbitration provisions of the Indenture will be governed by English law.
- (e) Without prejudice to any other mode of service

allowed by law, the Republic hereby appoints Law Debenture Corporate Services Limited, with its registered office at 5/F, 100 Wood Street, EC2V 7EX, London, England (the "Process Agent") as its agent under the Indenture for service of process in relation to any proceedings before the English courts in relation to any arbitration contemplated by the Indenture or in relation to recognition or enforcement of any such arbitral award obtained in accordance with the Indenture.

If the Process Agent is unable to act as the Republic's agent under the Indenture for the service of process, the Republic must immediately (and in any event within ten (10) days of the event taking place) appoint another agent (a "Replacement Agent") on terms acceptable to the Trustee.

The Republic agrees that failure by the Process Agent or, as applicable, a Replacement Agent, to notify the Republic of the process will not invalidate the proceedings concerned.

Any Dispute between the Trustee and any holders or holders only and where the Republic is not a party, claimant, respondent or otherwise is necessary thereto, will be subject to the non-exclusive jurisdiction of any New York state or United States federal court sitting in the Borough of Manhattan, the City of New York, and any appellate court from any thereof, in any action or proceeding arising out of or relating to the Indenture (except actions or proceedings arising under or in connection with U.S. federal and state securities laws), and the Trustee and the holders will irrevocably submit to such jurisdiction and agree that all claims in respect of such Dispute may be heard and determined in such New York state or United States federal court.

Scope of Sovereign Immunity:

The execution and delivery of the Indenture by the Republic constitutes, and the Republic's performance of and compliance with its obligations will constitute, an act of commercial public credit as provided under the laws of the Republic. To the extent permitted by law, the Republic will irrevocably and unconditionally agree that:

- (a) the Republic submits to the jurisdiction of any Ecuadorian court and to any legal process in the Republic's courts (other than attachment proceedings prior to recognition or enforcement of an arbitral award), in connection with the enforcement of an arbitral award obtained in accordance with the Indenture, except with respect to the Immune

Property, which shall be entitled to immunity from enforcement in accordance with mandatory provisions of the laws of Ecuador;

- (b) the Republic submits to the jurisdiction of any court outside the Republic and to any legal process, orders or other measures in courts outside the Republic, whether through service or notice, attachment in aid of execution, execution against property of any sort, actions in rem or the grant of injunctions or specific performance, in connection with the enforcement of an arbitral award obtained in accordance with the Indenture,
- (c) the Republic undertakes not to invoke any defense on the basis of any kind of immunity, for itself and/or its assets which do not constitute Immune Property in respect of any of the foregoing legal actions or proceedings; and
- (d) the Republic submits to the jurisdiction of the English courts in connection with any proceeding invoking the supervisory jurisdiction of those courts in relation to an arbitration conducted pursuant to the Indenture.

The levy of execution on assets of the Republic within the territory of the Republic will be carried out in accordance with and under the laws of the Republic.

The Republic irrevocably waives, to the fullest extent permitted by law, any requirement or provision of law that requires the posting of a bond or other security as a condition to the institution, prosecution or completion of any action or proceeding.

An arbitral award obtained in accordance with the Indenture will be conclusive and may be enforced in any jurisdiction in accordance with the New York Convention or in any other manner provided for by law.

"Immune Property," in accordance with the provisions of the law of Ecuador, means:

- (a) any property which is used or designated for use in the performance of the functions of the diplomatic mission of Ecuador or its consular posts;
- (b) aircraft, naval vessels and other property of a military character or used or designated for use in the performance of military functions;
- (c) property forming part of the cultural heritage of Ecuador or part of its archives;

- (d) unexploited natural non-renewable resources in Ecuador;
- (e) funds managed in the national Treasury Account;
- (f) assets and resources comprising available monetary reserves of Ecuador;
- (g) public domain assets used for providing public services in Ecuador; and
- (h) national assets located in the territory of Ecuador and belonging to the Republic, such as streets, bridges, roads, squares, beaches, sea and land located over 4,500 meters above sea level.

"New York Convention" means the New York Convention on the Recognition and Enforcement of Arbitral Awards 1958.

Further Issues:

The Republic may, from time to time, without the consent of the holders of the Notes, create and issue additional notes having the same terms and conditions as the Notes in all respects (or in all respects except for the amount of the first interest payment and the issue price) provided that:

- (a) the notes are consolidated and form a single series with the outstanding Notes; and
- (b) such additional notes do not have, for purposes of U.S. federal income taxation, a greater amount of original issue discount than the outstanding Notes have as of the date of the issue of such additional notes (regardless of whether any holders of such Notes are subject to U.S. federal income taxation).

RISK FACTORS

This section describes certain risks associated with investing in the Notes. You should consult your financial and legal advisors about the risk of investing in the Notes. Ecuador disclaims any responsibility for advising you on these matters.

Risk Factors Relating to the Notes

There may be no active trading market for the Notes, or the trading market for the Notes may be volatile and may be adversely affected by many factors.

The Notes will not have any established trading market when issued, and there can be no assurance that an active trading market for the Notes will develop, or, if one does develop, that it will be maintained. If an active trading market for the Notes does not develop or is not maintained, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market, and the market or trading price and liquidity of the Notes may be adversely affected. Even if a trading market for the Notes develops, the Notes may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions, and the financial condition of Ecuador. Although application has been made to list the Notes on the Official List of the Luxembourg Stock Exchange, there can be no assurance that such application will be accepted or that an active trading market will develop. Illiquidity may have a material adverse effect on the market value of the Notes.

The price at which the Notes will trade in the secondary market is uncertain.

Ecuador has been advised by the Lead Manager that it intends to make a market in the Notes but is not obligated to do so, and in the event that it does so, it may discontinue market making at any time without notice. Application has been made to list the Notes on the Official List of the Luxembourg Stock Exchange and to have the Notes admitted to trading on the Euro MTF Market. No assurance can be given as to the liquidity of the trading market for the Notes. The price at which the Notes will trade in the secondary market is uncertain.

The Notes will contain provisions that allow the payment terms to be amended without the consent of all holders.

The Notes will contain provisions, commonly known as "collective action clauses," regarding acceleration of the Notes and voting on future amendments, modifications and waivers to the terms and conditions of the Notes. Under these provisions, which are described in the sections entitled "Description of the Notes — Events of Default" and "Description of the Notes— Modifications – Collective Action" Ecuador may: (a) amend the payment provisions of the Notes and certain other reserved matters with the consent of the holders of 75% of the aggregate amount of the outstanding Notes and other non-reserved matters with the consent of the holders of 66 ⅔% of the aggregate amount of the outstanding Notes; (b) make reserved matter modifications affecting two or more series of debt securities with the consent of (x) holders of at least 66⅔% of the aggregate principal amount of the outstanding debt securities of all series that would be affected by that reserved matter modification (taken in aggregate) and (y) holders of more than 50% of the aggregate principal amount of the outstanding debt securities of each affected series (taken individually); or (c) make reserved matter modifications affecting two or more series of debt securities with the consent of holders of at least 75% of the aggregate principal amount of the outstanding debt securities of all affected series (taken in aggregate), provided that the Uniformly Applicable condition is satisfied.

Recent federal court decisions in the United States create uncertainty regarding the meaning of ranking provisions and could potentially reduce or hinder the ability of sovereign issuers to restructure their public sector debt.

In litigation in federal courts in New York captioned NML Capital, Ltd. v. Republic of Argentina, the U.S. Court of Appeals for the Second Circuit ruled on August 23, 2013 that the ranking clause (which included ratable payment language) in certain defaulted notes issued by Argentina, prevents Argentina from making payments in respect of new performing notes that it issued in exchange for the defaulted notes in a restructuring in which a certain minority of holders elected not to participate, unless it makes *pro rata* payments in respect of the defaulted notes that rank *pari passu* with new notes. The defaulted notes in this case did not contain the "collective action clauses" referred to in the preceding risk factor. While the U.S. Court of Appeals for the Second Circuit's decision was narrowly tailored to the facts of the case, including the conduct of Argentina and the specific wording of the *pari passu* clause in the defaulted notes, the implication from this case is that it may be more difficult for sovereign debtors to restructure their debts.

On February 18, 2014, the Republic of Argentina filed a petition in the U.S. Supreme Court seeking review of the Second Circuit's August 2013 ruling. On June 16, 2014, the U.S. Supreme Court denied the Republic of Argentina's petition for review, thereby letting stand the Second Circuit's August 2013 ruling. On July 22, 2014, the U.S. District Court for the Southern District of New York enforced the ruling and barred the international trustee from making a U.S.\$539 million payment to bondholders of the new performing notes that Argentina issued in exchange for the defaulted notes. On the same date, the U.S. District Court ordered Argentina to undergo continuous mediation and settlement talks with holders of the defaulted notes. On July 28, 2014, the U.S. District court issued a one-time stay that allowed the trustee to make payments to the bondholders of the new performing notes. On September 11, 2014, in response to the July 22, 2014 ruling, Argentina's Congress approved legislation that would change the jurisdiction of payments to outside the United States. On September 26, 2014, the U.S. District Court issued another stay that allowed the trustee, under Argentina's local bonds issued in exchange for the defaulted notes, to proceed with a one-time payment of U.S.\$5 million. Attorneys for the minority holders who elected not to participate in the initial restructuring requested that the U.S. District Court hold Argentina in contempt of the court, and the U.S. District Court granted an order to this effect on September 29, 2014 (with the order being reaffirmed and supplemented by the U.S. District Court on October 3, 2014). In response, attorneys for Argentina issued a notice of appeal on November 3, 2014 and filed the appeal on February 27, 2015.

On June 16, 2014, the U.S. Supreme Court issued an opinion in a related case, ruling that the Republic of Argentina is not immune from complying with a judgment creditor's discovery demands seeking information about its assets outside the United States. On August 11, 2014 the U.S. District Court for Nevada granted NML Capital, Ltd's motion to compel discovery of information regarding Argentine assets in the United States.

On February 25, 2015 the U.S. District Court for the Southern District of New York ordered Deutsche Bank and JPMorgan Chase and Co. to deliver the documents relevant to Argentina's planned new issuance of dollar-denominated debt to the court and NML Capital, Ltd.

Ecuador cannot predict what impact, if any, these U.S. court rulings will have on sovereign issuers such as Ecuador.

The ability of holders to transfer Notes in the United States and certain other jurisdictions will be limited.

The Notes issued pursuant to this offer will not be registered under the Securities Act and, therefore, may not be offered or sold in the United States except pursuant to an exemption from the registration requirements of the Securities Act and applicable U.S. state securities laws. Offers and sales of the Notes may also be subject to transfer restrictions in other jurisdictions. You should consult your financial or legal advisors for advice concerning applicable transfer restrictions with respect to the Notes.

Credit ratings may not reflect all risks of investment in the Notes.

Credit ratings are an assessment by rating agencies of Ecuador's ability to pay its debts when due. Consequently, real or anticipated changes in Ecuador's credit ratings will generally affect the market value of the Notes. These credit ratings may not reflect the potential impact of risks relating to structure or marketing of

the Notes. Agency ratings are not a recommendation to buy, sell or hold any security, and may be revised or withdrawn at any time by the issuing organization. Each agency's rating should be evaluated independently of any other agency's rating.

Risk Factors Relating to Ecuador

Ecuador has defaulted on its sovereign debt obligations in the past, in particular its obligations under the 2012 and 2030 Bonds.

In 2009, Ecuador defaulted on its interest payments for the 2012 and 2030 Bonds (as defined in "Public Debt – Debt Obligations" herein) in the aggregate amount of approximately U.S.\$157 million and principal payments of approximately U.S.\$3,200 million. The 2012 and 2030 Bonds were originally issued in exchange for prior debt offerings of the Republic in order to extend the maturity dates of those prior obligations. These defaults followed the publication of a report in 2008 by the Commission of Integral Audit of Public Credit ("CAIC"), a committee composed of representatives from both the Ecuadorian Government and private sector organizations and members of civil society. CAIC reviewed Ecuador's debt obligations from 1976 to 2006 and in its report made a number of findings regarding the legitimacy of Ecuador's debt obligations (including the 2012 and 2030 Bonds), in particular relating to concerns involving the public assumption of private debt, appropriate authorizations, sovereign immunity, and the relevant economic terms of the debt obligations incurred. After the default, which occurred during the first term of President Correa's administration, Ecuador offered to repurchase the 2012 and 2030 Bonds at a discount to their par value. Holders responded to this offer by tendering substantially all of the 2012 and 2030 Bonds. Although some holders continue to hold the defaulted 2012 and 2030 Bonds, Ecuador has successfully repurchased additional 2012 and 2030 Bonds from remaining holders from 2009 onwards. For more information, see "Public Debt – Debt Obligations – 2012 and 2030 Bonds and tender offer." Ecuador has remained current on its obligation to its other series of sovereign bonds due in 2015, as well as on its bilateral loans as further described in "Public Debt – External Debt." To date, no judgments have been issued against the Republic with respect to the 2012 and 2030 Bonds and none are pending. Proceedings have been issued against the Republic in two cases. See "Risk Factors – Risks Factors Relating to Ecuador - *Ecuador is involved in a number of legal proceedings and disputes that could result in losses to Ecuador as well as a decrease in foreign investment.*" There is a risk that other holders, other than the holders described in "Public Debt – Debt Obligations – 2012 and 2030 Bonds and tender offer," of these defaulted bonds may institute proceedings against the Republic and may seek to enforce any judgments obtained by seeking to attach assets of the Republic. Any action by the holders of the 2012 and 2030 Bonds, or any further defaults by Ecuador on its sovereign debt obligations, could materially adversely affect the market value of the Notes and the ability of the Republic to make principal and interest payments free of the risk of attachment. Any action by the holders of the 2012 and 2030 Bonds making similar pari passu arguments as the holders in *NML Capital, Ltd. v. Republic of Argentina* "Risk Factors – Risk Factors Relating to the Notes – *Recent federal court decisions in New York create uncertainty regarding the meaning of ranking provisions and could potentially reduce or hinder the ability of sovereign issuers to restructure their public sector debt*" or any further defaults by Ecuador of its sovereign debt obligations, could materially adversely affect the market value of the Notes and the ability of the Republic to make principal and interest payments free of the risk of attachment.

Ecuador's past history has been characterized by institutional instability.

Between 1997 and 2007, Ecuador has had eight presidents, and three of them were overthrown during periods of political unrest: Abdala Bucaram in 1997, Jamil Mahuad in 2000, and Lucio Gutiérrez in 2005. Since 2007, Ecuador has experienced political stability with President Correa's Alianza PAIS party having won five consecutive National Assembly elections, and President Correa having won re-election in 2013. For more information on presidential term limits, see "The Republic of Ecuador – Form of Government." However, a return to an unstable political environment could significantly affect Ecuador's economy and Ecuador's ability to perform its obligations under the Notes.

Certain economic risks are inherent in any investment in an emerging market country such as Ecuador.

Investing in an emerging market country such as Ecuador carries economic risks. These risks include many different factors that may affect Ecuador's economic results, including the following:

- interest rates in the United States and financial markets outside Ecuador;
- changes in economic or tax policies in Ecuador;
- the imposition of trade barriers by Ecuador's trade partners;
- general economic, political, and business conditions in Ecuador, Ecuador's major trading partners, and the global economy;
- the ability of Ecuador to effect key economic reforms, including its economic strategy to re-balance the economy by increasing the percentage of GDP represented by the non-petroleum economy. For more information see "The Ecuadorian Economy – Strategic Sectors of the Economy – Oil Sector";
- political and social tensions in Ecuador;
- the prices of commodities, including oil;
- the impact of hostilities or political unrest in other countries that may affect international trade, commodity prices and the global economy; and
- the decisions of international financial institutions regarding the terms of their financial assistance to Ecuador.

Any of these factors, as well as volatility in the markets for securities similar to the Notes, may adversely affect the liquidity of, and trading markets for, the Notes. See "Forward-Looking Statements" for further information on factors that may affect the Notes.

Ecuador's economy remains vulnerable to external shocks, including the negative global economic consequences that occurred as a result of the global economic recession that took place in 2008 and 2009, and those which could arise as a result of future significant economic difficulties of its major regional trading partners or by more general "contagion" effects, which could have a material adverse effect on Ecuador's economic growth and its ability to service its public debt.

Emerging-market investment generally poses a greater degree of risk than investment in more mature market economies because the economies in the developing world are more susceptible to destabilization resulting from domestic and international developments. Generally, investment in emerging markets is only suitable for sophisticated investors who appreciate the significance of the risks involved in, and are familiar with, investing in emerging markets.

A significant decline in the economic growth of any of Ecuador's major trading partners could adversely affect Ecuador's economic growth. In addition, because international investors' reactions to the events occurring in one emerging market country sometimes appear to demonstrate a "contagion" effect, in which an entire region or class of investment is disfavored by international investors, Ecuador could be adversely affected by negative economic or financial developments in other emerging market countries or in Latin America generally.

There can be no assurance that any crises such as those described above or similar events will not negatively affect investor confidence in emerging markets or the economies of the principal countries in Latin America, including Ecuador. In addition, there can be no assurance that these events will not adversely affect

Ecuador's economy, its ability to raise capital in the external debt markets in the future or its ability to service its public debt.

A significant increase in interest rates in the international financial markets could have a material adverse effect on the economies of Ecuador's trading partners and adversely affect Ecuador's economic growth and Ecuador's ability to make payments on its outstanding public debt, including the Notes.

If interest rates outside Ecuador increase significantly, Ecuador's trading partners, in particular, could find it more difficult and expensive to borrow capital and refinance their existing debt. These increased costs could in turn adversely affect economic growth in those countries. Decreased growth on the part of Ecuador's trading partners could have a material adverse effect on the markets for Ecuador's exports and, in turn, adversely affect Ecuador's economy. An increase in interest rates would also increase Ecuador's debt service requirements with respect to Ecuador's debt obligations that accrue interest at floating rates. As a result, Ecuador's ability to make payments on its outstanding public debt generally, including the Notes, would be adversely affected.

A number of factors have impacted on and may continue to impact on revenues and the performance of the economy.

The economy of Ecuador and the Government's budget are highly dependent on petroleum revenues. For more information see "Public Sector Finances – Non-Financial Public Sector Revenues and Expenditures." For example, in 2014, 30.7% of Ecuador's revenues were from petroleum-related taxes and royalties. In the event the price of oil continues to decrease from its current levels of approximately \$50 per barrel, Ecuador's revenues from oil could significantly decline. There can be no assurance that Government revenues from petroleum exports will not experience significant fluctuations as a result of changes in the international petroleum market. Concerns with respect to the current global recession, weakness of the world economy, terrorism, market volatility and certain geopolitical developments, such as political instability in the Middle East, Venezuela, and Ukraine, may have a potentially adverse effect on the petroleum market as a whole.

In addition, in 2014 84.8% of Ecuador's petroleum exports by destination were to three countries - the United States (59.7%), Chile (15.5%), and Peru (9.6%). Worsening economic conditions in any of these countries could have a significant impact on Ecuador's revenues from oil and overall economic activity.

Further, operating difficulties in certain oil fields and the outages and the overhaul of its largest refinery, the Esmeraldas refinery (see "The Ecuadorian Economy – Strategic Sectors of the Economy – Oil Sector") have led to uneven production over the last few years. While Ecuador expects to increase production through the development of new fields, in particular the ITT fields (see "The Ecuadorian Economy – Strategic Sectors of the Economy – Oil Sector"), there can be no assurance that future political opposition will permit operations to proceed as planned. In addition, while Ecuador has contracted with several companies to upgrade and overhaul the Esmeraldas refinery, which is expected to be completed by October 2015, further outages could result in a decline of refining capacity. Accordingly, any sustained period of decline in capacity, if exacerbated by a decline in oil production, could adversely affect the Government's fiscal accounts and International Reserves. In addition to the effects of the volatility of the oil market, the Ecuadorian Congress has passed several laws that have altered the Government's budget and the established budgetary agenda and resulted in higher deficits. Certain assumptions regarding the levels of future oil prices are contained in the budgetary process and in the *Plan Nacional para el Buen Vivir* (the "National Development Plan"). Anticipated revenues contained in the budget could be lower if these assumptions about oil prices are not accurate. In January of 2015, in response to the decline of oil prices in the last quarter of 2014, Ecuador reduced its 2015 budget by U.S.\$1.4 billion, resulting in a modified budget of U.S.\$34.9 billion for 2015. For more information see "Public Sector Finances-2014 and 2015 Budget." Furthermore, President Correa has stated, in light of the global economic climate, that Ecuador's priority will be to meet the Government's employment and social goals. Ecuador may need to balance its social and employment goals with its budgetary constraints.

Commodity prices are volatile, and a significant decline in commodity prices could adversely affect Ecuador's economy and affect its ability to perform its obligations under the Notes.

In addition to petroleum prices, see "Risk Factors – Risk Factors Relating to Ecuador - *A number of factors have impacted on and may continue to impact on revenues and the performance of the economy,*" Ecuador's economy is exposed to other commodity price volatility, especially with regard to bananas, which in 2014 made up approximately 20.5% of Ecuador's total non-petroleum production. A significant drop in the price of certain commodities, such as bananas, would adversely affect Ecuador's economy and could affect Ecuador's ability to perform its obligations under the Notes.

Ecuador is a sovereign state and has not waived its sovereign immunity to the fullest extent permitted under the United States Foreign Sovereign Immunities Act of 1976; accordingly it may be difficult to obtain or enforce judgments against it.

Ecuador is a sovereign state. Consequently, it may be difficult for investors to obtain or realize judgments against Ecuador in the United States or elsewhere. For example, Argentina defaulted on part of its external debt beginning in 2002. Holders of those bonds issued by Argentina have had difficulty in obtaining payment from the defaulted issuer, and many have yet to be compensated. Litigation in relation to Argentina's default is still ongoing as described further in the risk factor entitled "*Recent federal court decisions in New York create uncertainty regarding the meaning of ranking provisions and could potentially reduce or hinder the ability of sovereign issuers to restructure their public sector debt.*" In the event holders of the Notes were to attempt to enforce a civil judgment against Ecuador, they may experience similar difficulty.

Furthermore, the dispute resolution provisions of the Notes require submission to arbitration at the London Court of International Arbitration while the contractual provisions of the Notes are governed by New York law. In order to obtain an enforceable judgment any disputes will have to be submitted first to the decision of an arbitral panel prior to being subject to enforcement by an applicable court.

To the extent holders of Notes were to bring suit in Ecuador or attempt to enforce a foreign judgment or arbitral award in Ecuador, under the laws of Ecuador certain property of Ecuador is exempt from attachment. In addition, pursuant to the terms of the Notes and the Indenture, Ecuador has limited its sovereign immunity (other than with respect to the laws of Ecuador) with respect to actions brought against it under the Notes or the Indenture. This limitation of immunity, however, may be more limited in scope than those under certain other sovereign issuances in which issuers may waive immunity to the full extent under the U.S. Foreign Sovereign Immunities Act of 1976. Given this limitation on the scope of immunity, as well as the limitations of the U.S. Foreign Sovereign Immunities Act of 1976 and the immunity granted to Ecuador under Ecuadorian law, or which may in the future be granted under Ecuadorian law, holders seeking to attach assets of Ecuador may not be able to do so within Ecuador and may face difficulties doing so outside of Ecuador.

Ecuador is involved in a number of legal proceedings and disputes that could result in losses to Ecuador as well as a decrease in foreign investment.

Ecuador is currently involved in several legal proceedings, mainly related to contracts in the oil and electricity sectors. For a description of these legal proceedings and other proceedings against Ecuador, see "Legal Proceedings." If the foreign companies were to succeed, the awards could adversely impact the finances of Ecuador. Ecuador can offer no assurances as to whether or not such proceedings will be resolved in its favor.

Occidental

In May 1999, *Empresa Pública de Hidrocarburos del Ecuador* ("Petroecuador") and Occidental Exploration and Production Company ("Occidental") entered into a participation agreement for the exploration and exploitation of hydrocarbons in Block 15, in the Oriente region. On September 16, 2004, Petroecuador sent Occidental a notice of breach alleging various grounds for forfeiture of the participation agreement, including the unauthorized assignment of 40% of Occidental's rights and obligations thereunder to Canadian oil company Encana. Block 15 is one of Ecuador's most productive oil fields. In May 2006, the Ministry of Energy and Mines declared the participation agreement with Occidental to be terminated due to its alleged breach of the Hydrocarbons Law. As a result, all of Occidental's assets were transferred to the Republic. In July 2006,

Occidental filed a claim before the International Centre for the Settlement of Investment Disputes ("ICSID") against Ecuador in an amount of U.S.\$3.3 billion, claiming that the termination of the participation agreement constituted the "equivalent of expropriation," in violation of the U.S.-Ecuador Bilateral Investment Treaty, and that the forfeiture of the participation agreement was litigated for political reasons rather than due to an illegal assignment.

On October 5, 2012, the ICSID arbitral panel issued an arbitral award in favor of Occidental in the amount of U.S.\$1.7 billion, plus interest, but it also found that Occidental's assignment to Encana was made in violation of Ecuadorian law. The arbitral panel based the amount on the full value of the contract, with a reduction of 25% due to such violation. On October 9, 2012, Ecuador filed a petition for a stay of the enforcement of the arbitral award until an annulment procedure could be carried out. The petition was registered with ICSID on October 11, 2012. On January 18, 2013, ICSID appointed an ad hoc panel to resolve the petition for the stay. The first meeting of the panel occurred on March 25, 2013. On May 13, 2013, the panel met to consider a February 13, 2013 petition by Occidental to lift the currently effective stay of the arbitral award. In a September 30, 2013 decision, the panel ratified the stay of the award and held that it should continue unconditionally.

On August 12, 2013, Ecuador submitted its Brief of Annulment. On October 18, 2013, Occidental presented its response, arguing that there was no basis for an annulment. Ecuador presented its reply on January 6, 2014 and Occidental submitted its rejoinder on February 28, 2014. The hearing concerning annulment took place between April 7 and April 10, 2014. The proceedings were concluded on April 10, 2014. The result of the hearing is pending.

Chevron

In 2006, Chevron Corporation and Texaco Petroleum Corporation ("Chevron") brought arbitration proceedings against the Republic under the United Nations Commission on International Trade Law ("UNCITRAL") alleging the Republic's breach of certain "denial of justice" provisions under the U.S.-Ecuador Bilateral Investment Treaty. In August 2011, the arbitral tribunal established that Ecuador had breached such treaty and should pay Chevron U.S.\$96 million plus compound interest calculated from September 1, 2011 until the date of payment. The tribunal accepted the position of Ecuador that any amount received by Chevron should be subject to the payment of a tax at a rate of 87.31% (the preliminary arbitral award was approximately U.S.\$700 million) and deducted the tax amount due to Ecuador from the preliminary arbitral award of U.S.\$700 million. Consequently, Ecuador filed a petition to annul the arbitral award before the District Court of The Hague, which was denied on May 2, 2012. Ecuador presented an appeal to the District Court decision, and on May 13, 2013, the Appellate Court of The Hague heard the arguments of the parties on appeal and rejected Ecuador's appeal on June 19, 2013. In September 18, 2013, Ecuador presented an appeal to the Supreme Court of the Netherlands, which held hearings on February 28, 2014 and denied Ecuador's appeal on September 26, 2014.

On July 27, 2012, Chevron filed a claim before the District Court of the District of Columbia (Washington, DC) seeking recognition and enforcement of the arbitral award. On March 25, 2013, Ecuador filed its brief in opposition with the court, and on April 25, 2013, Chevron filed its response. On June 7, 2013 the District Court confirmed the award in favor of Chevron. Ecuador filed for further appeal on July 1, 2013, to which Chevron filed an opposition brief on August 19, 2013. The results of this appeal are pending. On September 6, 2013, because Ecuador did not have substantial assets in the District of Columbia, Chevron filed a motion to enable it to register the district court award "in any other district" in the United States. Ecuador objected, arguing that Chevron should be permitted to register the award only in "those districts for which Chevron has provided sufficient evidence that Ecuador has substantial assets." On October 29, 2013, the District Court of the District of Columbia granted Chevron's motion to register the award in any other district. On June 11, 2014, Ecuador appealed the District Court decision. Chevron filed a response to this appeal on July 18, 2014 and Ecuador filed a counter-response on August 8, 2014. Ecuador presented additional documentation on August 15, 2014 and August 22, 2014. A hearing regarding the appeal took place on January 12, 2015. To date, Chevron has not registered the award in any other district and the Republic is not aware that Chevron has taken any steps to execute on any assets of the Republic.

A number of foreign oil companies have sued Ecuador in connection with the application of law 42-2006, which levied a 99% tax on the windfall profits of a number of foreign oil companies. For a description of the windfall profits tax, see "The Ecuadorian Economy – Economic and Social Policies – Renegotiation of Oil Field Contracts." As a result of the implementation of the windfall profits tax law, Ecuador is a defendant in several arbitration proceedings.

Burlington

Burlington Resources, Inc. ("Burlington") filed an arbitration claim before ICSID on April 2008 against Ecuador, seeking compensation for alleged modifications to its contracts for the development of Blocks 7 and 21 in Ecuador imposed by Ecuadorian law 42-2006. Burlington argued that such unilateral modification resulted in an expropriation of the blocks that Burlington was operating, although, subsequent to the commencement of the proceedings, Burlington withdrew the contractual claims and based all claims solely on violations of the U.S.-Ecuador Bilateral Investment Treaty. On September 30, 2011, Ecuador filed two counterclaims against Burlington for environmental damage and failure to maintain the facilities of Blocks 7 and 21, in an approximate amount of U.S.\$2 billion. On December 14, 2012, the tribunal decided the liability issue in favor of Burlington and consequently, on January 28, 2013, Ecuador submitted a petition for reconsideration. Hearings for the counterclaims took place from June 1 to June 7, 2014 in Paris. The parties are scheduled to present their post-hearing briefs on September 26, 2014 and, in an effort to assess the validity of the counterclaims, the tribunal is set to visit Blocks 7 and 21 in the first quarter of 2015.

The arbitral tribunal was scheduled to meet for a hearing on damages and Ecuador's counterclaims in August 2013, but the hearings were suspended due to the request by Ecuador that one of the arbitrators recuse himself from the decision because of a conflict of interest. Burlington presented its assessment of damages memorandum on June 24, 2013, to which Ecuador responded on May 23, 2014. The tribunal has scheduled a hearing regarding damages from March 2 to March 6, 2015 in Paris.

Claims under the 2030 Bonds

On December 12, 2014, GMO Trust issued proceedings against the Republic in respect of an alleged U.S.\$15,876,000 holding of 2030 Bonds. GMO voluntarily withdrew its complaint pursuant to a settlement agreement between the parties. A stipulation dismissing the complaint was filed on March 16, 2015; under that stipulation, the case cannot be re-filed.

On January 30, 2015, Daniel Penades issued proceedings against the Republic in respect of an alleged U.S.\$455,000 holding of 2030 Bonds. Daniel Penades has not yet served the Republic with his summons and complaint, and therefore the Republic as yet has no obligation to make any response to the suit.

Part of the offering proceeds could be attached by creditors to satisfy outstanding arbitral awards and judgments (if applicable) against Ecuador.

Creditors holding outstanding arbitral awards or court judgments present a risk of disruption to the offering. This could involve any type of creditor, including trade, supply, investor and finance creditors who obtain arbitral awards and possibly seek to enforce these awards or judgments. The risk with respect to the offering includes that the Lead Manager in the offering could be said to have an obligation to pay the offering proceeds to Ecuador, and that Ecuador's creditors may attempt to enforce their rights against Ecuador's interest in any such obligation. Further, Ecuador's creditors could attempt to attach the proceeds of the offering or the payment of principal and/or interest on the Notes.

Payments to holders of the Notes could be attached by creditors, including holders of other debt instruments of Ecuador, to satisfy awards against Ecuador. As a result, Ecuador may not be able to make payments to holders of the Notes.

There is a risk that creditors could attach payments of interest and principal by Ecuador to holders of the Notes outside of Ecuador because, until payments reach holders of the Notes, they could possibly be deemed to be the assets of Ecuador. For more information on these pending awards, see "Legal Proceedings" and "Risk

Factors – Risk Factors Relating to Ecuador – *Ecuador is involved in a number of legal proceedings and disputes that could result in losses to Ecuador as well as a decrease in foreign investment.*"

There is a risk that creditors could seek to attach part of the offering proceeds to satisfy pending awards against Ecuador. If creditors are successful in attaching payments to holders of the Notes, Ecuador may not be able to make payments to holders of the Notes. For further information about the attempts of creditors of Argentina to enforce payment obligations on defaulted sovereign debt, see "Risk Factors – Risk Factors Relating to the Notes – *Recent federal court decisions in New York create uncertainty regarding the meaning of ranking provisions and could potentially reduce or hinder the ability of sovereign issuers to restructure their public sector debt.*"

Specifically, payments of principal or interest on the Notes may be attached, enjoined or otherwise challenged by holders of other debt instruments of Ecuador, including outstanding holders of the 2012 and 2030 Bonds. Some creditors have, in recent years, used litigation tactics against several sovereign debtors that have defaulted on their sovereign bonds including Peru, Nicaragua and Argentina, to attach or interrupt payments made by these sovereign debtors to, among others, holders of the relevant defaulted bonds who agreed to a debt restructuring and accepted new securities in an exchange offer. Ecuador may also become subject to suits to collect on defaulted indebtedness. Ecuador cannot guarantee that a creditor will not be able to interfere, through an attachment of assets, injunction, temporary restraining order or otherwise, with payments made under the Notes. As of the date of this Offering Circular, the Republic is aware of claims that have been made by two holders of the 2030 Bonds. For more information see "Public Debt – Debt Obligations – 2012 and 2030 Bonds and tender offer."

Ecuador faces challenges in its ability to access external financing.

Ecuador may have to rely in part on additional financing from the domestic and international capital markets in order to meet its future expenses. Given the fluctuations in Ecuador's level of International Reserves in the last few years, as of September 30, 2014, International Reserves (defined herein) covered 82.3% of current account payments. Ecuador's ability to obtain diverse sources of international funding has become increasingly important. See "Public Sector Finances – Overview – Fiscal Policy." Since the U.S. dollar is legal tender of Ecuador, the level of International Reserves may not be an indicator of its ability to meet current account payments as would be the case in an economy where the dollar is not legal tender.

In 2008, CAIC issued a report that made a number of findings regarding the legitimacy of Ecuador's debt obligations (including the 2012 and 2030 Bonds), in particular relating to concerns involving the public assumption of private debt, appropriate authorizations, sovereign immunity, and the relevant economic terms of the debt obligations incurred. See also "Risk Factors – Risk Factors Relating to Ecuador – *Ecuador has defaulted on its sovereign debt obligations in the past, in particular its obligations under the 2012 and 2030 Bonds.*" Following the report in 2008, Ecuador defaulted on its payments for the 2012 and 2030 Bonds in the aggregate amount, as of February 2009, of approximately U.S.\$157 million in interest and U.S.\$3,200 million in principal. However, Ecuador did not default, and is current, on its 2015 Bonds issued in 2005. Ecuador invited holders of the 2012 and 2030 Bonds to participate in two tender offers in April 2009 and November 2009 which resulted in the tender of 93.22% of the 2012 and 2030 Bonds. Although some holders continue to hold the defaulted 2012 and 2030 Bonds, Ecuador has successfully repurchased additional 2012 and 2030 Bonds from remaining holders from 2009 onwards. As of the date hereof, the total aggregate amount of outstanding principal on the 2012 and 2030 Bonds is U.S.\$78.7 million, which represents 2.5% of the original aggregate principal amount of the 2012 and 2030 Bonds. For more information, see "Public Debt – Debt Obligations – 2012 and 2030 Bonds and tender offer." Given the history of defaults, and more recently, defaults with respect to the 2012 and 2030 Bonds as a result of CAIC determining that the bonds were issued illegally, Ecuador may not be able access external financing on favorable terms. For further information regarding the external debt payment record of Ecuador and the history of defaults, see "Public Debt – Debt Obligations."

The ability of Ecuador to counter external shocks through economic policy is limited.

Ecuador instituted the Dollarization Program in 2000, replacing the Ecuadorian sucre with the U.S. dollar. Due to the current market conditions, Ecuador may be at risk if it cannot export sufficient goods to

receive additional U.S. dollars, as it has no ability to mint currency. In addition, due to the Dollarization Program, the ability of Ecuador and/or the Central Bank to adjust monetary policy and interest rates in order to influence macroeconomic trends in the economy is limited. The total income from its exports and remittances needs to outweigh the total cost of its imports. The disruptions currently experienced in the financial markets have led to reduced liquidity and increased credit risk premiums for certain market participants and have resulted in a reduction in available financing. Furthermore, by law, Ecuador's oil revenues can only be used to finance infrastructure projects and its ability to use these revenues to address other sectors or fiscal policy in general is limited. Accordingly, Ecuador's ability to use the tools of monetary policy to correct external shocks to the economy may be limited. See "Exchange Rate Information."

USE OF PROCEEDS

The use of proceeds for public debt is limited by the Public Planning and Finance Code (defined herein). Under the Public Planning and Finance Code, proceeds of public debt transactions may only be used to: (1) finance Government programs, (2) finance infrastructure projects that have the capacity to repay the related debt obligations and (3) refinance an existing external debt obligation on more favorable terms. The Public Planning and Finance Code prohibits public transactions for the purpose of paying ongoing expenses, with the exception of expenses related to health, education, and justice, under exceptional circumstances as determined by the President of the Republic.

The Republic will use the proceeds of U.S.\$750,000,000 of the Notes in accordance with the limitations of the Public Planning and Finance Code. The total expenses of this offering, including the underwriter's fee, will be approximately U.S.\$6,000,000.

THE REPUBLIC OF ECUADOR

Territory, Population and Society

Ecuador is one of the smallest countries in South America, covering an area of approximately 99,054 square miles (256,549 square kilometers). Located on the north-western coast of the continent, it shares a 950 mile border with Peru to the south and the east, a 373-mile border with Colombia to the north, and a 1,452-mile coastline to the Pacific Ocean to the west.

Ecuador encompasses a wide range of geographic areas and climates, including the Pacific coastal plains, the Sierra (consisting of the Andean highland region), the Oriente (characterized by the Amazonian tropical rain forest) and the Galapagos Islands region located in the Pacific Ocean approximately 600 miles from the coast. The Republic is traversed by the equator and lies entirely in the north and south tropical zones. The country's regional climates vary depending on altitude. The climate is tropical in the Pacific coastal plains and the Oriente, predominantly temperate in the Sierra, and maritime in the Galapagos Islands.

There has not been a major natural disaster in Ecuador since a series of earthquakes in 1987. However, Ecuador is located in an active seismic area where the risk of an earthquake or tremors is high. Ecuador also has several active volcanoes, some of which have shown increased activity in the past several years. When it occurs, the irregular 'El Niño' climatic phenomenon has caused heavy rains, landslides, widespread flooding and hotter temperatures across Ecuador. In 2012, forest fires occurred in many areas of Ecuador. The Pichincha province on the outskirts of Quito was particularly affected.

In November 2011, the Republic published the *Ley de Fomento Ambiental y Optimización de los Recursos del Estado* ("Environmental Improvement and State Resources Optimization Law") to strengthen the environmental regulatory framework of the country. The law introduced new pollution and plastic bottle taxes and increased taxes on cigarettes and alcoholic beverages.

On October 26, 1998, Ecuador and Peru signed a comprehensive peace agreement that ended a long-standing territorial dispute concerning territory in the Oriente region. Although the territorial conflict spanned more than a century, the treaty ended multiple hostile encounters between the two governments over the course of the previous four years. As a result of this treaty, the two countries presented joint plans for the development of infrastructure and commerce in the border region.

On March 1, 2008, Colombian forces raided a camp of the *Fuerzas Armadas Revolucionarias de Colombia* ("Revolutionary Armed Forces of Colombia" or "FARC"), which was located in Ecuadorian territory. This led to the death of FARC's leader, Raúl Reyes. Despite some brief tensions that resulted in the end of diplomatic relations with Colombia, the restoration of diplomatic relations between both countries was announced in November of 2010 by the presidents of Ecuador and Colombia, Rafael Correa and Juan Manuel Santos respectively, during the UNASUR summit in Guyana.

According to the 2010 census conducted by the *Instituto Nacional de Estadística y Censos* ("National Institute of Statistics" or "INEC"), the total population of Ecuador is approximately 16.0 million. Approximately 50.2% of the population live in the Pacific coastal plains, 44.5% live in the Andean highlands, 5.1% in the Oriente and 0.2% in the Galapagos Islands. From 2001 to 2010 the population grew at an average annual rate of 1.9%, down from 2.05% between 1990 and 2001. Approximately 63.6% of the population is urban. Guayaquil, which is located on the coast, is the largest city with 2.4 million inhabitants. Quito, the country's capital, has a population of 2.2 million and is located in the highlands at 2,850 meters above sea level. Cuenca is the third largest city with 505,585 inhabitants, and is also located in the Andean highlands. Spanish is the official language, while Quechua and Shuar are considered official languages for intercultural relations.

Historically, Ecuador has been a Catholic country and while the country remains predominantly Catholic, evangelical Christianity has become increasingly popular.

The following chart sets forth certain demographic characteristics for Ecuador in the time period specified:

Demographic Characteristics

	2009	2010	2011	2012	2013	2014
Total population (million)	14.7	15.0	15.3	15.5	15.8	16.0
Female (%).....	50.4	50.4	50.4	50.4	50.4	50.4
Male (%).....	49.6	49.6	49.6	49.6	49.6	549.6
Urban (%).....	62.6	62.7	62.9	63.0	63.2	63.3
Rural (%).....	37.4	37.3	37.1	37.0	36.8	36.7
Functional age groups (%)						
Child (0–14).....	31.3	32.4	32.1	31.8	31.5	31.0
Adult (15–64).....	62.7	61.0	62.3	61.6	61.9	62.2
Elderly (65+).....	6.1	6.6	6.6	6.6	6.6	6.8
Demographic Indicators						
Average Annual Growth (%).....	1.7	2.0	2.0	1.3	1.9	1.3
Birth Rate (per thousand)	20.2	19.5	19.7	19.1	14.0	n/a
Infant Mortality Rate (per 1,000 live births).....	9.5	9.3	8.9	8.8	8.6	n/a
Fertility Rate (per woman).....	2.8	2.6	2.6	2.6	2.6	2.6
Average Life Expectancy (age)						
Female.....	78.0	78.0	78.8	78.8	78.8	78.8
Male.....	78.4	78.6	72.9	72.9	72.9	72.9
Overall.....	75.0	75.0	75.8	75.8	75.8	75.8

Source: Based on INEC data as of December 31, 2014.

The following table sets forth certain comparative information for Ecuador in 2013 relative to certain countries:

Selected Comparative Social Statistics ⁽¹⁾ As of December 31, 2013

	Ecuador	Bolivia	Paraguay	Honduras	Guatemala	Costa Rica	United States
Average life expectancy.....	75.8	68.2	76.6	70.81	71.5	78.1	78.6
Adult literacy rate.....	93.3%	91.2%	93.9%	85.1%	75.9%	96.3%	99.0%
Expected years of schooling.....	14	14	12	12	11	14	18
Population below the poverty line.....	25.5%	49.6%	34.7%	60.0%	54%	24.8%	15.1%

Source: Ecuador data based on INEC projections as of December 31, 2013, remaining country data based on World Bank data as of December 31, 2013.

(1) In Ecuador, as of December 2014, the poverty line was U.S.\$81.04/month, per person.

Historical Background

Until 1553, what is now Ecuador formed part of the northern Inca Empire. Under Spanish rule, Ecuador became a seat of the Spanish colonial government in 1563 and part of the Viceroyalty of New Granada in 1717. The territories of the Viceroyalty (New Granada (Colombia), Venezuela and Quito) gained their independence between 1819 and 1822 and formed a federation known as Gran Colombia. Quito withdrew from the Gran Colombia federation in 1830, and formed what was then known as the "Republic of the Equator."

The next 150 years were marked by domestic political instability and international border conflicts. Particularly, after the withdrawal from Gran Colombia, Ecuador saw a power struggle between conservatives from Quito and liberals from Guayaquil. Internationally, between 1904 and 1942, Ecuador lost territories in a series of conflicts with its neighbors, including a war with Peru in 1941.

After World War II, Ecuador saw periods of democratic rule juxtaposed with military dictatorships. Despite this instability, Ecuador's banana industry boomed in the 1950s as it became one of the largest exporters of the fruit in the world. In the 1970s the discovery of new petroleum fields in the eastern provinces

transformed Ecuador into a producer of oil and made oil the Republic's most important export commodity. The rise in oil exports fuelled economic growth and brought sharp increases to spending and employment, financed mainly by external borrowing and oil revenues.

Although Ecuador marked 25 years of civilian governance in 2004, the period was marked by political instability. Protests in Quito contributed to the mid-term ouster of three of Ecuador's last four democratically elected Presidents. In 2006, current president Rafael Correa was elected with 56.67% of the vote. Under his administration, which began in January 2007, voters approved a new constitution (the "2008 Constitution"), Ecuador's 20th since gaining independence. President Correa was reelected in general elections held in February 2013 with 57.17% of the vote.

Form of Government

Ecuador is a republic, with powers divided among five branches of government: executive, legislative, judicial, transparency and social control, and electoral branches. The Constitution provides for concurrent four-year terms of office for the President, Vice President, and members of the National Assembly. Presidents and legislators may be re-elected immediately. Citizens must be at least 16 years of age to vote.

The President is the head of Government and head of state, and is elected by direct popular vote for a four-year term. The 2008 Constitution implemented presidential term limits so that after the first four-year term, the president has only one opportunity for re-election, unless the 2008 Constitution is amended to negate these term limit requirements. The President's duties include the enforcement of the Constitution, the definition of economic, trade and foreign policy, and the enforcement of domestic law and order. The President is also commander-in-chief of the armed forces and appoints ministers and heads the Government's cabinet. President Correa came into office in January 2007 under the previous Constitution, and is currently serving his second term under the new Constitution, after being re-elected in general elections held in February 2013.

The 2008 Constitution establishes a single chamber national assembly elected through direct popular vote for a four-year period (the "National Assembly"). The National Assembly has 137 representatives, of which 15 are elected at the national level, two are elected per province, one additional provincial representative for every 200,000 inhabitants above 150,000 per province threshold, and six for Ecuadorians living abroad.

In the most recent legislative elections held on February 2013, Alianza PAIS, President Correa's party, increased its control over the National Assembly with a total of 99 seats. The newly founded right wing party, *Creando Oportunidades*, won 11 seats and became the National Assembly's largest minority party. Several parties, such as PSC-Madera de Guerrero and MPD-Pachakutik formed alliances to gain 7 and 5 seats in the National Assembly, respectively.

The following table shows the current composition of the National Assembly:

Legislative Assembly Composition by Political Party

<u>Political Party</u>	<u>Number of Members</u>
Alianza PAIS	99
Alianza PAIS/Unidad Primero	1
CREO	10
PSC-Madera de Guerrero	7
MPD-Pachakutik	5
PSP	4
Avanza	5
Others	6
Total	137

Source: National Assembly of Republic of Ecuador.

Ecuador is administratively divided into 24 provinces and 221 municipalities. Each province is governed by a prefect who is popularly elected. The Government also designates a governor for each province that coordinates and administers the initiatives of the Government; while mayors, who are elected by popular vote, govern municipalities. Each of the 24 provinces has a popularly elected provincial council headed by a prefect. A municipal council is responsible for the government of each municipality. All provincial and municipal officials are popularly elected to four-year terms. In the most recent municipal elections, held on February 2014, candidates from Alianza PAIS lost mayoral elections in Ecuador's three major cities of Quito, Cuenca, and Guayaquil.

The judicial system consists of the *Corte Nacional de Justicia* ("National Court of Justice"); *Cortes Provinciales de Justicia* ("Provincial Courts of Justice"); and *Tribunales y Juzgados de Justicia* ("First Instance Courts"). The National Court of Justice is composed of 21 judges appointed by the *Consejo de la Judicatura* ("Judiciary Council"), which is in charge of regulating, administering and auditing the judicial branch. The Judiciary Council is comprised of nine standing members with their respective alternates, who perform their duties for a six-year term of office and cannot be reelected. The designation of the standing members of the Judiciary Council and their alternates takes place by a competitive merit-based examination process, subject to citizen oversight. Issues relating to the 2008 Constitution, including the modification or amendment thereof, are reserved to the *Corte Constitucional* (the "Constitutional Court"). The Constitutional Court is composed of nine members who are selected by a commission composed of eight members appointed from the various branches of government. Each member of the Constitutional Court is appointed to a nine-year term and may be re-elected at the end of their term.

In addition, the 2008 Constitution recognizes the possibility for indigenous communities to exercise their judicial authority in accordance with their tradition and their own sets of rules. The exercise of this authority must comply, and must not conflict with, the rights set forth by the Constitution and by international treaties ratified by the Republic of Ecuador.

The 2008 Constitution also creates two additional branches of government. *La Función de Transparencia y Control Social* (the "Transparency and Social Control Branch") is intended to serve as the auditor of the Government and of private entities that contribute to the Republic's general welfare. It is comprised of the *Contraloría General del Estado* (the "Office of the Comptroller General"), the *Consejo de Participación Ciudadana y Control Social* (the "Counsel of Citizen Participation and Social Control"), various superintendent organizations including the *Superintendencia de Bancos* ("Superintendent of Banks"), and the *Defensoría del Pueblo* (the "Public Defender"). The Counsel of Citizen Participation and Social Control appoints the chief executive of each superintendent organization, Office of the Comptroller General, the Public Defender and the Attorney General. It is also the entity principally responsible for corruption investigations and establishing citizens' committees for public consultation prior to the enactment of laws according to the 2008 Constitution. The purpose of these citizens' committees is to increase citizen participation and involvement in the democratic process and create an informed population who perform an active role in the enactment of laws.

The purpose of the *Función Electoral* (the "Electoral Branch") is to provide oversight for the Republic's political parties and elections. The Electoral Branch is comprised of the *Consejo Nacional Electoral* ("National Electoral Council") and the *Tribunal Contencioso Electoral* (the "Electoral Dispute Settlement Court"). The National Electoral Council organizes and oversees elections to ensure transparency and compliance with election law, supervises the activities of political parties, and establishes a civil registry. The Electoral Dispute Settlement Court hears and resolves, among others things, disputes regarding campaign finance violations and settles election results appeals.

Memberships in International Organizations and International Relations

International Organizations

Ecuador has diplomatic relations with approximately 78 countries, and is a member of a number of international organizations, some of which include the United Nations, Organization of the Petroleum Exporting

Countries ("OPEC"), the Organization of American States ("OAS"), the World Health Organization ("WHO"), and the Union of South American Nations ("UNASUR").

In 2007, Ecuador rejoined OPEC as a full member after fifteen years of absence, having left due to OPEC's membership fee and its increase in production quotas. The Republic decided to rejoin OPEC due to benefits of the global producer network and the access to information that OPEC provides to its members. In September 2014, Ecuador joined OPEC's Fund for International Development ("OFID"), a development fund to stimulate economic growth and alleviate poverty in disadvantaged regions of the world.

In July 2, 2009, President Correa issued a decree declaring that Ecuador was terminating its agreement as a member of the International Centre for Settlement of Investment Disputes ("ICSID"). The decree stated that the ICSID convention violated principles of sovereignty enshrined in Article 422 of Ecuador's 2008 Constitution, which provides the rules for sovereign submission to arbitration proceedings. Notwithstanding the foregoing, Ecuador is a member of UNCITRAL and is still subject to the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards of 1958.

Ecuador continues to be a member of both the International Monetary Fund (the "IMF") and the World Bank. While it currently has no borrowings from the IMF, the World Bank has provided several recent project level financing for projects in infrastructure, irrigation, transport and sanitation. These projects include the Chimborazo Development Investment project in 2007 and the Quito Metro line project in 2012. See "The Ecuadorian Economy—Strategic Sectors – Transportation." On July 30, 2014, the Executive Board of the International Monetary Fund concluded an Article IV consultation with Ecuador, its first since 2008. For more information see "Monetary System – the Central Bank".

Treaties and Other Bilateral Relationships

Ecuador is party to bilateral investment treaties with Argentina, Bolivia, Canada, Chile, China, Costa Rica, France, Germany, Spain, Italy, the Netherlands, Peru, Russia, Spain, Sweden, Switzerland, the United Kingdom, the United States, and Venezuela. Bilateral investment treaties with the following countries have either been terminated or expired: Cuba, the Dominican Republic, El Salvador, Finland, Guatemala, Honduras, Nicaragua, Paraguay, Romania, and Uruguay.

In addition, on December 12, 2014, representatives from Ecuador's Ministry of Foreign Commerce signed a trade agreement with the European Union. For more information see "Balance of Payments and Foreign Trade – Foreign Trade – Trade Policy."

Regional Organizations

Ecuador also maintains close ties with most of its neighboring countries and participates in several regional arrangements to promote trade, investment and services. As a member of the Latin American Integration Association ("ALADI"), a regional external trade association, Ecuador and the other signatories (Argentina, Bolivia, Brazil, Chile, Colombia, Cuba, Ecuador, Mexico, Panama, Paraguay, Peru, Uruguay and Venezuela) have worked to remove regional trade restrictions among member nations. Ecuador also forms part of the *Comunidad Andina de Naciones* ("Community of Andean Nations") along with Colombia, Peru and Bolivia. Among the organization's greatest achievements is the free flow of merchandise of Andean origin and the free mobility of member state citizens. Ecuador is also a member of the *Alianza Bolivariana para los Pueblos de nuestra América Latina* ("ALBA") along with Venezuela, Bolivia, Cuba, and other Caribbean nations. In February 2012, ALBA members signed an agreement to create an *espacio de interdependencia*, a shared economic development zone between all members. Ecuador is also linked to Mercosur (comprised of Argentina, Brazil, Paraguay, Uruguay and Venezuela), as an associate member and has been invited to participate as a full member and is a member of *Corporación Andina de Fomento* ("CAF"), who has helped Ecuador finance several transportation and infrastructure projects.

In 2008, Ecuador, along with eleven other nations (Argentina, Bolivia, Brazil, Colombia, Chile, Guyana, Paraguay, Peru, Uruguay, Venezuela and Suriname) signed a treaty establishing the *Unión de Naciones Suramericanas* ("Union of South American Nations" or "UNASUR"). The organization's General Secretariat has

its permanent headquarters in the city of Quito, while its Parliament will be located in the Bolivian city of Cochabamba. In 2010, Ecuador formed part of the *Comunidad de Estados Latinoamericanos y Caribeños* ("Community of Latin American and Caribbean States" or "CELAC"). CELAC promotes the integration and development of Latin American nations.

Ecuador is a member of the United Nations Convention on Narcotic Drugs. Since 1990 the *Consejo Nacional de Control de Sustancias Estupefacientes y Psicotrópicas* (the "National Counsel for the Control of Narcotics and Psychotropic Drugs" or "CONSEP") has dictated policy against drug trafficking. In July 2013, pursuant to CONSEP's recommendation to decrease the illicit market for narcotics, the Ecuadorian penal code was reformed to decriminalize certain amounts of narcotics, including marijuana and cocaine. In the same month, Ecuador unilaterally rejected further benefits from preferential tariff program provided by the United States government under the Andean Trade Promotion and Drug Eradication Act (the "ATP-DEA"). These benefits bestowed preferential treatment to certain Ecuadorian products in exchange for the Republic's efforts in combating drug trafficking in Ecuador. The rejection of the tariff program ends tax-free treatment of approximately U.S.\$223 million worth of goods exported by Ecuador into the U.S. per year. The rejection of the ATP-DEA benefits, as well as the penal code reforms, reflect a change in Ecuador's approach towards narcotics. According to CONSEP, this change is a policy that "criminalizes the drug, but protects the rights of the addict." The policy reflects the guideline set by Article 364 of the 2008 Constitution, which defines addiction as a public health problem and states that addicts must not be criminalized nor suffer an infringement of their rights due to their addictions.

THE ECUADORIAN ECONOMY

Gross Domestic Product

In 2007, when President Correa took office, GDP grew at a rate of approximately 2.2%. The balance of the Republic's foreign debt was U.S.\$10.6 billion, which was approximately 20.8% of the GDP, and represented a 4.1% increase from 2006. In 2007, President Correa proposed an economic reform plan, which focused on the distribution of national wealth, energy self-sufficiency, social security and food security among others.

Ecuador's economy grew at a rate of 6.4% in real terms in 2008. The balance of foreign debt was U.S.\$10.09 billion, which was approximately 16.3% of GDP. As of December 31, 2008, freely disposable reserves amounted to U.S.\$4.5 billion. The average annual price attributed to Ecuadorian crude oil was U.S.\$83.0 per barrel in 2008. The average rate of inflation in 2008 was 8.8%.

During 2009, Ecuador's economy grew by 0.6% in real terms, despite the international financial crisis. The nation's foreign debt decreased by 26.7%, to U.S.\$7.39 billion, which represented 11.8% of GDP. This decrease was in part due to the default and subsequent tender for the 2012 and 2030 bonds. The average price of oil was U.S.\$52.6 per barrel. Average inflation that year was 4.3%.

In 2010, Ecuador's GDP grew by 3.5% in real terms, boosted primarily by an increase in private consumption and gross fixed capital formation, 7.7% and 10.2%, respectively. The average price of oil was U.S.\$71.9 per barrel. Oil production decreased by 2.6% due to the prolonged renegotiation of oil field contracts and the closing of the Esmeraldas refinery for maintenance, while non-oil related sectors grew by 4.5%, witnessing a recovery in the majority of other industries and business areas. Foreign debt increased to U.S.\$8.67 billion primarily due to two loans, one from the China Development Bank and the other from the Export-Import Bank of China to finance the Coca Codo Sinclair project, see "Ecuadorian Economy – Strategic Sectors of the Economy–Electricity and Water." In 2010 foreign debt accounted for 12.5% of GDP and average inflation for the year was 3.3%.

In 2011, the economy grew by 7.9% in real terms, the second-highest growth rate in the last decade; the highest growth being 8.2% in 2004. Foreign debt reached U.S.\$10.06 billion, primarily due to a second loan with the China Development Bank in the amount of U.S.\$2 billion. This total external debt amount represented 12.7% of GDP, while average inflation for the year was 5.4%.

In 2012 the economy of Ecuador grew by 5.2% in real terms, which was mainly driven by an increase in fixed capital formation and public sector consumption, 10.6% and 11.1% respectively. Gross fixed capital formation in 2013 increased, in real terms, by U.S.\$1.57 billion due to the various infrastructure projects and public sector investments undertaken by Ecuador that year. For more information, see "The Ecuadorian Economy – Strategic Sectors of the Economy – Electricity and Water." Foreign debt reached U.S.\$10.87 billion, which represented 12.4% of GDP, while the average inflation for the year was 4.2%.

In 2013 the economy of Ecuador grew by 4.6% in real terms, which was mainly driven by continued increases in fixed capital formation and public sector consumption, which increased by 10.7% and 7.7% respectively. Foreign debt reached U.S.\$12.92 billion, which represented 13.7% of GDP.

Real GDP for the first nine months of 2014 was U.S.\$51,983 million, which represents an increase of 3.9% compared to the first nine months of 2013, when Real GDP was U.S.\$50,011 million. This increase is due to the continuing growth of the construction and manufacturing sectors of the economy and increased petroleum revenues during the time period. Year-end external debt for 2014 reached U.S.\$17.58 billion, which the Ministry of Finance estimates will represent 17.4% of GDP. This increase was primarily due to the issuance of the 2024 Bonds. In 2014, the rate of unemployment decreased from 4.2% in 2013 to 3.8% in 2014 due to

increased job creation in the services and commerce industries. Inflation increased from 2.7% in 2013 to 3.7% in 2014 due to an increase in the prices of housing, water and electricity services during the time period.

Real and Nominal GDP
(in millions of U.S. dollars, except percentages)

	For the Year Ended December 31,					For the 9 Months Ended September 30,	
	2009	2010	2011	2012	2013	2013	2014
Real GDP (in millions of U.S.\$).....	54,55	56,48	60,92	64,10	67,08	50,011	51,983
Real GDP growth	8	1	5	5	1	4.4% ⁽¹⁾	3.9% ⁽¹⁾
Nominal GDP	62,52	69,55	79,27	87,62	94,47	70,226	75,100
	0	5	7	3	3		

Source: Based on figures from the Central Bank Quarterly National Accounts for the Third Quarter of 2014.

(1) Percentages reflect growth compared to comparable nine-month period from previous year.

Nominal GDP by Economic Sector ⁽¹⁾
(in millions of U.S. dollars, except for percentages)

	For the Year Ended December 31,										For the 9 Months Ended September 30,			
	2009	% of GDP	2010	% of GDP	2011	% of GDP	2012	% of GDP	2013	% of GDP	2013	% of GDP	2014	% of GDP
Manufacturing	7,699	12.31	8,602	12.37	9,670	12.20	10,785	12.31	11,453	12.12	8,495	12.10	9,217	12.27
Construction	5,928	9.48	6,501	9.35	8,106	10.23	9,421	10.75	10,143	10.74	7,556	10.76	8,158	10.86
Petroleum	4,917	7.86	7,407	10.65	10,234	12.91	11,092	12.66	11,577	12.25	8,751	12.46	9,167	12.21
Trade (commerce)	6,524	10.43	7,241	10.41	8,400	10.60	9,031	10.31	9,802	10.38	7,292	10.38	7,748	10.32
Agriculture	5,572	8.91	6,071	8.73	6,702	8.45	6,559	7.49	7,352	7.78	5,448	7.76	5,731	7.63
Community services	5,185	8.29	5,750	8.27	5,996	7.56	6,943	7.92	7,454	7.89	5,525	7.87	5,876	7.82
Government Services (Public Defense and Social Security Administration)	4,237	6.78	4,539	6.53	5,013	6.32	5,500	6.28	6,135	6.49	4,539	6.46	4,729	6.30
Professional and Technical Administration	3,727	5.96	4,302	6.18	5,046	6.37	5,712	6.52	6,604	6.99	4,846	6.90	5,633	7.50
Transportation	3,548	5.68	3,700	5.32	3,696	4.66	3,843	4.39	4,075	4.31	3,028	4.31	3,193	4.25
Finance and	1,714	2.74	1,948	2.80	2,300	2.90	2,754	3.14	2,653	2.81	1,981	2.82	2,089	2.78
Telecommunications	1,554	2.49	1,682	2.42	1,812	2.29	1,910	2.18	2,006	2.12	1,507	2.15	1,496	1.99
Electricity and water	542	0.87	754	1.08	928	1.17	1,045	1.19	998	1.06	756	1.08	900	1.20
Shrimp	240	0.38	298	0.43	421	0.53	462	0.53	493	0.52	344	0.49	466	0.62
Mining	204	0.33	169	0.24	229	0.29	289	0.33	323	0.34	247	0.35	234	0.31
Others ⁽²⁾	10,930	17.48	10,592	15.23	10,721	13.52	12,277	14.01	13,403	14.19	9,911	14.11	10,465	13.94
Total GDP	62,52	100.0	69,55	100	79,277	100	87,623	100	94,473	100	70,226	100	75,100	100

Source: Based on information from the Central Bank.

(1) Table measures gross value added by economic sector and corresponding percentage of Nominal GDP.

(2) Includes fishing, petroleum refining, hospitality and food services, domestic services, and other elements of GDP.

The following table sets forth Ecuador's real GDP growth by expenditure as a percentage of total real GDP growth for the periods presented.

Real GDP and Expenditure Growth

(Percentage change from previous comparable period based on 2007 prices)

	For the Year Ended December 31,					For the 9 Months Ended September 30, ⁽²⁾	
	2009	2010	2011	2012	2013	2013	2014
Real GDP Growth	0.6	3.5	7.9	5.2	4.6	4.4	3.9
Import of goods & services ⁽¹⁾	-9.9	14.8	3.6	0.8	7.0	8.3	4.4
Total Supply of Goods & Services	-2.0	6.1	6.8	4.2	5.2	5.3	4.0
Public Sector Consumption	11.6	4.4	8.7	11.1	7.7	8.2	1.2
Private Consumption	-1.0	7.7	5.1	2.7	3.2	3.4	3.9
Gross Fixed Capital Formation	-3.6	10.2	14.3	10.6	10.7	10.9	5.4
Exports of goods and services ⁽¹⁾	-4.8	-0.2	5.7	4.7	2.4	0.52	5.1
Total Final Demand	-2.0	6.1	6.8	4.2	5.2	5.3	4.0

Source: Based on figures from the Central Bank Quarterly National Accounts for the Third Quarter of 2014.

(1) Corresponds to figures from "Real GDP by Expenditure" table.

(2) Percentages reflect growth compared to comparable nine-month period from previous year.

The following table sets forth Ecuador's per capita GDP statistics for the periods indicated.

Per Capita GDP

	For the Year Ended December 31,					For the 9 Months Ended September 30,	
	2009	2010	2011	2012	2013	2013	2014
Per capita Nominal GDP (current U.S.\$)	4,242	4,633	5,193	5,645	5,989	4,470 ⁽²⁾	4,704 ⁽²⁾
Per capita Real GDP	3,702	3,762	3,991	4,130	4,252	3,183 ⁽²⁾	3,256 ⁽²⁾
Population (in thousands) ⁽¹⁾	14,738	15,012	15,266	15,521	15,775	15,771	15,964

Source: Based on figures from the Central Bank Quarterly National Accounts for the Third Quarter of 2014.

(1) Population figures correspond to projected population figures from 2010 census.

(2) Calculated using previous year-end GDP.

The following table sets forth the real GDP growth by expenditure for the periods indicated.

Real GDP by Expenditure

(in millions of dollars)

	For the Year Ended December 31,					For the 9 Months Ended September 30,	
	2009	2010	2011	2012	2013	2014	2013
Consumption							
Public Sector Consumption	6,910.3	7,213.5	7,840.8	8,712.1	9,385.3	7,081.9	6,999.2
Private Consumption	34,648.4	37,320.6	39,234.6	40,298.0	41,582.2	32,272.1	31,051.8
Total Consumption	41,558.7	44,534.1	47,075.5	49,010.0	50,967.5	39,354.0	38,051.0
Gross Investment							
Gross Fixed Capital Formation	11,843.3	13,050.1	14,920.8	16,496.2	18,260.6	14,331.9	13,602.1
Change in Inventory	1,304.7	1,473.1	1,277.0	308.2	506.2	420.9	483.0
Exports of goods and services ⁽¹⁾	15,970.5	15,932.7	16,835.7	17,627.6	18,042.0	14,045.1	13,366.0
Imports of goods and services ⁽¹⁾	16,119.4	18,509.0	19,183.9	19,336.5	20,695.3	16,168.5	15,461.4
Real GDP	54,558	56,481	60,925	64,105	67,081	51,983	50,011

Source: Based on figures from the Central Bank Quarterly National Accounts for the Third Quarter of 2014.

- (1) The exports and imports figures in this chart are adjusted for inflation and reflect the contribution of exports and imports to GDP. They differ from the nominal exports and imports in the "Balance of Payments" table and stand-alone exports and imports tables in the "Exports-(FOB)" and "Imports-(CIF)" tables in this Offering Circular.

Economic and Social Policies

Since taking office in 2007, President Correa has sought to reform certain aspects of the Ecuadorian economy in order to comply with constitutional mandates. Certain reforms were undertaken as legislative proposals, which require the National Assembly's approval. Other reforms were undertaken by the executive branch and do not require legislative approval. The reforms were consistent with the Correa administration's objective to promote economic growth, while reducing poverty and inequality and fostering social progress. Below is brief description of the most relevant major economic and financial reform initiatives since 2008.

The 2008 Constitution

Upon taking office, President Correa believed that significant reforms were necessary to rectify years of corruption, especially in regards to economic and financial matters. To do so, President Correa called for a referendum to write a new constitution, which was approved by the electorate and the National Assembly. The 2008 Constitution provided the foundation for the economic and financial reform initiatives of his administration.

One of the most important objectives of the 2008 Constitution was to grant control over the Central Bank to the executive branch. Section 6, Article 302 of the 2008 Constitution states that "the drafting of monetary, credit, foreign exchange and financial policies is the exclusive power of the executive branch and shall be implemented through the Central Bank" hence limiting the autonomy and authority of the Central Bank for the purpose of effective implementation of reforms by the executive branch and its agencies.

Another relevant reform embedded in the Constitution is the creation of a debt and finance committee (the "Debt and Finance Committee"), tasked with evaluating and approving issuances or incurrence of sovereign debt. The Debt and Finance Committee is comprised of the President or his delegate, the Minister of Finance or his delegate, and the National Secretary of Planning and Development or his delegate. The sub-secretary in charge of public debt (the "Undersecretary of Public Finance") acts as the secretary for the committee. See "Public Debt – General." Other important reforms include the establishment of limitations on the proceeds of public borrowing (Article 289) (see "Public Debt – General"), the establishment of presidential term limits (Article 144 of the 2008 Constitution) (see "The Republic of Ecuador - Form of Government"), the requirement of an evaluation structure for any public program in conjunction with the National Development Plan (Article 297 of the 2008 Constitution), and the establishment of a single master account in the Central Bank (the "*Cuenta Única del Tesoro*" for the administration of the general budget (Article 299). In May 2011, certain amendments to the 2008 Constitution were approved by popular referendum. The most debated amendments included the change to the Judiciary Council to its current make up (see "The Republic of Ecuador - Form of Government"), and the prohibition of media owners to own stock in non-media companies.

On June 26, 2014, the President of the National Assembly submitted a request to the Constitutional Court soliciting their opinion as to whether certain proposals, including one that would allow for re-election of the President of Ecuador for an indefinite number of terms, were constitutional amendments or constitutional reforms. Constitutional amendments require only the approval of two-thirds of the National Assembly while constitutional reforms require both the approval of a two-thirds vote in the National Assembly and a majority of the population eligible to vote in a popular referendum. On November 1, 2014, the Constitutional Court ruled that the proposals were constitutional amendments and therefore did not require a popular referendum. Drafts of the amendments were presented on November 2014 and are currently being debated by the National Assembly. As of the date of this Offering Circular, the National Assembly has not scheduled a vote regarding the proposed amendment.

Budget Reforms

Enacted in April 2008, the *Ley Orgánica para la Recuperación del Uso de los Recursos Petroleros del Estado y Racionalización Administrativa de los Procesos de Endeudamiento* ("Law for the Recovery of the Use of Oil Resources of the State and Administrative Rationalization of Indebtedness" or "LOREYTF") replaced Ecuador's then existing budget and transparency regulations. The objectives of the law were (i) to enhance the transparency and flexibility of the budget process by prioritizing investments and improving the management of Government resources and (ii) to terminate any distribution of budgeted amounts based on predetermined uses of resources. To achieve those objectives, the LOREYTF eliminated the *Cuenta Especial de Reactivación Productiva y Social del Desarrollo Científico-Tecnológico y de Estabilización Fiscal* ("Scientific-Technological and Fiscal Stability Social and Productive Reactivation Special Account" or "CEREPS"). Also, pursuant to Article 299 of the 2008 Constitution, LOREYTF established the *Cuenta Única del Tesoro* – a single Central Bank master account for the management of Ecuador's resources. The *Cuenta Única del Tesoro* is comprised of various sub-accounts where amounts are allocated according to functional purposes. These sub-accounts include a social security account, accounts for public companies, a public banking account, and accounts for municipal and provincial governments (the "Autonomous Decentralized Governments"). The budget and transparency regulations established in LOREYTF were subsequently codified and superseded by the Public Planning and Finance Code (defined below).

Bank Supervision

Enacted in December 2008, the *Ley de Creación de la Red de Seguridad Financiera* ("Financial Safety Net Law") created a regulatory framework for Ecuador's banking sector. The objectives of the law were to strengthen the supervision of the financial sector, create a liquidity fund and a deposit insurance system for the benefit of the Ecuadorian banks and financial institutions, and to establish clear mechanisms for bank dissolutions. For more information on this law, see "Monetary System – Financial Sector."

Tax Reforms

Enacted in December 2008, the *Ley Reformativa a la Ley de Régimen Tributario Interno y a la Ley Reformativa para la Equidad Tributaria del Ecuador* ("Reform Act to the Internal Tax Regime Law and the Reform Act for Tax Equity in Ecuador") reformed the existing tax system by improving the mechanisms by which the Government collects tax revenues. The objectives of the law were to reduce tax evasion, improve direct and progressive taxation, increase the tax base, and generate adequate incentives for investment in economic activity. On December 29, 2014 the National Assembly enacted a corporate tax reform relating to the taxation of shareholders of Ecuadorian companies who reside in tax havens. The reform increases the corporate tax rate to 25% from 22% if an Ecuadorian company's owners are tax haven residents who own collectively more than 50% of the company. In addition, the tax reform exempts companies from corporate taxes, for a period of 10 years, for profits related to new and productive investments as defined by the Production Code. For more information on these laws and other tax reforms see "Public Sector Finances –Taxation and Customs."

Mining Law

Enacted in January 2009, the *Ley Minera* ("Mining Law") created norms for the exercise of the Government's rights to manage and control the strategic mining sector. The objective of this law was to establish a sustainable and efficient administrative system to govern the relationship between the Government and domestic, foreign, public, or private individuals or legal entities involved in mining activities. Consequently, the Mining Law contains provisions regarding the attainment, preservation, and termination of mining rights and the performance of mining activities. Specifically, the Mining Law creates administrative agencies for the regulation, supervision and scientific investigation of the mining sector, sets specific geographic limits for mining activities, creates rules for public bids for concessions, and creates rules for concession and service contracts. Oil and other hydrocarbons are exempt from this law.

On June 13, 2013, the National Assembly passed an amendment to the Mining Law, imposing an 8% ceiling on previously open-ended royalties, streamlining the permits required for mining, and eliminating windfall taxes for companies until they have recouped their investments. For more information on the Mining Law, see "The Ecuadorian Economy–Strategic Sectors of the Economy –Mining." In June 2014, President

Correa announced on national radio that the Republic will amend its existing mining laws. In an interview, the Minister of Coordination of Strategic Sectors (defined herein) has stated the principal objective of these new laws will be to attract investment in the mining sector. However, drafts of these potential reforms have not been publicly circulated and once publicly announced, are subject to the modifications and approval of the National Assembly.

Public Corporations Law

Enacted in October 2009, the *Ley Orgánica de Empresas Públicas* ("Public Corporations Law") created economic, administrative, financial and management control mechanisms for public companies in accordance with the 2008 Constitution. The objectives of the law were to regulate the formations, mergers, and liquidations of public companies outside the financial sector and that operate in Ecuador or abroad. To achieve those objectives, the Public Corporations Law:

- determines the procedures for the formation of public enterprises that are required to manage strategic sectors of the Ecuadorian economy;
- establishes the means to guarantee that the goals set forth by the Government are met by public companies, in accordance with the guidelines set by the *Sistema Nacional Descentralizado de Planificación Participativa* ("National Decentralized System of Participative Planning");
- regulates the economic, financial, and administrative autonomy of public companies, in accordance with the principles and norms of the Constitution and other applicable laws; and
- encourages the integral, sustainable and decentralized development of the Republic by requiring public companies to take socio-environmental and technological update variables into account in their cost and production processes.

Renegotiation of Oil Field Contracts

Enacted in July 2010, the reform to the *Ley de Hidrocarburos* ("Hydrocarbons Law") replaced the old system of oil revenue profit sharing contracts with a new contract system whereby the Republic owns oil production in its entirety, benefiting from all revenue windfalls that result from price increases. The objectives of the reform were to abide by Article 1, 317, and 408 of the 2008 Constitution, which state that natural resources, such as oil, are part of the national heritage of Ecuador and that the Government shall earn profits from the exploitation of these resources, in an amount that is no less than the profits earned by the company producing them. Under the renegotiated contracts, contractor's fees are established in accordance with the level and types of works and services to be performed, production costs, and a reasonable profit margin in relation to the level of risk. Under the old system, the Republic taxed between 17% and 27% of the first \$15 to \$17 in revenue for each barrel sold. Under the new system, the Republic taxes up to 80% of the revenue in each barrel sold. For more information on the Hydrocarbons Law, see "Strategic Sectors of the Economy – Oil Sector." A number of oil companies have sued Ecuador in connection with the modification of their contracts resulting from the reform of the Hydrocarbons Law. See "Legal Proceedings -Windfall Profits Tax Litigation."

Public Planning and Finance Code

Enacted in October 2010, the *Código Orgánico de Planificación y Finanzas Públicas* ("Public Planning and Finance Code") created a new financial regulatory system pursuant to the 2008 Constitution. The objectives of the law, among others, were to develop and coordinate national and regional governmental planning, guarantee the rights of citizens through equitable resource allocation and increased citizen participation in framing public policy, and strengthen national sovereignty and Latin American integration through public policy decisions. To achieve those objectives, the Public Planning and Finance Code:

- allows for more flexibility for the Ministry of Finance to reallocate and reassign expenditures up to 15% of the approved Government budget without the prior approval of the National Assembly;

- sets an explicit total public debt ceiling of 40% of GDP including Central Government, non-financial public sector and Autonomous Decentralized Governments (see "Public Debt – General");
- allows the Ministry of Finance to issue *Certificados de Tesorería* ("short-term treasury notes" or "CETES"), at its discretion, without having to undergo the same approval process required for long-term internal and external sovereign debt;
- allows for the establishment of citizens' committees for financial public policy consultations;
- determines that all excess cash not spent during a fiscal year will be accounted for as initial cash for the following fiscal year; and
- establishes the functions and responsibilities of the Debt and Finance Committee (See "Public Debt – General").

Both the Republic and the Autonomous Decentralized Governments are subject to this law. For more information on the Public Planning and Finance Code, see "Public Sector Finances – Fiscal Policy."

Production Code

Enacted in December 2010, the *Código Orgánico de la Producción* ("Production Code") was created to stimulate investment and increase the production of good and services. The objective of this law was to create fair guidelines that would balance workers' rights with economic incentives for investors. To achieve that objective, the Production Code:

- provides guidelines for the *Consejo Nacional de Salarios* ("National Council on Wages") to consider in setting the minimum wage;
- provides guidelines for foreign investments and outlines the rights of foreign investors; and
- creates tax incentives for investors, including a 3% reduction on capital gains tax and the elimination of up-front taxes on any new investment.

Law for Market Power Control and Regulation

Enacted in October 2011, the *Ley Orgánica de Regulación y Control del Poder de Mercado* ("Law for Market Power Control and Regulation") was created to avoid, reform and penalize the abuse of market power. The objectives of the law were to prevent, prohibit and penalize collusive deals and other restrictive practices; control and regulate economic concentration operations; and prevent, prohibit and penalize disloyal practices, thereby seeking market efficiency as well as individual and collective well-being.

Environmental Improvement and State Resources Optimization Law

Enacted in November 2011, the Environmental Improvement and State Resources Optimization Law strengthened the environmental regulatory framework of the country. The law establishes, among others:

- an increase of the *Impuesto a la Salida de Divisas* ("ISD" or "Currency Outflow Tax"), from 2% to 5% (for more information regarding the Currency Outflow Tax see "Balance of Payments and Foreign Trade – Foreign Trade – Trade Policy";
- a tax increase on cigarettes and alcoholic beverages;
- the creation of a two-cent tax on plastic bottles; and
- the creation of a vehicle pollution tax.

Law Reforming the Financial Institutions Law and the Law Restructuring Financial Taxes

Enacted in March 2012, the *Ley Reformativa a la Ley General de Instituciones del Sistema Financiero y a la Ley de Reordenamiento en Materia Económica en el área Tributario Financiero* ("Law Reforming the Financial Institutions Law and the Restructuring Financial Taxes Law") was created to strengthen prior legislation related to mutual savings and housing credit associations. The objective of the law

is to incorporate the concept of social capital and the framework of economic sustainability to mutual savings and housing credit associations. The law provides mutual savings and housing credit associations with political, economic and property rights to promote the social well-being of its members.

Comprehensive Law for the Regulation of Housing and Automobile Loans

Enacted in June 2012, the *Ley Orgánica para la Regulación de los Créditos para Vivienda y Vehículos* ("Law for the Regulation of Housing and Automobile Loans") was created to protect debtors in housing and automobile loan transactions. The law contains provisions, among others, that establish that collateral in these loans may only consist of the asset acquired through the loan and that the debtor of the loan may not use the acquired asset as collateral in other loan transactions.

Comprehensive Law of Redistribution of Income for Social Expenditures

Enacted in January 2013, the *Ley Orgánica de Redistribución de los Ingresos para el Gasto Social* ("Comprehensive Law of Redistribution of Income for Social Expenditures") was created to direct economic resources towards the financing of certain key social expenditures that generate economic activity. For more information on this law, which includes tax reforms, see "Public Sector Finances – Taxation and Customs."

Law to Strengthen and Optimize the Corporate and Securities Sector

Enacted by the National Assembly in May 2014, the *Ley Orgánica para el Fortalecimiento y Optimización del Sector Societario y Bursátil* ("Law to Strengthen and Optimize the Corporate and Securities Sector") was created to regulate the establishment and operation of securities firms and stock exchanges. The law created the *Junta de Regulación del Mercado de Valores* (the "Committee for Securities Market Regulation"), a new regulatory agency that is responsible for establishing public policy for Ecuadorian insurance and stock markets and to make rules for their operation and control. The agency consists of governmentally appointed members, one of which is the delegate for the President. This new regulatory body replaces the *Consejo Nacional de Valores* (the "National Services Commission" or "CNV") in formulating securities policies. The purpose of creating this new regulatory body was to ensure that the regulation of this market was in the hands of public servants as opposed to public and private individuals, as was the case with the CNV.

Monetary and Financial Law

In September 2014, the National Assembly enacted the Monetary and Financial Law in order to address weaknesses of the Republic's financial system stemming from the banking crisis in 2000. To achieve its objectives, the Monetary and Financial Law creates a new regulatory body, the Committee of Monetary and Financial Policy Regulation to oversee and regulate the execution of monetary, foreign exchange, financial, insurance, and securities policies of the country. The committee is comprised of delegates from the Ecuador's Ministry of Finance, the Ministry of Production and Industrialization, the National Secretary of Planning and Development, the Ministry of Economic Policy, and a delegate appointed by the President. The principal function of the committee is to oversee and monitor the liquidity requirements of the Government's financial system, ensuring that liquidity remains above certain levels (to be determined by the Committee of Monetary and Financial Policy Regulation). The law also creates a separate internal auditor for the Government's financial entities, establishes certain norms for the Central Bank and the Superintendent of Banks regarding their budget, purpose, and their supervision, and sets forth reporting requirements to the Committee of Monetary and Financial Policy Regulation. The law also explicitly establishes that certain accounts in the Central Bank, including the accounts used for the deposits of the COSEDE and the Liquidity Fund, are subject to sovereign immunity and cannot be subject to attachment of any kind.

The law further establishes that all transactions, monetary operations and accounts in the Republic of Ecuador will be expressed in U.S. dollars. Other sections of the law make reference to an electronic payment system to facilitate payments to vendors. Through this voluntary electronic payment system, Ecuadorians will be allowed to make online payments to participating vendors through a payment system managed by the Government. Payments made through the system will be deducted or credited directly from accounts that vendors can establish within the Central Bank and will be backed by liquid assets in the Central Bank. On

August 7, 2014, mobile phone carrier Movistar signed an agreement with the Central Bank to establish accounts to use the electronic payment system. In December 2014, the electronic payment system began operations. According to the Central Bank, the Government is seeking to sign contracts with other vendors and projects that by year end 2015, approximately U.S.\$10 million will be managed through the system. Further details regarding this payment system will be set forth by the Committee of Monetary and Financial Policy Regulation in regulations that have not yet been promulgated. For more information regarding the Monetary and Financial Law, see "Monetary System – Supervision of the Financial System."

Telecommunications Law

Enacted by the National Assembly in February 2015, the *Ley Orgánica de Telecomunicaciones* ("Telecommunications Law") was created to improve access to quality telecommunications services and to increase the use of information technology in rural sectors. The objective of the law is to foster competition among telecommunication providers in order to increase the quality of telecommunication services in the country. The law applies to all companies that provide or facilitate the transmission of voice, video, data or any other type of signal via physical or wireless means. Under the Telecommunications Law, companies whose market share exceeds certain thresholds must pay a corresponding tax to the Government, which tax increases depending on the percentage of market share held. For example, companies that hold a market share higher than 75% must pay the government a tax equal to 9% of their total revenues for the year. In addition, the law provides that telecommunications companies must provide their services in Shuar and Quechua as well as in Spanish.

Further Reforms

In June 2014, President Correa announced on national radio that the Republic will amend its existing mining laws. In an interview, the Minister of Coordination of Strategic Sectors (defined herein) has stated the principal objective of these new laws will be to attract investment in the mining sector. In the same month, the Ministry of Labor Relations (defined herein) announced that it would submit a proposal to amend the existing labor laws. The objective of this new proposal is to conform the existing labor laws to the 2008 Constitution. Additionally, a draft of a new Civil Procedure Code ("*Proyecto de Código Orgánico General de Procesos*") is under second review by the National Assembly. This draft if enacted would create a homologation process for the enforcement of foreign arbitration awards in Ecuador. However, drafts of these potential reforms have not been publicly circulated and once publicly announced are subject to the modification and approval of the National Assembly.

Strategic Sectors of the Economy

Ecuador's principal economic sectors are coordinated under the Ministry of Coordination of Strategic Sectors ("*Ministerio Coordinador de Sectores Estratégicos*" or "MICSE"). MICSE supervises and coordinates the activities of the Secretary of Water, Ministry of Telecommunications, Ministry of Electricity and Renewable Energy, and the Ministry of Non-renewable Natural Resources, who in turn are in charge of the water, telecommunications, electricity, and natural resources (oil and mining) sectors of the economy, respectively. The Republic considers these sectors as the most important aspects of its economy. Consequently, public investment in these segments has grown at a rapid rate. In 2009, the Government invested U.S.\$2,841 million in these strategic sectors, compared to U.S.\$7,135 million in 2014. The total aggregate investment amount in the strategic sectors from 2009 to 2014 was U.S.\$24,164 million. The following chart sets forth accumulated investment in strategic sectors since 2009.

Strategic Sector Investment
(in millions of U.S.\$)

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Water	5	40	60	62	155	262

Telecommunications	242	362	266	348	386	555
Natural Resources	2,140	1,500	2,078	2,581	3,908	4,598
Electricity	436	871	1,052	1,093	1,690	1,325
Ecuador Estratégico	-	-	3	111	192	341
Other investment ⁽¹⁾	19	63	39	103	65	55
Total Investment	2,841	2,836	3,498	4,298	6,397	7,135

Source: MICSE Information as of December 2014.

(1) Includes investments made by the *Ministerio de Ambiente* (the "Environment Ministry")

Strategic Ecuador ("*Ecuador Estratégico*") is the state-owned company that administers all infrastructure projects carried out by MICSE. Its main functions are to evaluate project proposals submitted by municipalities, administer and distribute funds towards approved projects, and supervise the completion and progress of each project. According to *Ecuador Estratégico*, the projects with the highest priority include the Mirador and Fruta del Norte mines (see "Mining" below), and the Shushufindi oil field and Esmeraldas refinery (described in "Oil Sector" below). Financing for infrastructure projects has been procured through a selection process where competing financing offers are compared to determine the offer with the most favorable terms. The process, undertaken by *Ecuador Estratégico* in consultation with the Ministry of Finance, assigns a percentage value to different aspects of an offer (price, experience of the financing entity in the type of project, and overall experience, among others). Projects with high levels of financing emphasize the price offered by the financing entity and assign a large percentage value to price. Then, competing offers are granted points depending on their qualifications. The financing entity with the most points is then chosen to finance the project. Financing has also been procured through joint venture contracts and direct investment through a grant of a concession and service contracts.

Oil Sector

Ecuador's oil reserves are managed directly by state-owned oil companies Petroecuador and *Empresa Pública del Ecuador Petroamazonas EP* ("Petroamazonas") and through service contracts with other Ecuadorian and foreign companies such as Rio Napo CEM. Oil exploitation operations are conducted under the supervision and regulation of the *Ministerio de Recursos Naturales no Renovables* ("Ministry of Non-Renewable Resources") acting through the *Agencia de Regulación y Control Hidrocarburífico* ("Hydrocarbons Control and Regulation Agency") and the *Secretaría de Hidrocarburos del Ecuador* ("Hydrocarbons Secretariat of Ecuador"). In November 2012, President Correa signed Decree 1351-A (the "Consolidation Decree"), which consolidated the operations of Petroecuador and Petroamazonas allocating exploration and exploitation of hydrocarbon resources to Petroamazonas and transportation, refining and commercialization activities to Petroecuador.

While oil exports have increased from 2009 to 2013, they have increased at a lower rate than non-petroleum sources of revenue during that time period. As a result, the percentage of oil revenues with respect to GDP has declined in relation to the percentage of GDP of non-petroleum revenues over the five-year period since 2009. In 2013, Central Government oil revenues represented 5.0% of GDP and 22.9% of Central Government revenues and non-petroleum revenues represented 16.7% of GDP and 77.1% of Central Government revenues. For more information on Central Government revenues, see "Public Sector Finances – Central Government Revenues and Expenditures." In the same year, oil revenues for the non-financial public sector represented 12.1% of GDP and 30.6% of non-financial public sector revenues and non-petroleum revenues represented 24.0% of GDP and 60.7% of non-financial sector revenues. For more information on revenues of the non-financial public sector, see "Public Sector Finances – Non-Financial Public Sector Revenues and Expenditures." In 2009, the gross value added by oil decreased to 7.9% of GDP as a result of the drop in the price of oil in that year. Since then, the gross added value of oil to GDP steadily increased to 11.7% of GDP in 2013.

For the first nine months of 2014, the gross added value of oil to GDP was 12.21% of GDP, compared to 12.46% of GDP in the first nine months of 2013. For the gross added value of all economic sectors, see "The Ecuadorian Economy – Nominal GDP by Economic Sector Table." Petroleum exports, in terms of U.S. dollars, decreased in the last quarter of 2014 (when exports totaled U.S.\$2.5 billion) as compared to the last quarter of 2013 (when exports totaled U.S.\$5.1 billion) due to the decline in oil prices in the last quarter of 2014. The decrease caused year-end 2014 petroleum exports to register a 2.9% decrease as compared to year-end 2013 petroleum exports. In January of 2015, in response to the decline of oil prices in the last quarter of

2014, Ecuador reduced its 2015 budget by U.S.\$1.4 billion, resulting in a modified budget of U.S.\$34.9 billion for 2015. For more information see "Public Sector Finances-2014 and 2015 Budget."

Petroecuador and Petroamazonas are state-owned companies and are legal entities with their own assets and budgetary, financial, economic and administrative autonomy. The Hydrocarbons Secretariat of Ecuador is a Governmental institution under the management of the Ministry of Non-Renewable Natural Resources, with its own assets and administrative, technical, economic, financial and operational autonomy. It conducts the management of non-renewable hydrocarbon resources and is tasked with executing activities such as the administration of oil fields and the execution and modification of oil field contracts. The Hydrocarbons Secretariat of Ecuador also provides technical, economic and legal support in service contract origination and public bidding processes.

Exploitation

Under the 2008 Constitution, all subsurface natural resources are property of the state, and in the case of petroleum, following the Consolidation Decree, its exploitation is undertaken directly by Petroamazonas. The Constitution, however, permits the Government to contract with the private sector for the development of these natural resources.

With the reforms to the Hydrocarbons Law, enacted in 2010, oil production sharing contracts were replaced by service contracts.

The reforms clearly define the public sector oil entities' functions as follows:

- the Ministry of Non-Renewable Natural Resources implements the hydrocarbon policies defined by the nation's president;
- the Hydrocarbons Secretariat of Ecuador conducts the public tender process for specific service contracts to develop oil fields, and executes and administers such contracts;
- the *Agencia de Regulación y Control Hidrocarburífero* (the "Hydrocarbon Regulation and Control Agency") controls and oversees hydrocarbon activity in all its phases; and
- Petroecuador and Petroamazonas are involved in the exploration, production, refining, and industrialization of hydrocarbon activities, as well as their internal and external marketing.

Under this new framework, Ecuador allows foreign investment in its hydrocarbon resources, which, under the 2008 Constitution and Hydrocarbons Law are exclusively owned by the state. In November 2010, the Government completed its contract renegotiations with foreign oil companies under the Hydrocarbons Law, which, as mentioned above, replaced production-sharing agreements for private companies with a fixed per-barrel fee for their exploration and production activities.

Production

Petroleum Production

	Year ended December 31,					
	2009	2010	2011	2012	2013	2014
Petroleum (in thousands of barrels per day)	486	486	500	504	526	556
Public Companies ^{(1) (2)}	102,768	109,944	130,528	133,656	144,921	157,976
Other operators	74,647	67,478	51,829	50,659	47,199	45,095
Total	177,414	177,422	182,357	184,315	192,120	203,071
Natural Gas Production (in millions of cubic feet)	10,519	11,688	8,521	15,248	18,052	20,410

Source: Petroleum data is based on figures from the Central Bank January 2015 Monthly Bulletin (Table 411). Natural gas information is provided by Petroecuador

(1) Petroecuador and Petroamazonas until 2012. After January 1, 2013, only Petroamazonas is involved in petroleum production.

- (2) Public company numbers include the production of Rio Napo, CEM, ("Rio Napo"). Petroamazonas and PDVSA own Rio Napo, with 70% and 30% interests respectively.

Oil field crude production, including that of private and state-owned companies, reached 203.1 million barrels in 2014, an amount that represented a 5.7% increase from the 192.1 million barrels produced in 2013 (and an increase of 5.7% in barrels per day ("bpd")). This increase was principally due to the introduction of new technologies that increased the production capacity of existing oil fields. Despite the decline of oil prices in the last quarter of 2014, the Government has no plans to decrease crude oil production or decrease investment in crude oil production.

In 2014, state-owned companies were responsible for 77.8% of production, while private companies extracted 22.2% compared to 75.4% and 24.6% respectively in 2013.

The vast majority (95%) of Ecuador's oil blocks are located onshore. The most productive oil blocks are located in the northeastern part of the country, with Shushufindi and Auca as two of the oldest and most productive fields. Crude oil production has increased in the last ten years with the opening of the Oleoducto de Crudos Pesados (OCP) pipeline (see below "Transportation"), which removed a chokepoint on heavy crude oil transportation in the country. Production in existing fields has leveled off in recent years as the result of the natural decline in the productivity of existing blocks, particularly older blocks such as Shushufindi, which has been in operation for over forty years. In January of 2012, in order to boost production, Ecuador signed incremental production contracts with two oil company consortiums. The Shushufindi S.A. consortium, composed of oil field services companies Schlumberger and KKR from the United States and Argentina's Tecpetrol, was awarded the contract for the Shushufindi field. The Pardaliservices S.A. consortium, which comprises of Tecpetrol, Canada's Canacol Energy, Schlumberger and Ecuador's Sertecpet, will work on the Libertador-Atacapi field. These companies will invest more than \$380 million to extract more than 14 million barrels of oil over the course of 15 years.

The Republic expects production to increase significantly through the development and inauguration of new fields. In 2010, Petroamazonas began production in the Pañacocha field in the Ecuadorian Amazon. On November 28, 2012, President Correa officially launched the 11th round of tenders for oil exploration of thirteen oil blocks in southeast Ecuador. Ecuador earmarked three additional fields for Petroamazonas, which will enter into exploration agreements with foreign state-owned oil companies. The first agreement was a joint-venture agreement signed in September 2014 with Chile's Sipetrol S.A. and Belarus'Belorusneft. Under the agreement, Sipetrol S.A. and Belorusneft plan to invest U.S.\$400 million to explore and develop a 490,000-acre concession in Block 28 in southeastern Ecuador. Petroamazonas will own a 51% stake in the project, while Sipetrol S.A. and Belorusneft will own 42% and 7%, respectively. The companies plan to conduct exploration beginning on January 2015 for a three-year period and anticipate producing oil from the block for over 15 years. As of the date of this Offering Circular, Ecuador continues to evaluate the proposals of possible foreign state-owned oil companies for future joint venture contracts.

In August 2013, President Correa signed a decree authorizing the exploitation of oil from Blocks 31 and 43, which include the Ishpingo-Tambococha-Tiputini ("ITT") field in Yasuní National Park. The ITT field has estimated reserves of 920 million barrels of crude. This decree reversed a moratorium imposed since 2007 on the extraction of oil from ITT, which was created to protect biodiversity and avoid dislocation of isolated indigenous cultures with support from international donors to partially offset the opportunity costs of not developing the ITT fields. However, considering the low levels of support from international donors as well as the potential gains from the extraction of oil for this initiative, President Correa issued the decree allowing development of the ITT fields. Following the issuance of the decree in August 2013, environmental and indigenous groups have announced their opposition to the removal of the moratorium and the Presidential decree authorizing the development of the ITT fields; however, the National Assembly has approved the use of the ITT fields and, as of May 2014, the Environment Ministry has issued permits allowing Petroamazonas to develop the fields. Ecuador expects that the output from the ITT fields will offset the decline from existing oil fields and increase overall production. According to estimates by Petroamazonas, investment to exploit the ITT fields is expected to equal U.S.\$2,100 million in the first four years of development and once fully operational, the oil field is expected to generate revenues of U.S.\$18,000 million over the life of the reserves.

Exports

Other than in 2009, when there was a decrease in the price of oil, crude oil exports steadily increased from 2010 to 2013. Ecuador's crude oil exports reached U.S.\$13,016 million in 2014, down 2.3% from U.S.\$13,412 million in 2013. This decrease was due to the decrease in the price of oil that occurred in late 2014.

In 2013, 95.1% of the value of oil exports was crude oil and 4.9% were oil derivatives. In 2014, 97.8% of the value of oil exports was crude oil and 2.2% were oil derivatives. In 2013, 60.5% of oil exports were exported to the United States, followed by Chile, Peru, Panama, and Japan with 14.7%, 10.7%, 4.1%, and 3.0% respectively. In 2014, 59.7% of oil exports were exported to the United States, followed by Chile, Peru, Panama, and India with 15.5%, 9.6%, 8.6%, and 2.2%, respectively.

PetroChina International Company, Limited, ("Petrochina") a wholly-owned subsidiary of China National Petroleum Corporation ("CNPC"), has made prepayments to Petroecuador in connection with crude oil supply agreements, including an agreement providing for prepayments of U.S.\$2 billion executed in August 2013, and Unipet Asia Co., Ltd ("Unipet"), a wholly-owned subsidiary of China Petrochemical Corporation ("Sinopec"), has also made prepayments to Petroecuador in connection with crude oil supply agreements, including an agreement providing for prepayments of U.S.\$2.4 billion, executed in May 2014.

Transportation

Ecuador has two major oil pipelines. Most of Ecuador's crude oil production is transported through the Trans-Ecuadorian Pipeline System (the "SOTE"), which links Lago Agrio in the Oriente region to the Balao export terminal on the Pacific coast. The SOTE was built by Texaco (now Chevron) and was transferred to Petroecuador in 1998. The SOTE has a capacity of approximately 390,000 bpd. In 2013, the SOTE transported 131.9 million barrels, averaging 362,311 bpd, an increase of 2.2% compared to 2012. In 2014, the SOTE transported 132.5 million barrels, averaging 363,843 bpd, an increase of 0.4% compared to 2013.

On May 31, 2013, a rain-caused landslide ripped up a tranche of the SOTE near the Reventador volcano in the north-east region of Ecuador, near Peru and Brazil. It is estimated that approximately 11,500 barrels of oil were lost. Much of the oil spilled affected the waters of the Quijos, Coca and Napo rivers, and it is estimated that the oil may have reached the Amazon river and other territories or waters in Peru and Brazil. The Republic is in the process of analyzing the incident and is working closely with the governments of Peru and Brazil to contain any environmental damage that the accident may have caused. The Republic is not aware of any pending or threatened lawsuit or claim arising from this incident.

In June 2001, Ecuador awarded the construction and operation contract for its second pipeline, the OCP heavy crude oil pipeline, to Oleoducto de Crudos Pesados Ecuador S.A., a consortium of domestic and foreign oil companies. The OCP pipeline was constructed at a cost of U.S.\$1.4 billion, all of which was paid by the consortium. Construction was completed in September 2003, and operations began the same month. The contract for the operation of the OCP has a duration of twenty years and ends in 2023. At the end of the contract, the OCP pipeline will become national property. The Ministry of Energy and Mines and Petroleum (now Ministry of Non-Renewable Natural Resources) oversaw the construction of the OCP pipeline, and now oversees its operation. The OCP pipeline is made up of two sections, the largest of which was designed to transport a maximum of 517,300 bpd and has a sustainable transportation rate of 450,000 bpd of crude oil of 18° to 24° American Petroleum Institute degrees. In 2013, the OCP pipeline transported 53.3 million barrels, averaging 146,421 bpd, an increase of 10.2% compared to 2012. In 2014, the OCP pipeline transported 59.1 million barrels, averaging 162,262 bpd, an increase of 10.8% compared to 2013.

Refining

Following the Consolidation Decree, Petroecuador is the only company that conducts refining activities in Ecuador. Petroecuador owns three refineries in Ecuador (Esmeraldas, La Libertad and Amazonas) with processing capabilities of 110,000, 45,000 and 20,000 bpd, respectively. Petroecuador also owns one associated

gas processing plant (Shushufindi), which has a processing capacity of 637.8 million barrels of liquefied petroleum gas ("LPG") and average production of 1,747.6 barrels per day.

In 2014, the three main refineries produced 66.0 million barrels of oil derivatives including gasoline, diesel, fuel oil, jet fuel and liquefied petroleum, which represented a decrease compared to the 69.6 million barrels of oil derivatives produced in 2013. This decrease was caused primarily by the maintenance project in the Esmeraldas refinery, which is described below.

During 2014, the domestic consumption of oil derivatives was 94.7 million barrels, which represents an increase of 5% compared to 2013. It is important to note, however, that Ecuadorian refineries do not produce sufficient oil derivatives to meet internal demand. Accordingly, Ecuador is a net importer of oil derivatives, even though it is a net exporter of crude oil.

In February 2013, Petroecuador announced that the Esmeraldas refinery would be undergoing a project of preventative maintenance, which will result in reduced operations until year-end 2015, when all maintenance will be completed. The cost of the project, contracted with several international companies including SK Engineering, is approximately U.S.\$760 million. It is expected that the overhaul of the Esmeraldas refinery and its reduced production will require Ecuador to import an additional oil derivatives until the completion of the project. It is expected that the project will improve the efficiency of the Esmeraldas refinery.

As of the current date, there is no private sector participation in the production of oil derivatives. However, on July 15, 2008, Petroecuador and Petróleos de Venezuela Ecuador, S.A. ("PDVSA Ecuador") formed a new entity called *Refinería del Pacífico Eloy Alfaro Compañía de Economía Mixta* ("RDP") in which Petroecuador is currently the majority shareholder (51%) and PDVSA Ecuador is the minority shareholder (49%). RDP will develop a refinery project with the same name to be built in the municipality of Manta, Manabí Province, with a total nameplate capacity of 300,000 bpd. The project will have two phases. Phase I will result in a refining capacity of 200,000 barrel per stream day ("bpsd"), while phase II will increase refining capacity by an additional 100,000 bpsd. It is expected that RDP will produce gasoline, diesel, heavy and medium crude, and LPG. The land rights and environmental licenses necessary to develop RDP have already been obtained, and a detailed feasibility study of phase 1 of the project is complete. The total estimated investment for phase 1 of RDP is approximately U.S.\$10,000 million. Negotiations are ongoing with Industrial and Commercial Bank of China Limited to provide financing for 70% of the costs of development of phase 1 of this project. Construction has commenced and the project is scheduled to be completed by year-end 2018.

Domestic Fuel Distribution

In 1993, the Government implemented a free market in domestic fuel distribution, which has led to a rapid modernization of distribution facilities. The price at which gasoline is sold to domestic distributors is fixed by the President in accordance with the Hydrocarbons Law, and set according to variables such as domestic demand and the impact of the price on public finances. Until 1998, the Government had fixed the maximum profit level for distributors at 18%. In 1999, the fixed margin was eliminated. In early 2000, the Government reinstated a 15% fixed margin for regular gasoline and diesel fuels (distributors remained free to set any margin for premium gasoline). Since 2003, the fixed margin has been determined in cents per gallon. In 2005, the margin increased to U.S.\$0.71 per gallon of regular gasoline and to U.S.\$0.137 per gallon of diesel. These margins were set by Presidential decree number 73 ("Decree 73"), which was issued in August 2005. Any future change to the profit margin would require a new Presidential decree.

Decree 73 also regulates the sales price of consumer petroleum derivatives, thereby creating consumer subsidies for gasoline and diesel products. The price of gasoline sold to consumers is fixed at U.S.\$1.68 per gallon for gasoline and at U.S.\$0.90 per gallon for diesel. The amount of the subsidy is thereby determined by the differential price between this fixed price of crude oil and the spot price of West Texas Intermediate ("WTI"), as determined by the New York Mercantile Exchange ("NYMEX").

Several private multinational petroleum companies, including ExxonMobil and PDVSA Ecuador, have established service stations in Ecuador. As of December 31, 2014, Petroecuador maintains a network of 48 service stations of its own and 207 affiliate stations.

Natural and Liquefied Petroleum Gas

An important part of Petroecuador's commercial strategy includes the distribution of natural gas to southern Ecuador in order to reduce the consumption of LPG, the replacement of gasoline use with LPG for taxis and the creation of a network of service stations in order to compete in quality, service and price with private oil companies. Ecuador has 5.8 billion cubic meters of natural gas reserves, which it expects will be sufficient to meet internal demand for the next 20 years. Senior management at the natural gas unit of Petroecuador have prepared an investment plan of U.S.\$200 million over 3 years to increase the current production of 35 million cubic feet and extract new reserves.

Since 2010, the natural gas platform at the Amistad field which was previously operated by the U.S. Company Energy Development Corp. Ecuador Ltd. ("EDC") has been managed by Petroecuador, as a result of EDC failing to reach a contractual agreement with the Government. In 2012, Petroecuador announced the discovery of approximately 28.3 billion cubic meters of natural gas in block 6 of the Amistad field in the gulf of Guayaquil. Due to the creation of four new wells and exploration drilling in this block, production increased from 49.77 cubic meters per day in 2013 to 55.91 cubic meters per day in 2014.

In August 2013, Petroecuador began tests at the Monteverde LPG terminal. The terminal is a new facility, built as part of a combined LPG storage, transport and distribution project in the Guayas and Santa Elena provinces. Ecuador has invested U.S.\$550 million in the combined project, which also includes the Monteverde-El Chorrillo pipeline. This new terminal replaced the floating LPG storage units and related maritime transport to Tres Bocas terminal, thereby generating expected annual savings of U.S.\$40 million and easing congestion in the access canal to the Port of Guayaquil. The new facilities, which became operational in 2014, have a capacity to store 76,700 tons of LPG and have storage tanks for diesel and petroleum.

In February 2014, Petroecuador signed a long-term propane and butane requirement contract with Petredec Limited, a liquefied petroleum shipping company. Under the agreement, Petroecuador will buy up to 2,470,000 metric tons (plus or minus 20% at the option of Petroecuador) to be made in monthly deliveries of 72,500 metric tons per month. Petroecuador may also request for up to an additional 30,000 metric tons per month. The first monthly delivery of butane and propane occurred on March 2014 for 72,500 metric tons. According to Petroecuador, the contract is valued at approximately U.S.\$2 billion.

Mining

The mining sector represents an important source of potential resources for the development of the Republic. According to studies conducted by MICSE, Ecuador has potential mineral reserves of 47.7 million pounds of copper, valued at U.S.\$165.4 billion, potential gold reserves valued at U.S.\$45.5 billion, molybdenum reserves valued at U.S.\$15.2 billion, and silver reserves valued at U.S.\$3.5 billion. In total, the nation has estimated reserves valued at U.S.\$229.6 billion.

The Mining Law establishes norms for the exercise of the Government's rights to manage and control the mining sector, in accordance with the principles of sustainability, precaution, prevention and efficiency. It provides that it is the Government's responsibility to oversee all aspects of the mining process, such as exploration, development, industrialization and marketing and authorizes the Republic to invest directly or through joint ventures with domestic or foreign private sector entities. In addition, it authorizes the Republic to both hire and grant licenses and concessions to wholly owned private entities to conduct all phases of development. However, the Republic cannot grant ownership rights in the soil and subsoil mineralogical wealth to entities that are not controlled by state entities.

The mining sector represents a small portion of GDP (0.34% in 2013, 0.33% in 2012, 0.29% in 2011, 0.24% in 2010, and 0.33% in 2009). In the first nine months of 2014, the mining sector represented 0.31% of GDP compared to 0.35% in the first nine months of 2013. In 2013, most production from mining was

generated by domestic artisan and jeweler businesses. However, Ecuador expects mining exports to increase as a result of an expansion of the nation's mining projects. Currently, there are five projects in advanced stages of completion – two copper mines and three gold mines. Project Mirador is the largest copper project in Ecuador. The copper mine in the Zamora Chinchipe province is expected to begin production in 2015. Project Mirador is financed in part through a U.S.\$2,040 million concession to Ecuacorriente S.A., joint-venture owned by the Chinese companies China Railway Construction Corporation ("CRCC") and Tongling Nonferrous Metals Group. Investment in the project will be made by Ecuacorriente S.A. over a 15-year period, with 50% of the amount coming in the first seven years. The Government estimates that the project will produce 354,000 tons of copper annually for the Government over the course of 25 years. Other projects, mostly in the south of the country, are in different stages of negotiation and completion.

In 2008, Ecuador granted a concession in the Fruta del Norte gold mine to Kinross Gold Corporation, a Canadian company. After two years of negotiation, Kinross withdrew from the project.

Electricity and Water

Currently, hydroelectric plants supply 46% of the power in Ecuador. By 2016, the Government predicts that hydroelectric plants will generate 93% of the power in Ecuador. This is expected to be achieved through the development of a matrix of hydroelectric plants built throughout Ecuador. Ecuador's objective in developing this matrix is to reduce its consumption of oil through oil based generators, thereby decreasing oil imports and improving energy independence. Ecuador also plans to replace household oil-based consumption (for cooking and heating as further described below) with electricity-based consumption through the hydroelectric power grid, thereby eliminating the need for a gas subsidy. The elimination of the subsidy is planned for 2017, immediately after the completion of Ecuador's largest hydroelectric plant project: the Coca Codo Sinclair plant.

The 1,500 MW Coca Codo Sinclair plant, which is expected to become operational in 2016, will be Ecuador's largest hydroelectric project. It is expected to generate an average of 8.63GWh per year and supply approximately 44% of the country's electricity needs. It is also set to reduce 4.5 million tons of carbon emissions per year and replace oil energy consumption for domestic purposes such as cooking and water heating. The plant will join the existing infrastructure of hydroelectric plants that include the 160 MW Mazar plant in the Azuay province, the 1,075 MW Paute-Molino plant near Cuenca, the 275 MW Minas San Francisco plant, the 50 MW Quijos plant, and the Sopladora and Cardenillo plants planned along the Paute River. Many of these hydroelectric projects are financed through agreements with bilateral lenders, including the Export-Import Bank of China, which has provided U.S.\$1,700 million to finance the Coca Codo Sinclair project, U.S.\$571 million to finance the Sopladora hydroelectric project and U.S.\$313 million to finance the Minas San Francisco hydroelectric project, the Brazilian National Economic and Social Development Bank which has provided U.S.\$90.2 million to finance the Manduriacu hydroelectric power plant project near Quito, and Societe Generale and Deutsche Bank which in April 2014 committed to together provide an additional U.S.\$50 million to finance the Manduriacu hydroelectric power plant.

The construction of these hydroelectric plants is due to an enhanced effort by the Government to invest in the sector. In 2014, the Government invested U.S.\$1,325 million in the electricity sector, a 204% increase from 2009, when the Government invested U.S.\$436 million in the sector. Construction on the new line of hydroelectric plants continued in 2014 including the construction of a reservoir in the Minas San Francisco project. The 253 MW Toachi Pilaton hydroelectric plant is scheduled to become operational by year-end 2015.

In March 2014, President Correa announced a new program to substitute electricity use for gas use. Under this program, beginning in November 2014, the Government began to sell subsidized stoves to replace gas stoves. President Correa has stated that the use of electric stoves will enable the Government to terminate the gas subsidies in 2017 and the net effect on the Government budget will be positive due to the elimination of the subsidies, with savings of approximately U.S.\$800 million a year.

The Government has also increased investment in the water sector in order to alleviate flood conditions and access to potable water in various parts of the country. Ecuador's national water authority, Senagua, currently has invested U.S.\$688 million out of a planned U.S.\$2,100 million for six multi-purpose projects to

improve flood control and irrigation. In 2013, investment in water projects reached U.S.\$526 million, an increase of U.S.\$487 million from 2009, where investment totaled U.S.\$39 million. One of the most important projects in the water sector is the Multipropósito Chone project in the Manabí province. Financed by the Government and private partners, the U.S.\$20.3 million project sets out to construct a dam to alleviate the flood conditions of the region. The project will also construct a drain system, which will serve for irrigation purposes and provide a drinking water supply for Manabí.

Other water projects include: (i) the Cañar Naranjal project, which is expected to cost U.S.\$233 million to protect approximately 37,000 hectares along the Cañar River and its adjoining streams through a system of levees, including a 12-kilometer bypass, (ii) four new bridges, (iii) a flood regulatory system and (iv) the U.S.\$200 million Daule-Vinces project that is expected to redirect water from the Daule River and transport it along a 70 kilometer canal to dry farmlands.

These flood control projects will reduce the social and economic damage caused by floods in the winter season, allowing the Government to reallocate resources previously used to repair the damage to other projects. To repair the damage, the Government spent substantial resources to mitigate damages caused by floods (U.S.\$312 million in 2012 and U.S.\$415 million in 2013).

In 2013, the electric and water sectors contributed a total of U.S.\$998 million to GDP. Since 2009, the sectors represent an average of approximately 1% of GDP per year. In the first nine months of 2014 the electric and water sectors contributed a total of U.S.\$900 million to GDP, an increase compared to U.S.\$756 million for the first nine months of 2013.

In December 2014, an accident occurred in the Coca Codo Sinclair plant where 13 workers were killed. The Republic does not expect this accident to cause a material delay in the completion of the project.

Telecommunications

In 2007, only 8.47% of the Ecuadorian population was connected to the Internet. Under President Correa's administration the percentage has increased to 79.10% as of September 2014. Similarly, while only 20 of Ecuador's 221 municipalities had access to the national fiber optic network in 2007, this number increased to 195 by 2014.

In 2009, the telecommunications sector accounted for U.S.\$1,554 million of GDP. This amount steadily increased, and in 2013, the telecommunication sector accounted for U.S.\$2,006 million of GDP. Throughout this five-year term, the telecommunications sector represented an average of approximately 2.34% of GDP per year. In 2014, the Government invested U.S.\$555 million in the sector. In the first nine months of 2014, the telecommunications sector accounted for U.S.\$1,496 million of GDP, a decrease compared to U.S.\$1,507 million for the first nine months of 2013.

In 2008, Ecuador granted Spain's Telefónica (currently operating in Ecuador as "Movistar") and Mexico's América Móvil (currently operating in Ecuador as "Claro") fifteen-year concession contracts to provide the country with telephone and 3G services. The concessions are extensions of previous agreements both companies had with Ecuador and are expected to generate U.S.\$840 million in revenues for Ecuador over the course of the term of the concessions.

In February of 2015, the National Assembly enacted the Telecommunications Law as a means to improve access to quality telecommunications services and to increase the use of information technology in rural sectors. For more information on the Telecommunications Law, see "The Ecuadorian Economy – Economic and Social Policies – Telecommunications Law."

Other Sectors of the Economy

Agriculture

Before the discovery of petroleum fields in provinces of the Orient region in the 1970's, the agriculture sector had traditionally been the largest contributor to Ecuador's GDP. Of Ecuador's total 27.1 million hectares, 7.8 million are devoted to agriculture and livestock. Ecuador's diverse climatic conditions, varying altitudes and rich volcanic soil are well suited to tropical and subtropical agriculture. Ecuador's primary product from this sector, which is also the nation's most significant non-oil export, is bananas. According to data from the Food and Agricultural Organization of the United Nations ("FAO"), Ecuador has represented approximately 25% to 30% of banana world exports for the ten years ending in December 31, 2013. Ecuador also exports significant amounts of coffee, flowers, and cacao. The agricultural sector constituted an average of 8.36% of GDP per year for the years 2009 through 2013. In the first nine months of 2014, the agricultural sector represented 7.63% of GDP, a decrease compared to 7.76% for the first nine months of 2013.

Between 2009 and 2014, the volume of Ecuador's banana exports increased by 30.6%. In 2012, the value of Ecuador's banana exports decreased by 7.5%, primarily as a result of difficult growing conditions for that year. However, the value of these exports increased by 13.3% in 2013 when growing conditions returned to normal.

Ecuador also exports significant amounts of cacao. Cacao exports were U.S.\$343 million, U.S.\$350 million, and U.S.\$474 million in 2009, 2010, and 2011, respectively. In 2012 the value of cacao exports decreased to U.S.\$345 million due to difficult growing conditions for that year. However, exports increased to U.S.\$426 million in 2013 when growing conditions returned to normal. Cacao exports reached U.S.\$577 million in 2014.

Flowers and flower products are among one of the newest, but fastest growing exports for Ecuador. In 2014, flower exports reached U.S.\$798 million, or 3.1% of Ecuador's total exports. This amount represents a steady increase in flower exports, which were U.S.\$547 million in 2009, U.S.\$608 million in 2010, U.S.\$676 million in 2011, U.S.\$714 million in 2012, and U.S.\$808 million in 2013.

Fishing

Another important aspect of Ecuador's agriculture is its fishing exports. Ecuador exports significant amount of tuna and other fish, but its predominant fishing export is shrimp. Ecuador is the largest shrimp producer in the Americas, and one of the largest shrimp producers in the world. According to the FAO, over the ten years ending December 31, 2013, Ecuadorian shrimp exports have represented approximately 2% of worldwide shrimp exports. The amount of shrimp exports steadily rose in the period from 2009 to 2013, growing from U.S.\$664 million in 2009 and reaching U.S.\$1,785 million in 2013. In 2014, shrimp exports totaled U.S.\$2,572 million, a 44.1% increase from 2013. This increase is due to increased worldwide demand and lower shrimp production levels in Asian countries in 2014. Fishing exports, other than shrimp, grew from U.S.\$234 million in 2009 to U.S.\$274 million in 2014.

Manufacturing

Manufacturing, excluding petroleum products, is dominated by consumer products such as food, beverages, textiles, and paper, with a concentration of imported intermediate and capital goods. The manufacturing sector contributed 12.3%, 12.4%, 12.2%, 12.3%, and 12.1% to the GDP, per year for the years 2009, 2010, 2011, 2012, and 2013, respectively. In the first nine months of 2014, the manufacturing sector contributed 12.27% to GDP, compared to 12.10% for the first nine months of 2013.

Ecuador's main manufactured, non-petroleum exports are canned seafood, automobile assembly, processed cocoa, and processed coffee. The manufacturing sector has grown an average of 12.11% between 2009 and 2013. During 2009, 2010, 2011, and 2012, manufacturing grew by 3.4%, 11.7%, 12.4%, and 11.5% respectively. In 2013 manufacturing grew by 6.2%, reaching U.S.\$11,453 million. According to reports from

the Central Bank, 2011 saw an increase in the amount of credit extended towards manufacturing activities. This led to a substantial growth in the sector, particularly in the production of dairy products, wheat products, beverages, and the processing and conservation of meat, among others, which contributed to the 12.4% increase in that year.

Ecuador's membership in international trade organizations and its status as a party to various multilateral agreements such as ALADI, CELAC, and the Community of Andean Nations have contributed to the opening of new markets for the sale of Ecuadorian goods abroad and challenged domestic manufacturers to operate more competitively. On December 12, 2014, representatives from Ecuador's Ministry of Foreign Commerce signed a trade agreement with the European Union. For more information see "Balance of Payments and Foreign Trade – Foreign Trade – Trade Policy."

Construction

The construction sector accounted for 10.74% of GDP in 2013, 10.75% in 2012, and 10.23% in 2011. In the first nine months of 2014, the construction sector accounted for 10.86% of GDP, compared to 10.76% for the first nine months of 2013. In 2013, construction activity continued to increase, growing by 7.6%, compared to 16.2% in 2012 and 24.6% in 2011. In 2013, approximately U.S.\$1,023 million worth of raw materials used for construction were imported, an increase from 2012 when U.S.\$968 million worth of raw materials used for construction were imported. The steady increase in construction and the large percentage of GDP that it represents is a result of the construction activity in connection with the nation's infrastructure projects, particularly the development of new oil fields, and the hydroelectric and flood control projects of the past six years.

Science and Technology

The Government has begun development of a very large education and research center north of Quito, known as "Yachay-the City of Knowledge" ("Yachay"). Construction of Yachay began in 2012 and is expected to be completed in 2028. Yachay is a 18-square-mile planned community that is expected to house a large university and a dozen technology and innovation parks. The university opened its doors to 187 enrolled students in April 2014.

The goal of Yachay is to create a culture of scientific research in Ecuador and promote a long-term state-of-the-art site for technological research. Developers have mentioned that there will be an emphasis on nanotechnology, but add that Yachay will be multi-disciplinary. Long-term goals include the development of knowledge-based products to diversify the Ecuadorian economy and the development of new technologies for the country's well-being. Ecuador estimates that it will spend U.S.\$20 billion over the course of 16 years to complete the project.

Tourism

Ecuador's tourism industry has steadily grown over the past six years. In 2010, 1.04 million tourists visited the country. The figure increased to 1.14 million in 2011, 1.27 million in 2012, and 1.36 million in 2013. In 2014, 1.56 million tourists travelled to Ecuador, representing a 14.7% increase from 2013. In 2014, the largest population of tourists came from Colombia, followed by the United States, and then Peru. There is also a significant number of U.S. expatriates and retirees who currently reside in the country.

The steady increase in tourism over the last six years is in large part due to promotional campaigns instituted by the Ministry of Tourism. In 2010, the "Ecuador loves life" campaign was launched in England, Germany, France and the United States. A second campaign, the "I discovered" campaign, was launched in 2011, and a third campaign, the "All you need is Ecuador" campaign, was launched in 2014. As part of this campaign, Ecuador became the first government to advertise during the Super Bowl, airing a thirty second spot during the 2015 event. The Ministry also provides financing and logistics advice to local businesses that cater

to tourists such as tours and adventure companies. The 2014 annual budget allocated U.S.\$87.8 million to the Ministry of Tourism for tourism promotional campaigns and other initiatives to promote tourism.

Transportation

In 2014, the Government invested a total of U.S.\$1,400 million in roads and highways, a decrease of 15% from the previous year, when total investment was U.S.\$1,650 million. The most significant road projects in Ecuador are the Manta (Ecuador)-Manaus (Brazil) road network, linking the Pacific Ocean with the Atlantic and the Troncal-Amazonica road, which runs from north to south, linking the Colombian and Peruvian borders. These projects are expected to be completed in 2015. Both projects are not toll roads and were financed by oil revenues and financing from CAF.

The 2015 budget allocates U.S.\$1.1 billion for all Government transportation projects including airport, road, and various municipal construction and maintenance projects. Two recent significant projects have recently been financed along with the municipality of Quito. In February of 2013, a new international airport opened in the suburbs of Quito. The airport cost U.S.\$700 million and was financed by Quiport S.A., an international consortium led by AECON Construction Group and HAS Development Corporation. The new airport features the largest control tower and the longest runaway of any international airport in Latin America. Phase 2 of the airport, which includes the expansion of the passenger terminal, new jet bridges, and the expansion of the shopping areas will cost U.S.\$70.5 million and will also be financed by Quiport S.A. Construction on phase 2 is expected to be completed by March 2015. A new road and bridge to reduce congestion from the previous single bridge and highway that led to the airport have been completed. Construction of a subway system in Quito based on the Metro of Madrid has been underway since 2012. This metro system is expected to connect the northern business and resident areas of Quito to Quito's historic city center. The project is budgeted to cost U.S.\$1,680 million through completion and is expected to commence operations in 2016. This project was financed, in part, by a U.S.\$205 million loan from the World Bank, a U.S.\$259 million loan from the European Investment bank, a U.S.\$200 million loan from the Inter-American Development Bank ("IDB") and a U.S.\$200 million loan from CAF. In July 2013, the municipality of Cuenca began construction on the *Tranvía Cuatro Ríos*, a 14-kilometer tram system with 20 stations. The project is planned to connect the airport and city-center to the outlying suburbs of the city. The project is estimated to cost U.S.\$232 million and was financed, in part, by a 15-year loan executed in January 2013, pursuant to the French government's Emerging Country Reserve Loan program.

Employment and Wages

The National Council on Wages sets the minimum wage for workers in the private sector on an annual basis. The monthly minimum wage for a job in the private sector has increased from U.S.\$218 as of December 31, 2009 to U.S.\$340 as of December 31, 2014. The announcement of the minimum wage applicable for 2015 was made in December of 2014 and was set at U.S.\$354 per month. Public sector employee wages are based on the wage scale determined by the *Ministerio de Relaciones Laborales* ("Ministry of Labor Relations"). The following table shows the increase in minimum wage from 2009 to 2015.

Monthly Minimum Wage ⁽¹⁾
(in U.S.\$)

2009	2010	2011	2012	2013	2014	2015
218	240	264	292	318	340	354

Source: Ministry of Labor Relations.

(1) Minimum wages set in the beginning of each year.

Private employee salaries received a boost with the introduction of the "Living Wage" into the Labor Law. Enacted in December 2010, this law dictates that any company that generates a profit shall distribute it amongst its employees until their total income has risen to the level of the living wage. The value of the living wage is determined annually by INEC on the basis of the cost of living and the number of family members in each family unit.

The following table shows certain labor force and employment data for the periods indicated:

Labor Force and Employment
(in thousands of persons, except percentages)

	For the year ended December 31,					
	2009	2010	2011	2012	2013	2014
Total Population ⁽¹⁾	14,768	15,012	15,266	15,520	15,775	16,027
Labor Force ⁽²⁾	10,033	10,292	10,533	10,864	11,200	11,159
Labor Force Participation ⁽³⁾	6,549	6,436	6,582	6,701	6,953	7,195
Labor Force Participation Rate	65.28%	62.54%	62.49%	61.68%	62.08%	64.47%
Employed Labor Force	6,125	6,113	6,305	6,425	6,664	6,921
Unemployed Labor Force	424	323	277	276	289	273
Unemployment Rate ⁽⁴⁾	6.47%	5.02%	4.21%	4.12%	4.15%	3.80%

Source: Based on figures from INEC as of December 2014.

- (1) Total population numbers based on yearly projections from 2010 census. Six-month data not available.
- (2) Refers to population above minimum working age (15 years old), whether or not they are willing to work.
- (3) Also referred to as economically active population.
- (4) As a percentage of economically active population.

In 2009, in order to reduce unemployment, the Ministry of Labor Relations established the *Red Socio Empleo* ("Employment Partner Network"), a government agency designed to assist with employment searches and provide educational opportunities abroad for future work in Ecuador. The agency provides scholarships and allows individuals looking for work to post resumes, create their own web pages, and schedule interviews with potential employers online.

From 2009 to 2014, the unemployment rate decreased by 2.67 percentage points. Between 2009 and 2010, unemployment decreased from 6.47% to 5.02% as a result of Ecuador's recovery from the global economic recession. Underemployment, or individuals who are unable to obtain full-time work to receive a salary meeting the official minimum wage, decreased from 59.40% to 56.23% during this time as well. During 2011 and 2012 unemployment decreased to 4.21% and 4.12% respectively and in 2013, unemployment slightly increased to 4.15%. In 2014, unemployment continued to decrease to 3.80% due to increased job creation in the services and commerce industries.

The rate of individuals who are unable to obtain full-time work to receive a salary meeting the official minimum wage, or underemployment, also steadily decreased from 52.41% in 2009 to 49.47%, 49.29%, 47.16% and 47.77% in 2010, 2011, 2012, and 2013, respectively. The underemployment rate continued to decrease to 46.69% in 2014.

The sectors that registered the greatest reduction in employment in the period from 2009 to 2014 were the agriculture sector with 4.08 %, and the commerce sector with 0.61%. The labor force participation rate of the Ecuadorian economy decreased by an aggregate of 0.81%, from 2009 to 2014 while underemployment and unemployment decreased by 5.72% and 2.67%, respectively.

The following table sets forth information regarding the unemployment and underemployment rates, and real minimum wages for the periods presented:

Wages and Unemployment

For the year ended December 31,

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Unemployment rate (% of economically active population) ⁽¹⁾	6.47	5.02	4.21	4.12	4.15	3.80
Underemployment rate (% of economically active population) ⁽²⁾	52.41	49.47	49.29	47.17	47.77	46.69

Source: Based on figures from INEC as of December 2014

- (1) Refers to population at or above the minimum working age that is not employed and is willing to work (even if not actively seeking work) as a percentage of the total labor force.
- (2) Refers to individuals who are unable to obtain full-time work to receive a salary meeting the official minimum wage.

Average Wages by Economic Sector (Monthly) ⁽¹⁾ (in U.S. dollars)

	<u>Average Wage</u>	<u>Oil and Mining</u>	<u>Agriculture</u>	<u>Services (water and electric)</u> (in U.S. dollars)	<u>Manufacturing</u>	<u>Tourism (hotels and restaurants)</u>
2009	230.99	219.66	222.43	313.91	202.34	206.75
2010	258.35	320.61	227.88	339.06	222.75	233.64
2011	295.70	340.81	263.30	424.05	247.28	326.86
2012	345.50	479.73	302.90	493.10	282.78	372.86
2013	374.90	510.80	340.00	551.21	313.20	398.24
First 9 months ended 2014	345.50	488.93	313.80	507.80	292.40	374.00
First 9 months ended 2014	403.00	724.90	368.50	548.10	336.80	410.20

Source: Based on figures from INEC

- (1) These figures include mixed income (wage and non-wage income) by economic sector per month as of the date indicated. Methodology to compute the data is based on all wages earned by individuals in a month. For the purposes of this data, there is no distinction made between full-time and part-time workers.

Poverty

In recent years, Ecuador has seen decreases in levels of urban and rural poverty. The urban poverty rate decreased from 25.0% to 16.4% between 2009 and 2014, while the rural poverty rate decreased from 57.5% to 35.3% across the same time frame. Extreme poverty rates have also decreased, from 8.2% of all urban households in 2009 to 4.5% of all urban households in 2014, and from 29.3% of all rural households in 2009 to 14.3% of all rural households in 2014. At the same time, the total extreme poverty rate decreased from 15.4% in 2008 to 7.7% in 2014.

The Republic believes this decrease in poverty is partially the result of a significant expansion of the *bono de desarrollo humano* ("BDH"), a cash transfer program for those in the lower 40% of income distribution who are either mothers of children under the age of 16, above the age of 65, or disabled. Currently, the BDH transfers U.S.\$50 a month to qualifying individuals.

The following table shows the percentage of households in poverty for the periods indicated.

Percentage of Households in Poverty

	<u>Poverty Based on Income ⁽¹⁾</u>			<u>Extreme Poverty Based on Income ⁽²⁾</u>			<u>Poverty Based on Lack of Basic Necessities ⁽³⁾</u>		
	<u>Urban</u>	<u>Rural</u>	<u>Total</u>	<u>Urban</u>	<u>Rural</u>	<u>Total</u>	<u>Urban</u>	<u>Rural</u>	<u>Total</u>
2009	25.0	57.5	36.0	8.2	29.3	15.4	29.9	74.6	44.9
2010	22.5	53.0	32.8	7.0	25.1	13.1	26.4	72.2	41.8
2011	17.4	50.9	28.6	5.0	24.6	11.6	22.1	73.7	39.4
2012	16.1	49.1	27.3	5.0	23.3	11.2	20.1	70.3	37.0
2013	17.6	42.0	25.6	4.4	17.4	8.6	25.7	65.7	38.7
2014	16.4	35.3	22.5	4.5	14.3	7.7	n/a	n/a	n/a

Source: Based on figures from INEC as of December 2014.

- (1) Persons whose income is below the poverty line. As of December 31, 2014, the poverty line, as determined by Ecuador, is U.S.\$81.04/month, per person.
- (2) As of December 31, 2014, the extreme poverty line is U.S.\$45.67/month per person.
- (3) This number is based on information taken at the census regarding the lack of availability of basic necessities. Variables considered in this figure include literacy rates and access to potable water, sewage systems and hygienic services, electricity, running water, telephone lines, doctors and hospital beds per 1000 persons.

Social Security

The social security system in Ecuador is administered by the *Instituto Ecuatoriano de Seguridad Social* (the Ecuadorian Social Security Institute or "IESS"), as well as by the *Instituto de Seguridad Social de las Fuerzas Armadas* and the *Instituto de Seguridad Social de la Policía Nacional* (the Social Security programs of the Armed Forces or "ISSFA" and the Ecuadorian Police Department or "ISSPOL", respectively). The Ecuadorian Social Security System is a trans-generational model where the current work force funds the benefits of those who are no longer in the work force and permits retirees to also make on-going contributions to their retirement fund.

Social security benefits are a constitutional right for all workers and their families, designed to protect the insured in case of illness, maternity, unemployment, disability, old age and death. The social security system also provides financing for workers' housing. Ecuador's social security system is financed by contributions from the Government, employers and employees. The level of employee contribution is based on an employee's income. The monthly pension is based on a percentage of the insured's average monthly earnings in his or her five highest years of earnings. The minimum monthly pension is U.S.\$177.

Retirees benefit from the IESS system once they have left employment. As of December 2014, IESS, ISSFA and ISSPOL had 4.32 million beneficiaries, of whom 76.9% worked in the private sector, 19.9% worked in the public sector, and 3.2% are included as voluntary beneficiaries. Between 2010 and 2014, the total number of beneficiaries increased at an average annual rate of 9.95%. In 2014, IESS collected approximately U.S.\$5,760 million in social security contributions. Of this amount, 65% of all contributions came from the private sector and 31% came from the public sector. To increase efficiency, IESS has increasingly collected contributions through electronic means. Both in 2014 and 2013, approximately 99.6% of all contributions were collected electronically.

Under Article 372 of the 2008 Constitution, the *Banco del Instituto Ecuatoriano de Seguridad Social* (the Social Security Institute Bank of Ecuador or "BIESS") is responsible for channeling investments and managing public pension funds. Resolution JB-2009-1406 enacted in July 2009 sets the parameters for the types of investments allowed. Investments in real estate are only allowed in the long term (over five years), investments in trusts are not allowed in the short term (less than 3 years), and investments in public sector securities cannot exceed 75% of the market value of the fund. A risk committee must approve all investments. Investments must be rated by an approved rating agency, and no investment may be rated lower than specific thresholds set for that type of investment, as determined by the risk committee. As of December 31, 2014, BIESS is the largest holder of Government securities, with 41.14% of its portfolio investment, or U.S.\$5,734 million, in Government holdings.

The primary functions of the BIESS are, among others, the provision of different financial services such as mortgages, pledge-backed loans and unsecured credits. Additional services include portfolio re-discount operations for financial institutions and other financial services in favor of retirees and other affiliates of the IESS by means of direct operations or through the national financial system. Additional bank functions are investment in infrastructure projects that generate financial profitability, added value and new sources of employment, as well as investments in fixed and variable income securities through the primary and secondary markets.

Education

In 2011, the Government implemented the *Ley Orgánica de Educación Intercultural* (the "Intercultural Education Law"). The law created a standardized curriculum for all high schools, consolidated school systems to eliminate single-teacher schools, created a stringent evaluation system for teachers and schools, and launched

a nation-wide literacy program. Under the reform, students were to receive free medical attention, school lunches, and uniforms.

The 2015 annual budget allocated U.S.\$5.2 billion for Government education and education initiatives. Education initiatives include the continued construction of Yachay (See "The Ecuadorian Economy – Other Sectors of the Economy – Science and Technology"), the use of outside consultants to improve English education, the granting of scholarships to exceptional students for study in elite foreign universities, the inspection of Ecuador's universities to ensure that they met a high standard quality, and various other projects administered by individual municipalities.

Education is mandatory in Ecuador until the age of 14. The literacy rate for adults over fifteen years of age was 93.3% in 2014, and has been above 90% for the ten-year period ending in 2014.

Health

The 2015 annual budget allocated U.S.\$2.9 billion for Ecuador's health sector. Recent reforms include a mandatory increase in hours and pay for medical professionals, and the creation of mobile clinics intended to ensure vaccinations in the most remote areas of the country. The Government has also signed various agreements with private companies to produce generic drugs in the country.

LEGAL PROCEEDINGS

The Republic is involved in certain litigation and administrative arbitration proceedings described below. The proceedings described below are conducted pursuant to the mandatory arbitration provisions contained in the U.S.-Ecuador Bilateral Investment Treaty and the Canada-Ecuador Bilateral Investment Treaty, as applicable. These treaties aim to protect investors of both nations in the other country. Please note that all of the proceedings mentioned below are currently being disputed by Ecuador. An unfavorable resolution of some of these proceedings could have a material adverse effect on the Republic.

Occidental - Breach of Contract Claim

In May 1999, Petroecuador and Occidental entered into a participation agreement for the exploration and exploitation of hydrocarbons in Block 15, in the Oriente region. On September 16, 2004, Petroecuador sent Occidental a notice of breach alleging various grounds for forfeiture of the participation agreement, including the unauthorized assignment of 40% of Occidental's rights and obligations thereunder to Canadian oil company Encana. Block 15 is one of Ecuador's most productive oil fields. In May 2006, the Ministry of Energy and Mines declared the participation agreement with Occidental to be terminated due to its alleged breach of the Hydrocarbons Law. As a result, all of Occidental's assets were transferred to the Republic. In July 2006, Occidental filed a claim before ICSID against Ecuador in an amount of U.S.\$3.3 billion, claiming that the termination of the participation agreement constituted the "equivalent of expropriation," in violation of the U.S.-Ecuador Bilateral Investment Treaty, and that the forfeiture of the participation agreement was litigated for political reasons rather than due to an illegal assignment.

On October 5, 2012, the ICSID arbitral panel issued an arbitral award in favor of Occidental in the amount of U.S.\$1.7 billion, plus interest, but it also found that Occidental's assignment to Encana was made in violation of Ecuadorian law. The arbitral panel based the amount on the full value of the contract, with a reduction of 25% due to such violation. On October 9, 2012, Ecuador filed a petition for a stay of the enforcement of the arbitral award until an annulment procedure could be carried out. The petition was registered with ICSID on October 11, 2012. On January 18, 2013, ICSID appointed an ad hoc panel to resolve the petition for the stay. The first meeting of the panel occurred on March 25, 2013. On May 13, 2013, the panel met to consider a February 13, 2013 petition by Occidental to lift the currently effective stay of the arbitral award. In a September 30, 2013 decision, the panel ratified the stay of the award and held that it should continue unconditionally.

On August 12, 2013, Ecuador submitted its Brief of Annulment. On October 18, 2013, Occidental presented its response, arguing that there was no basis for an annulment. Ecuador presented its reply on January 6, 2014 and Occidental submitted its rejoinder on February 28, 2014. The hearing concerning annulment took place between April 7 and April 10, 2014. The proceedings were concluded on April 10, 2014. The result of the hearing is pending.

Chevron

In 2006, Chevron brought arbitration proceedings against the Republic under the United Nations Commission on International Trade Law ("UNCITRAL") alleging the Republic's breach under certain "denial of justice" provisions under the U.S.-Ecuador Bilateral Investment Treaty. In August 2011, the arbitral tribunal established that Ecuador had breached such treaty and should pay Chevron U.S.\$96 million plus compound interest calculated from September 1, 2011 until the date of payment. The tribunal accepted the position of Ecuador that any amount received by Chevron should be subject to the payment of a tax at a rate of 87.31% (the preliminary arbitral award was approximately U.S.\$700 million) and deducted the tax amount due to Ecuador from the preliminary arbitral award of U.S.\$700 million. Consequently, Ecuador filed a petition to annul the arbitral award before the District Court of The Hague, which was denied on May 2, 2012. Ecuador presented an appeal to the District Court decision, and on May 13, 2013, the Appellate Court of The Hague heard the arguments of the parties on appeal and rejected Ecuador's appeal on June 19, 2013. In September 18,

2013, Ecuador presented an appeal to the Supreme Court of the Netherlands, which held hearings on February 28, 2014 and denied Ecuador's appeal on September 26, 2014.

On July 27, 2012, Chevron filed a claim before the District Court of the District of Columbia (Washington, DC) seeking recognition and enforcement of the arbitral award. On March 25, 2013, Ecuador filed its brief in opposition with the court, and on April 25, 2013, Chevron filed its response. On June 7, 2013 the District Court confirmed the award in favor of Chevron. Ecuador filed for further appeal on July 1, 2013, to which Chevron filed an opposition brief on August 19, 2013. The results of this appeal are pending. On September 6, 2013, because Ecuador did not have substantial assets in the District of Columbia, Chevron filed a motion to enable it to register the district court award "in any other district" in the United States. Ecuador objected, arguing that Chevron should be permitted to register the award only in "those districts for which Chevron has provided sufficient evidence that Ecuador has substantial assets." In October 29, 2013, the District Court of the District of Columbia granted Chevron's motion to register the award in any other district. On June 11, 2014, Ecuador appealed the District Court decision. Chevron filed a response to this appeal on July 18, 2014 and Ecuador filed a counter-response on August 8, 2014. Ecuador presented additional documentation on August 15, 2014 and August 22, 2014. A hearing regarding the appeal took place on January 12, 2015. The result of the hearing is pending. To date, Chevron has not registered the award in any other district and the Republic is not aware that Chevron has taken any steps to execute on any assets of the Republic.

On a separate matter, in September 2009, Chevron filed a UNCITRAL arbitration claim against Ecuador for an undetermined amount. The claim seeks indemnification for claims brought by indigenous communities in Lago Agrio, Ecuador, against Chevron for environmental damages. In 2011, an Ecuadorian court ruled in favor of the Lago Agrio community, ordering Chevron to pay U.S.\$19 billion in damages. This amount was reduced to U.S.\$9.5 billion in November 2013. Chevron argues that Ecuador and Petroecuador should be solely responsible for any judgments arising from claims resulting from the Lago Agrio litigation because of "hold harmless" provisions of a 1995 settlement agreement ("1995 Settlement") between Chevron and the Republic and also claims breach of the 1995 Settlement and the U.S.-Ecuador Bilateral Investment Treaty. On the other hand, Ecuador argues that it has not assumed any obligation to indemnify, protect, or defend Chevron from third party claims. On January 25, 2012, the arbitral tribunal issued an interim award that ordered Ecuador to take all available measures to suspend the enforcement or recognition of the claims in the Lago Agrio case in Ecuador and abroad. On February 16, 2012, the tribunal issued a second interim award ordering Chevron to compensate Ecuador for the costs Ecuador incurs in performance of its obligations under the interim awards, and ordered Chevron to post a bond in the amount of U.S.\$50 million to secure payment of the same. The plaintiffs for the Lago Agrio case, in November 2012, obtained the seizure of certain bank accounts of Chevron in Argentina and the seizure of Chevron's interests in its Argentine subsidiaries. On February 7, 2013, the arbitral tribunal resolved that Ecuador has not complied with the decisions from the previous awards, and that each party shall argue whether Ecuador must reimburse Chevron for any expenses related to the enforcement proceedings. A schedule of arbitral hearings on the merits of the claims has been underway and is programmed to take place until May 17, 2015. The arbitration tribunal has divided the merits of the case into three tracks. The first track will decide issues relating to the 1995 Settlement and the obligation of Ecuador to indemnify Chevron from third party claims. The second track will decide issues relating to denial of justice claims by Chevron and the alleged breach of the U.S.-Ecuador Bilateral Investment Treaty. Once tracks 1 and 2 have been decided on the merits, the third track will determine any monetary damages that resulted from the alleged breaches and will assess the monetary value of the environmental damage in the Lago Agrio community. On September 17, 2013 the arbitral tribunal issued a partial track 1 award where it agreed with the Republic in that the 1995 Settlement did not preclude the Lago Agrio plaintiffs from asserting claims "in respect of their own individual rights." According to the arbitration tribunal, the 1995 Settlement bars claims that Ecuador might raise in the exercise of their own rights, but does not bar to claims by third parties acting independently from the state in the exercise of their individual rights. It also held that the 1995 Settlement did not contain an indemnity provision that required the Republic to be held liable for any costs or any judgment rendered against Chevron. However, the arbitral tribunal held that Chevron was a "released party" under the 1995 Settlement. The arbitration tribunal did not decide on the claims of breach of the 1995 Settlement. In response, on January 7, 2014, Ecuador requested the annulment of the September 17, 2013 partial award and of the previous interim awards. A date for a hearing to determine the petition for annulment has not yet been scheduled.

On May 9, 2014, Chevron submitted a supplemental brief regarding alleged violations of the Ecuador-US Bilateral Investment Treaty, explaining the relevance of certain prehearing exhibits.

On January 14, 2015, Ecuador filed a written response to Chevron's supplemental brief, and Chevron is required to reply to Ecuador's response on March 16, 2015. A telephone conference regarding procedural matters is scheduled on March 27, 2015. Hearings on the issues relating to the supplemental briefs are scheduled in Washington, D.C. from April 20 to May 8, 2015. The arbitral tribunal announced that once these hearings have been completed, it will establish a calendar for addressing additional issues.

On March 12, 2015, the arbitral tribunal issued a track 1 decision in favor of Ecuador, holding that the initial pleading brought by the Lago Agrio plaintiffs qualified as an "individual rights" claim not barred by the 1995 Settlement.

In October of 2013, a provincial court of Ecuador ordered the *Instituto Ecuatoriano de la Propiedad Intelectual* (the "Ecuadorian Institute for Intellectual Property" or "IEPI") to place an embargo on 50 trademarks of Chevron in Ecuador as a result of the Ecuadorian verdict against Chevron in the Lago Agrio case. According to IEPI, the embargo was placed in order to guarantee the payment of the verdict amount by redirecting the revenues from the trademarks to Ecuador, as opposed to Chevron.

Windfall Profits Tax Litigation

A number of foreign oil companies have sued Ecuador in connection with the application of Ecuadorian law 42-2006, which levied a 99% tax on the windfall profits of a number of foreign oil companies. For a description of the windfall profits tax, see "The Ecuadorian Economy – Renegotiation of Oil Field Contracts." As a result of the implementation of the windfall profits tax law, Ecuador is a defendant in the following arbitration proceedings:

Burlington Resources, Inc.

Burlington filed an arbitration claim before ICSID on April 2008 against Ecuador, seeking compensation for alleged modifications to its contracts for the development of Blocks 7 and 21 in Ecuador imposed by Ecuadorian law 42-2006. Burlington argued that such unilateral modification resulted in an expropriation of the blocks that Burlington was operating, although, subsequent to the commencement of the proceedings, Burlington withdrew the contractual claims and based all claims solely on violations of the U.S.-Ecuador Bilateral Investment Treaty. On September 30, 2011, Ecuador filed two counterclaims against Burlington for environmental damage and failure to maintain the facilities of Blocks 7 and 21, in an approximate amount of U.S.\$2 billion. On December 14, 2012, the tribunal decided the liability issue in favor of Burlington and consequently, on January 28, 2013, Ecuador submitted a petition for reconsideration. Hearings for the counterclaims took place from June 1 to June 7, 2014 in Paris. The parties presented their post-hearing briefs on October 3, 2014 and, in an effort to assess the validity of the counterclaims, the tribunal is set to visit Blocks 7 and 21 in the first quarter of 2015.

The arbitral tribunal was scheduled to meet for a hearing on damages and Ecuador's counterclaims in August 2013, but the hearings were suspended due to the request by Ecuador that one of the arbitrators recuse himself from the decision because of a conflict of interest. Burlington presented its assessment of damages memorandum on June 24, 2013, to which Ecuador responded on May 23, 2014. The tribunal has scheduled a hearing regarding damages from March 2 to March 6, 2015 in Paris.

Perenco Ecuador Limited

On April 30, 2008, Perenco Ecuador Limited ("Perenco") filed an ICSID arbitration claim against Ecuador seeking compensation of U.S.\$440 million plus costs and interest for alleged changes to its contracts for the development of Blocks 7 and 21 in Ecuador imposed by Ecuadorian law 42-2006. The amount of the claim remains subject to adjustment. Perenco argued that law 42-2006 modified the participation of Perenco under contracts for development of Blocks 7 and 21 in Ecuador and that the unilateral modification of the contracts resulted in an expropriation of the blocks that Perenco was operating. On July 18, 2014 the tribunal

decided the claim in favor of Perenco and is currently determining the procedural schedule for the assessment of damages.

On December 5, 2011, Ecuador filed two counterclaims against Perenco for environmental damage and failure to maintain the facilities of Blocks 7 and 21, in an approximate amount of U.S.\$2 billion. On March 13, 2013, the parties presented their respective memoranda to the arbitral tribunal. Hearings took place from September 9 to September 17, 2013. The result of the counterclaims hearings is pending.

Murphy Ecuador Oil Company, Ltd.

Murphy Ecuador Oil Company, Ltd. ("Murphy") has claimed that law 42-2006 modified its contracts for exploration and production of crude oil in Ecuador, resulting in an expropriation and a violation of the U.S.-Ecuador Bilateral Investment Treaty. Murphy filed its ICSID arbitral claim against Ecuador on September 30, 2011. The amount of the claim has not yet been determined. In November 2013, the arbitral tribunal rejected Ecuador's objection to jurisdiction. Ecuador submitted its response to merits and jurisdiction to the arbitral tribunal on May 4, 2014. Hearings on the matter took place from November 17-21, 2014 in Washington, D.C. The decision on the hearings is pending. The post-hearing briefs were submitted by both parties on January 9, 2015.

William and Roberto Isaías Dassum

In 2009, Ecuador commenced an action against William and Roberto Isaías, who were the President and Executive Vice-President of Filanbanco S.A, Ecuador's largest bank at the time of its bankruptcy in 2001. Arguing before a U.S. federal court, Ecuador alleged that the defendants embezzled funds and forged financial statements thereby resulting in losses suffered by the *Agencia de Garantía de Depósitos* ("the Deposit Guarantee Agency" or "AGD"), in the amount of U.S.\$661.5 million. On May 30, 2013, the federal court judge granted summary judgment against Ecuador. In August 28, 2013, Ecuador filed for appeal in the U.S. Court of Appeals for the Third Circuit. On July 2, 2014, the Third Circuit ruled in favor of Ecuador, reversing the federal court's decision and finding the defendants liable for the losses of Filanbanco S.A. The defendants petitioned the Third Circuit for a hearing to review the July 2, 2014 decision, which the Third Circuit granted. On August 6, 2014, the defendants submitted their brief in support of their petition, which was denied by the Third Circuit court on September 16, 2014.

Copper Mesa

Copper Mesa has argued that Ecuador breached the Canada-Ecuador Bilateral Investment Treaty based on the termination of the Junin, Chaucha and Telinbela concessions and has claimed indemnification for no less than U.S.\$120 million. Hearings to determine jurisdiction were held in September 2013, December 2013 and January 2014. The proceedings were concluded on March 12, 2014. The result of the hearing is pending.

Zamora Gold

On July 7, 2011, Ecuador was notified of an arbitration proceeding for allegedly depriving Zamora Gold of its investments in violation of the Canada-Ecuador Bilateral Investment Treaty. Since then, the plaintiff has not taken further action. The amount of the claim has not yet been determined.

RSM Production Corporation

On May 13, 2010, Ecuador was notified of an arbitration proceeding for allegedly cancelling a mining license held by RSM Production Corporation in violation of the U.S.-Ecuador Bilateral Investment Treaty. Since then, there has not been further action by the plaintiff. The amount of the claim has not yet been determined.

Merck Sharp & Dohme

On February 2, 2011, Merck Sharp & Dohme ("Merck") filed a claim against Ecuador alleging denial of justice for not having provided judicial guarantees in a judgment initiated against Merck by the Ecuadorian company NIFA S.A. (currently PROPHAR, S.A.) in violation of the U.S.-Ecuador Bilateral Investment Treaty. The amount of the claim in the international tribunal has not yet been determined. On May 22, 2014, the international tribunal scheduled the hearing in London for the 16th and 20th of March 2015. The calendar has been recently modified so that Merck was scheduled to present a supplemental brief on January 16th 2015 and Ecuador presented its supplemental brief on February 20th, 2015.

Hutchinson Port Investments Ltd

In 2012, Ecuador commenced an arbitration proceeding against Hutchinson Port Investments Ltd. ("Hutchinson"), in the *Centro de Arbitraje y Mediación de la Cámara de Comercio de Quito* ("Center for Arbitration and Mediation of Quito Chamber of Commerce") to recover U.S.\$141 million in damages to the Manta Port Authority. Ecuador alleges that it suffered these damages as a result of Hutchinson's unilateral abandonment of the facilities and other defaults under a concession agreement to operate the port at Manta. Hearings took place from February 9th to the 13th, 2015 in Panama. The result from the hearing is pending.

Arch Trading Corp.

On June 26, 2013, Arch Trading Corp. and four other media companies filed a claim against the Republic of Ecuador and two other governmental entities for the alleged seizure of over 200 companies owned by the plaintiffs. The plaintiffs allege that they suffered damages exceeding U.S.\$1 billion dollars and request monetary damages plus interest and attorney's fees. Ecuador was served with notice on March 20, 2014. Ecuador filed a motion to vacate with the U.S District Court for the Southern District of New York on July 3, 2014. Hearings took place on July 31, 2014. Ecuador filed a motion to vacate on the basis of jurisdictional objections on September 5, 2014, to which Arch Trading filed a response on October 31, 2014 and Ecuador filed a reply on December 10, 2014.

Petrobras Argentina (Ecuador TLC)

On February 26, 2014, Ecuador TLC, Cayman International, and Teikoku Oil filed a breach of contract arbitration claim against Ecuador. The claim is connection with an oil-field exploration contract that was terminated by Ecuador because the plaintiffs did not agree to the new renegotiated terms. See "The Ecuadorian Economy – Economic and Social Policies – Renegotiation of Oil Field Contracts." The parties have not yet determined the seat of the arbitration or the governing rules. The amount of controversy has also not been determined as it depends on the tribunal's calculations of the damages due to termination.

GMO Trust

On December 12, 2014, GMO Trust issued proceedings against the Republic in respect of an alleged U.S.\$15,876,000 holding of 2030 Bonds. GMO voluntarily withdrew its complaint pursuant to a settlement agreement between the parties. A stipulation dismissing the complaint was filed on March 16, 2015; under that stipulation, the case cannot be re-filed.

Daniel Penades

On January 30, 2015, Daniel Penades issued proceedings against the Republic in respect of an alleged U.S.\$455,000 holding of 2030 Bonds. Daniel Penades has not yet served the Republic with his summons and complaint, and therefore the Republic as yet has no obligation to make any response to the suit.

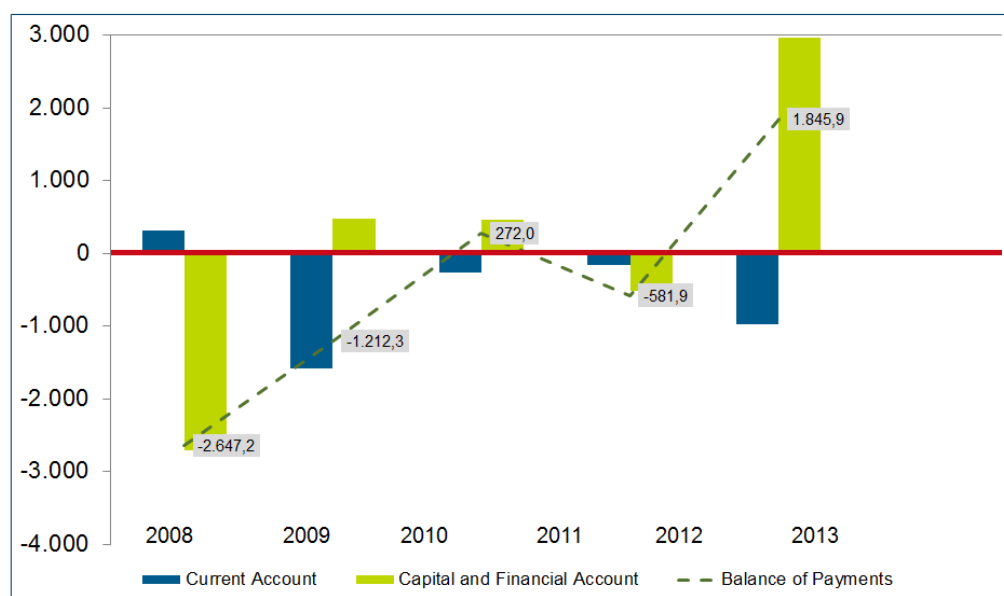
BALANCE OF PAYMENTS AND FOREIGN TRADE

Balance of Payments

Given Ecuador's dollarized economy, the balance of payments is important in determining money supply. A positive balance of payments would increase money supply and a negative balance of payments would decrease money supply. Between 2009 and 2013, Ecuador experienced fluctuations between balance of payment deficits and surpluses. While there were surpluses in 2011 and 2013 there were deficits for each year in 2009, 2010 and 2012. In 2009, there was a balance of payments deficit of U.S.\$2,647.2 million, which was a decrease of U.S.\$3,608.1 million compared to a surplus of U.S.\$933.9 million in 2008. This steep decrease was a result of the global economic crisis, which sharply lowered petroleum exports and decreased remittances and inflows into the country. The increase in the price of petroleum contributed to a recovery in the balance of payments with a U.S.\$1,212.3 million deficit in 2010 and a U.S.\$272 million surplus in 2011. The 2011 surplus represents a 110% increase from the deficit in 2009. In 2012, an increase in Government investment contributed to a deficit of U.S.\$581.9 million.

In 2013, an improvement in the financial account that was the result of an increase in bilateral debt and corresponding loan disbursements contributed to a balance of payments surplus of U.S.\$1,845.9 million. However, the current account deficit of U.S.\$983.8 million registered in 2013 represents a decrease compared to the U.S.\$163.8 million current account deficit registered in 2012. This deficit is the result of an increase in imports, particularly with respect to imported capital goods and raw materials.

In the third quarter of 2014, there was a balance of payments surplus of U.S.\$877.1 million, an increase of U.S.\$392.1 from a balance of payments surplus of U.S.\$484.9 million for the third quarter of 2013. This increase was due to an increase in the capital and financial account which registered a surplus of U.S.\$1,061.5 million, an increase compared to the surplus of U.S.\$521.7 million in the third quarter of 2013. This increase was caused by a number of factors including an increase in the amount of foreign investment in the third quarter of 2014.



Source: Based on Figures from the Central Bank Balance of Payments Quarterly Bulletin for the Third Quarter of 2014.

In the years from 2009 to 2013, the total balance of payments has heavily depended on petroleum exports. Although non-petroleum exports are increasingly becoming a larger portion of the Republic's GDP, there has been a non-petroleum trade balance deficit for the past from 2009 to 2013. Increasing petroleum exports due to the increase in petroleum prices have offset this deficit and resulted in yearly trade balance surpluses or reduced deficits. The time period from 2009 to 2013 has also seen a steady decrease in remittances from U.S.\$2,735.5 million in 2009 to U.S.\$2,591.5 million in 2010, a slight increase to U.S.\$2,672.4 million in 2011, a decrease to U.S.\$2,446.9 million in 2012 and slight increase to U.S.\$2,449.5 million in 2013. These trends are due to the ongoing crisis in Spain, which represents one-third of all remittances to Ecuador, and the global economic crisis that has reduced remittances worldwide. The increase in 2013 was due to the improved economic situation in the United States. In the second quarter of 2014, remittances into Ecuador totaled U.S.\$615.8 million, which is a decrease of 0.2% when compared to the second quarter of 2013, when remittances equaled U.S.\$616.9 million.

The following table sets forth information regarding the Republic's balance of payments for the periods indicated.

Annual⁽⁴⁾ Balance of Payments
(in millions of U.S.\$)

	For the year Ended December 31,				
	2009	2010	2011	2012	2013
	<i>(in millions of U.S. dollars)</i>				
Current Account	309.4	-1,586.2	-260.1	-163.8	-983.8
Trade balance	143.6	-1,504.0	-160.3	49.9	-492.5
Exports (FOB) ⁽¹⁾	14,412.0	18,137.1	23,082.3	24,568.9	25,685.7
Petroleum and derivatives	6,964.6	9,673.2	12,944.9	13,792.0	14,107.7
Non-petroleum	6,898.4	7,816.7	9,377.5	9,972.8	10,740.1
Non-registered commerce and other exports	548.9	646.7	760.0	804.1	837.8
Imports (FOB)	-14,268.4	-19,641.1	-23,242.6	-24,518.9	-26,178.2
Services	-1,281.8	-1,522.4	-1,562.7	-1,391.1	-1,495.3
Rendered services (credit)	1,336.5	1,472.2	1,587.5	1,807.2	2,029.0
Transportation	345.5	359.8	398.9	411.9	423.5
Travel	670.1	781.3	843.4	1,032.5	1,246.2
Other	320.9	331.1	345.2	362.8	359.4
Rendered services (debit)	-2,618.3	-2,994.7	-3,150.2	-3,198.4	-3,524.3
Transportation	-1,369.2	-1,716.2	-1,761.7	-1,708.4	-1,773.4
Travel	-548.7	-568.1	-593.7	-610.6	-621.4
Other	-700.5	-710.4	-794.9	-879.4	-1,129.5
Investment income	-1,274.0	-1,040.8	-1,259.5	-1,302.8	-1,394.8
Inflows (credit)	199.1	77.7	84.5	105.3	112.6
Outflows (debit)	-1,473.1	-1,118.5	-1,344.0	-1,408.1	-1,507.5
Employees' remuneration	-6.4	-6.9	-7.6	-8.4	-9.8
Direct investment income	-837.7	-546.2	-700.9	-675.6	-684.0
Portfolio investment income	-65.5	-64.3	-61.5	-64.0	-63.7
Other	-563.6	-501.1	-573.9	-660.1	-750.0
Net transfers	2,721.6	2,481.0	2,722.4	2,480.2	2,398.8
Emigrant remittances	2,735.5	2,591.5	2,672.4	2,466.9	2,449.5
Capital and financial account	-2,712.4	479.2	453.2	-515.5	2,959.4
Capital account	73.7	85.9	82.3	121.5	66.1

Financial account	-2,786.0	393.3	370.9	-637.0	2,893.3
Direct Investment	307.8	165.5	643.8	584.9	728.3
Portfolio Investment	-3,141.5	-731.1	41.0	66.7	-909.8
Other Investment	47.7	958.9	-313.9	-1,288.6	3,074.8
Errors and omissions	-244.2	-105.2	78.8	97.4	-129.6
Total balance of payments	-2,647.2	-1,212.3	272.0	-581.9	1,845.9
Financing	2,647.2	1,212.3	-272.0	581.9	-1,845.9
International Reserves ⁽²⁾	681.0	1,170.0	-335.6	475.1	-1,878.0
IMF loans	-	-	-	-	-
Exceptional Financing, net ⁽³⁾	1,966.2	42.3	63.6	106.8	32.1

Source: Based on Figures from the Central Bank Balance of Payments Quarterly Bulletin for the Third Quarter of 2014.

- (1) Figures differ from "Exports-(FOB)" charts and "Real GDP by Expenditure" chart due to the inclusion of non-registered commerce and "other exports." "Non-registered commerce" includes goods, which for some reason are not registered by customs. Ecuadorian customs may not register commerce under various situations including, but not limited to, delays in the submission of export forms, false declarations, different statistical treatment in the country with which Ecuador has engaged in trade, sales of contraband, and arms trade. "Other exports" includes exports of goods for processing, repair of goods, goods acquired in ports through various transportation means and non-monetary gold.
- (2) Data corresponds to changes in International Reserves. Negative numbers indicate an increase in International Reserves and positive numbers indicate a reduction.
- (3) Data refers to the refinancing of existing debt, financing necessary for repayment of arrears, and loans procured for the purpose of financing the balance of payments.
- (4) Balance of payments data is published by the Central Bank on an annual and quarterly basis

Quarterly⁽⁴⁾ Balance of Payments (in millions of U.S.\$)

	For the Quarter Ended,			
	June 2013	September 2013	June 2014	September 2014
	(in millions of U.S. dollars)			
Current Account	-684.8	-64.8	285.4	-78.9
Trade balance	-540.5	-30.7	361.7	6.1
Exports (FOB) ⁽¹⁾	6,149.4	6,620.3	7,008.6	6,742.3
Petroleum and derivatives	3,236.2	3,951.3	3,680.5	3,457.8
Non-petroleum	2,715.9	2,453.3	3,110.7	3,061.7
Non-registered commerce and other exports	197.4	215.8	217.4	222.8
Imports (FOB)	-6,689.9	-6,651.0	-6,647.0	-6,736.3
Services	-388.3	-347.9	-292.6	-300.3
Rendered services (credit)	478.4	518.9	562.0	592.7
Transportation	103.8	112.6	106.9	111.2
Travel	283.6	317.7	345.8	374.2
Other	91.0	88.6	109.3	107.3
Rendered services (debit)	-866.8	-866.8	-854.5	-892.9
Transportation	-462.7	-455.3	-439.9	-453.9
Travel	-156.7	-155.2	-159.5	-158.0
Other	-247.3	-256.2	-255.2	-281.1
Investment income	-363.8	-294.1	-377.9	-305.9
Inflows (credit)	28.1	27.2	30.9	34.5
Outflows (debit)	-391.8	-321.3	-408.9	-340.4
Employees' remuneration	-2.6	-2.7	-3.0	-2.9
Direct investment income	-152.2	-153.3	-151.0	-125.9
Portfolio investment income	-31.7	-0.1	-31.7	-0.1

Other	-205.4	-165.2	-223.1	-211.5
Net transfers	607.8	607.9	594.3	521.2
Emigrant remittances	616.9	638.8	633.5	623.8
Capital and financial account	27.9	521.7	1,623.6	1,061.5
Capital account	18.8	12.8	17.1	12.5
Financial account	9.1	508.9	1,606.5	1,049.1
Direct Investment	281.4	116.3	163.5	135.5
Portfolio Investment	-1.0	-132.1	1,395.3	-8.7
Other Investment	-271.3	524.7	47.6	922.2
Errors and omissions	15.6	28.0	-90.8	-105.5
Total balance of payments	-641.4	484.9	1,818.2	877.1
Financing	641.4	-484.9	-1,818.2	-877.1
International Reserves ⁽²⁾	612.5	-473.0	-1,846.2	-866.7
IMF loans	-	-	-	-
Exceptional Financing, net ⁽³⁾	28.9	-12.0	28.0	-10.4

Source: Based on Figures from the Central Bank Balance of Payments Quarterly Bulletin for the Third Quarter of 2014.

- (1) Figures differ from "Exports-(FOB)" charts and "Real GDP by Expenditure" chart due to the inclusion of non-registered commerce and "other exports." "Non-registered commerce" includes goods, which for some reason are not registered by customs. Ecuadorian customs may not register commerce under various situations including, but not limited to, delays in the submission of export forms, false declarations, different statistical treatment in the country with which Ecuador has engaged in trade, sales of contraband, and arms trade. "Other exports" includes exports of goods for processing, repair of goods, goods acquired in ports through various transportation means and non-monetary gold.
- (2) Data corresponds to changes in International Reserves. Negative numbers indicate an increase in International Reserves and positive numbers indicate a reduction.
- (3) Data refers to the refinancing of existing debt, financing necessary for repayment of arrears, and loans procured for the purpose of financing the balance of payments.
- (4) Balance of payments data is published by the Central Bank on an annual and quarterly basis, not by semester.

Current Account

Ecuador recorded a current account surplus of U.S.\$309.4 million in 2009. In 2010, exports declined due to the global economic crisis and imports, with the exception of petroleum imports, increased causing a deficit of U.S.\$1,586.2 million in 2010 and U.S.\$260.1 million in 2011. The 83.6% decrease in the deficit in 2011 was due to the favorable performance of the balance of goods, particularly the increase in oil exports, which increased by 31.8%. In 2012, the oil exports continued to improve due to the increasing price of petroleum. Exports increased by 6.4% in 2012 and contributed to a reduced deficit of U.S.\$163.8 million, a 39.7% reduction with respect to 2010, and a 37.0% reduction compared to 2011.

In 2013, the current account registered a deficit of U.S.\$983.8 million, which was partly due to the result of lower services and investment income balances and primarily a result of a decrease in the trade balance due to an increase of imports. The current account deficits were financed by external debt, including Chinese bilateral credits. In the third quarter of 2014, the current account registered a deficit of U.S.\$78.9, which was the result of a decrease in the trade balance surplus as a result of an increase in imports. The current account for the third quarter of 2013 resulted in deficit of U.S.\$64.8 million.

Although the levels of imports have increased since 2009, the rate of increase has declined over the last six years due to the Republic's promotion of domestic production. In 2010, imports increased by 37.7% as compared to the previous year, while the rate declined to 18.3% in 2011, 5.5% in 2012, and 6.8% in 2013. In 2014, imports totaled U.S.\$27,739 million, compared to U.S.\$27,146 million for 2013.

The trade balance registered a surplus of U.S.\$49.9 million in 2012, an increase from a deficit of U.S.\$160.3 million in 2011. The surplus was due to the increase in petroleum exports coupled with the reduced rate of growth in imports as compared to the previous year. The trade balance registered a deficit of U.S.\$492.5 million in 2013 due to the increase in imports from the previous year. In the third quarter of 2014, the trade balance registered a surplus of U.S.\$6.1 million, which was the result of increased oil and shrimp exports for the period. The trade balance for the third quarter of 2013 registered a deficit of U.S.\$30.7 million.

The services balance registered a deficit of U.S.\$1,391.1 million in 2012, which was a decrease from the deficits of U.S.\$1,562.7 million and U.S.\$1,522.4 million in 2011 and 2010, respectively. Although there has been a negative services balance from 2008 to 2012, increases in travel and transportation services have contributed to a decrease in the deficit. The services balance registered a deficit of U.S.\$1,495.3 million in 2013, which is a U.S.\$104.2 million increase from 2012. This increase was the result of an increase in the amount of services that were contracted to work on domestic infrastructure projects. In the third quarter of 2014, the services balance registered a deficit of U.S.\$300.3 million, which was the result of the continued contracting of services on domestic infrastructure projects. In the third quarter of 2013 the services balance resulted in a deficit of U.S.\$347.9 million.

The investment income balance registered a deficit of U.S.\$1,394.8 million in 2013, which was an increase from the deficits of U.S.\$1,302.8 million and U.S.\$1,259.5 million in 2012 and 2011, respectively. The increase in the investment income deficit is primarily due to the increased outflows as compared to the previous year and year-to-year fluctuations since 2008 generally reflect trends on returns and investment performance experience throughout the global economy. Further, the increase from 2012 to 2013 reflected an increase in interest payments related to the increase in bilateral debt and corresponding loan disbursements. The portfolio investment income decrease to U.S.\$65.5 million in 2009 was the result of the 2009 tender offer for the 2012 and 2030 Bonds. See "Public Debt–Debt Obligations." In the third quarter of 2014, the investment income balance registered a deficit of U.S.\$305.9 million, which was the result of continued interest payments related to debt payments. The investment income balance for the third quarter of 2013 registered a deficit of U.S.\$294.1 million.

Remittances, which are primarily denominated in U.S dollars and Euros, are an important source of net transfers to Ecuador's current account. As a result of the global economic crisis, inflows from remittances declined by 11.3% and 5.3% in 2009 and 2010, respectively, with respect to previous periods. In 2011, remittances increased by 3.1%, but in 2012 decreased 7.7% with respect to 2011. In 2013, remittances increased to U.S.\$2,449.5 million as a result of the improved economic situation in the United States. In 2013, the majority of these remittances came from the United States, Spain and Italy with 48.0%, 32.2% and 7.1%, respectively. The year on year fluctuation in aggregate remittance levels reflect the economic situation of those countries from where the remittances are generated. In the third quarter of 2014, remittances totaled U.S.\$623.8 million, a decrease from the third quarter of 2013 when remittances totaled U.S.\$638.8 million.

Capital and Financial Account

The capital and financial account measures valuations in Ecuador's assets and liabilities against those of the rest of the world (other than valuations from exceptional financings). Ecuador recorded a capital and financial account deficit of U.S.\$2,712.4 million in 2009. This decrease was due to the decrease in worldwide investment as a result of the global economic crisis and the repurchase of the 2012 and 2030 Bonds. See "Public Debt – Debt Obligations." In 2010 and 2011, the capital and financial account showed a surplus of U.S.\$479.2 million and U.S.\$453.2 million, respectively. These surpluses are due to the increase in direct investment explained below. In 2012, the capital and financial account registered a deficit of U.S.\$515.5 million due to the net flows of other investments such as trade credits, currency, and deposits. In 2013, the capital and financial account registered a large surplus of U.S.\$2,959.4 million primarily due to the net proceeds from the 2024 Bonds. In the third quarter of 2014, the capital and financial account registered a surplus of U.S.\$1,061.5 million, an increase from the third quarter of 2013 when the capital and financial account registered a surplus of U.S.\$521.7 million. This increase was the result of increased foreign investment in 2014.

In Ecuador, total direct investment decreased from U.S.\$307.8 million in 2009, to U.S.\$165.5 million in 2010. In 2009, most foreign investment was directed towards mining, transport, and communications. As with other accounts, the decrease in 2010 was due to the effects of the global financial crisis, which carried over from the previous year. After 2010, the heightened uncertainty in the global financial markets as a result of the debt crisis in developed countries generally resulted in increased capital flows into Latin America and resulted in increases in direct investment. Direct investment totaled U.S.\$643.8 million in 2011, a 389% increase with respect to the direct investment in 2010. Direct investment totaled U.S.\$584.9 million in 2012. Although this represents a decrease from 2011, Ecuador experienced an increase in direct investment for 2013, where direct investment totaled U.S.\$728.3 million a 24.5% increase from 2012. This increase was due to continuing investment in Ecuador's infrastructure, in particular, its electricity and water sector. In the first nine months of 2014, total direct investment totaled U.S.\$432.1 million, a decrease when compared to total direct investment for the first nine months of 2013, which totaled U.S.\$516.2 million. This decrease was principally the result of a decrease in both investment in services rendered to businesses and investment in construction and agriculture.

The portfolio investment showed a deficit of U.S.\$3,141.5 million in 2009, due to the repurchasing of 2012 and 2030 global bonds that year. After a deficit of U.S.\$731.1 million in 2010, the investment portfolio showed a surplus of U.S.\$41.0 million and U.S.\$66.7 million for the years 2011 and 2012, respectively. In 2013, the investment portfolio showed a deficit of U.S.\$909.8 million. In the third quarter of 2014, the investment portfolio registered a deficit of U.S.\$8.7 million, an increase compared to the investment portfolio for the third quarter of 2013, which registered a deficit of U.S.\$132.1 million.

International Reserves

Ecuador's International Reserves (defined herein), includes, among other items, cash in foreign currency, gold reserves, reserves in international institutions, and deposits from Ecuador's financial institutions and non-financial public sector institutions. As of September 30, 2014, Ecuador's International Reserves totaled U.S.\$6,689.2 million, an increase from September 30, 2013, when International Reserves totaled U.S.\$4,233.5 million. This increase was due to the disbursement of international financings and increased petroleum revenues during the period.

On May 16, 2014 the Central Bank and Goldman Sachs International ("GSI") entered into a 3-year gold transaction in which the Central Bank transferred an initial amount of approximately 465,619 ounces of gold (valued at the date of the transaction at approximately U.S.\$604 million) and in return receives a fixed rate on the value of the gold transferred to GSI. Under this transaction, upon maturity, the Central Bank is entitled to receive the return of the gold from GSI without payment by the Central Bank, provided that certain credit events relating to the Republic do not occur. Upon the occurrence of any applicable credit event, GSI will retain the gold unless the Central Bank pays its dollar value. In the event the price of gold declines and is worth less than U.S.\$470 million, the Central Bank must deliver an additional amount of gold to make up the difference subject to a limit of a total of approximately 697,619 ounces of gold. Accordingly, the Republic's gold reserves could decrease in the event the price of gold declines or a credit event occurs. In certain limited circumstances some gold can be returned to Ecuador if the price increases above a certain threshold.

Foreign Trade

Merchandise and Services Trade

Ecuador has historically been an exporter of primary goods, and an importer of raw materials, capital, and intermediate goods, as well as manufactured products. The Republic's main exports are relatively limited in terms of sectors and export markets. Two of Ecuador's principal export markets, the United States and the European Union, have been significantly affected by the global recession that started in 2008-2009. In 2011, 2012, and 2013 the United States, the European Union and the Andean Community were the destinations for the majority of Ecuador's exports. Ecuador continues to seek to expand the types of goods it exports as well as its trading partners through engaging with, and obtaining funding from development banks and other strategic initiatives. Since 1972, petroleum and petroleum derivatives have comprised the majority of Ecuadorian export products. According to exports (FOB) data, in 2009, 2010, 2011, 2012, and 2013 exports of petroleum and

petroleum derivatives accounted for approximately 50.2%, 55.3%, 58.0%, 58.0%, and 56.8% respectively, of total exports. Between 2009 and 2013, non-petroleum exports, which include, among others, flowers, vehicles, manufactured textile products and seafood, increased an average of 11.9% per year. Ecuador's total export trade has grown steadily during the period between 2009 and 2013, except in 2009, due to the financial crisis. According to exports (FOB) data, in 2014, total exports rose to U.S.\$25,732 million, compared to U.S.\$24,848 million in 2013.

The following table shows the overall balance of trade for the periods indicated:

Overall Balance of Trade ⁽¹⁾
(in millions of U.S.\$)

	<u>Exports</u>	<u>Imports</u>	<u>Balance</u>	
Year Ended December 31, 2009.....	14,412.0		-14,268.4	143.6
Year Ended December 31, 2010.....	18,137.1		-19,641.1	-1,504.0
Year Ended December 31, 2011.....	23,082.3		-23,242.6	-160.3
Year Ended December 31, 2012.....	24,568.9		-24,518.9	49.9
Year Ended December 31, 2013.....	25,685.7		-26,178.2	-492.5
Second Quarter of 2013.....		6,149.4	-6,689.9	-540.5
Third Quarter of 2013.....		6,620.3	-6,651.0	-30.7
Second Quarter of 2014.....		7,008.6	-6,647.0	361.7
Third Quarter of 2014.....		6,742.3	-6,736.3	6.1

Source: Based on Figures from the Central Bank Balance of Payments Quarterly Bulletin for the Third Quarter of 2014.

(1) Data for exports and imports reflect figures from "Balance of Payments" chart

Trade Policy

Ecuador's trade policy has focused on protecting dollarization, avoiding a decrease in the money supply, integrating into the international economy, as well as increasing the access of Ecuadorian goods and services to new markets and, until recently, reducing non-tariff barriers to trade.

Until the late 1980s, Ecuador used tariff barriers to protect its domestic industry against foreign competition. Import duties ranged from zero to 290%, with up to fourteen different rates.

In the early 1990s, the Government began to significantly liberalize its foreign trade policy. As a result of those reforms, the tariff structure was simplified and currently consists of a seven-tiered structure (0%, 3%, 5%, 10%, 15%, 20% and 35%), with levels of 5% for most raw materials and capital goods, 10% or 15% for intermediate goods, and 20% for most consumer goods. A small number of products, including planting seeds, are subject to a tariff rate of zero, and the 35% tariff is exclusively applied to the automobile industry. Average tariff levels were reduced from 29% in 1989 to 6% in 2004.

In January 2009, the Republic, through the *Consejo de Comercio Exterior e Inversiones* ("Foreign Commerce and Investment Council"), imposed tariffs of general applicability on some consumer goods imports, including products imported from countries with which Ecuador has commercial treaties honoring preferential status. Ecuador enforced these tariffs for one year, in order to restore its trade balance.

In 2007, Ecuador introduced an exit tax of 0.5% on any currency leaving the country (the "Currency Outflow Tax"), which was subject to a number of exemptions. Since December 2007, Ecuador has progressively increased the Currency Outflow Tax as a measure to support a positive balance of trade. The tax acts as a devaluation of the U.S. dollar in Ecuador, thereby making imports more expensive and fostering local production. In December 2007, Ecuador increased the Currency Outflow Tax to 1% and eliminated the applicable exemptions. In December 2009, the Currency Outflow Tax increased from 1% to 2% and included an exemption for the first U.S.\$500 per transaction. In November 2011, the Currency Outflow Tax increased from 2% to 5% and included an exemption for the first U.S.\$1,000 in a 15-day period as long as no debit or

credit card is used in the transaction. Payments of external public debt and dividends paid to foreign shareholders are also exempt from this tax.

On December 12, 2014, representatives from Ecuador's Ministry of Foreign Commerce signed a trade agreement with the European Union, which requires approval of each of the Constitutional Court, the National Assembly, the European Parliament, and the legislatures of the 28 EU member countries in order to be effective. The agreement is intended to provide expanded access to the European market for Ecuadorian exports and lower tariff duties on European imports into the Ecuadorian market. As part of the agreement, Ecuador will be a beneficiary of the European Union's Generalized Scheme of Preferences Plus program until 2016 or until the trade agreement is in place. This benefit allows Ecuador to not pay tariffs on exports of Ecuadorian products into the European Union.

On January 25, 2015, EPCN and Peru's Cementos Yura S.A. signed a U.S.\$230 million contract for the construction of a clinker production plant. The plant will be built in the city of Riobamba and will produce an estimated 2,400 tons of clinker per day. As part of the agreement, Cementos Yura S.A. will hold a 63.5% stake in EPCN. The Government has stated that the domestic production of clinker through this agreement will reduce imports of cement products into the Republic.

There have also been other measures taken to increase local production, including the creation of the Ministry of Commerce and the enactment of the Production Code, see "The Ecuadorian Economy – Economic and Social Policies – Production Code."

Regional Integration

Ecuador's trade integration policy consists of entering new markets strategically, promoting the growth of non-traditional exports, and encouraging investment. Ecuador has intensified its efforts to strengthen trade arrangements with its primary partners, including:

- Removing regional trade restrictions as a member of ALADI (a regional external trade association that includes Ecuador, Argentina, Bolivia, Brazil, Chile, Colombia, Cuba, Mexico, Panama, Paraguay, Peru, Uruguay and Venezuela);
- Reducing or eliminating tariff barriers to trade, as a member of the Andean Community, except with respect to measures taken to increase the Republic's balance of payments in 2009 as a result of the global recession;
- Entering into bilateral trade agreements with Colombia, Venezuela and Bolivia that are aimed at levying uniform tariffs on goods from third parties;
- Entering into a bilateral trade agreement with Chile in 1994, which was expanded in 2008;
- Negotiating a bilateral association agreement with Paraguay;
- Maintaining preferential access to European Union through preferential trade status;
- Entering into the *Sistema Unitario de Compensación Regional* ("Regional Payment Compensation Unitary System" or "SUCRE"), with the governments of Bolivia, Ecuador, Cuba, Honduras, Nicaragua and Venezuela in 2009, which sets forth an account unit and function as a means of payment, intended to be used by national banks and to eliminate the use of currency for international trade transactions; and
- Signing a trade agreement with the European Union in July 2014 that expands access to the European market for Ecuadorian exports and lowers tariff duties on European imports into the Ecuadorian market.

Composition of Trade

In 2009, exports decreased by 26% to reach U.S.\$13,863 million. This was mainly due to the effects of the global financial crisis and decreases in oil prices. Crude oil exports decreased by 41% while other exports decreased 3% from 2008 levels. Thus, for this year crude oil exports were approximately equivalent to non-crude oil exports.

By 2010 exports recovered and grew 26% over 2009 levels, totaling U.S.\$17,490 million. This increase was primarily driven by the recovery in oil prices as well as products such as coffee (exports rose nearly 20% over 2009 levels) and shrimp (28% growth in exports compared to 2009).

In 2011 the trend of increasing export activity continued, with total exports reaching U.S.\$22,322 million, an increase of 28% over 2010 levels. As in 2010, increases in both oil and non-oil exports resulted in overall export growth. Growth was particularly evident in crude oil (32%), petroleum derivatives (59%), coffee (109%), cacao (35%) and shrimp (39%).

In 2012, exports continued to grow, although at a slower pace than in 2010 and 2011. Exports increased 6% in 2012, reaching a total of U.S.\$23,765 million. Growth in this year was primarily the result of the increase in crude oil exports (8%), shrimp exports (9%) and tuna (and other fish) exports (26%).

In 2013, exports increased to U.S.\$24,848 million, an increase of 4.6% compared to 2012. The increase was primarily due to improved banana (13%) and cacao (23%) production, a sharp increase in shrimp exports (41%), and an increase in crude oil exports (5.5%).

In 2014, despite a 2.9% decrease in oil exports, overall exports increased to U.S.\$25,732 million, an increase of 3.56%, compared to 2013. The increase was primarily due to improved banana (11%) and cacao (35%) production, as well as a sharp increase in shrimp exports (44%).

The following table sets forth information regarding exports for the periods indicated.

Exports - (FOB) ⁽¹⁾

(in millions of U.S\$ and as a % of total exports)

For the Year Ended December 31,												
	2009		2010		2011		2012		2013		2014	
	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%
Crude oil	6,284	45.3	8,952	51.2	11,800	52.9	12,711	53.5	13,412	54.0	13,016	50.6
Bananas and plantains	1,996	14.4	2,033	11.6	2,246	10.1	2,078	8.7	2,355	9.5	2,608	10.1
Petroleum derivatives	681	4.9	721	4.1	1,145	5.1	1,081	4.5	696	2.8	288	1.11
Shrimp	664	4.8	850	4.9	1,178	5.3	1,278	5.4	1,785	7.2	2,572	10.0
Cacao	343	2.5	350	2.0	474	2.1	345	1.5	426	1.7	577	2.2
Coffee	47	0.3	56	0.3	117	0.5	75	0.3	28	0.1	23	0.1
Tuna and other fish	234	1.7	237	1.4	257	1.2	324	1.4	265	1.1	274	1.1
Other products ⁽²⁾	3,615	26.1	4,291	24.5	5,105	22.9	5,872	24.7	5,882	23.7	6,375	24.8
Total	13,863	100	17,490	100	22,322	100	23,765	100	24,848	100	25,732	100

Source: Based on figures from the Central Bank January 2015 Monthly Bulletin (Table 311).

- (1) Total export figures differ with export figures from "Balance of Payments" chart and "Real GDP by Expenditure" chart due to the exclusion of "non-registered commerce" and "other exports" figures in calculation of total exports in this chart. See footnote 1 of "Balance of Payment" chart.
- (2) "Other products" consist of non-traditional primary and manufactured products, including canned seafood, flowers, vehicles, manufactured metals and chemicals

The following table sets forth information regarding imports for the periods indicated.

Imports - (CIF)

(in millions of U.S.\$ and as a % of total imports)

For the Year Ended December 31,												
	2009		2010		2011		2012		2013		2014	
	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%
Consumer goods												
Non-durable goods	1,985	13.2	2,372	11.5	2,862	11.7	2,931	11.5	3,064	11.3	3,041	11.0
Durable goods	1,279	8.5	1,999	9.7	2,144	8.8	2,162	8.5	2,198	8.1	2,233	8.1
Postal Traffic	0		0		151.6	0.6	172.8	0.7	240.1	0.9	223.3	0.8
Fuel and combustibles	2,642	17.5	4,338	21.1	5,369	22.0	5,612	22.0	6,111	22.5	6,617	23.0
Primary Materials												
Agriculture	670	4.4	841	4.1	1,011	4.1	1,059	4.2	1,122	4.1	1,353	4.9
Industrial	3,798	25.2	4,975	24.2	5,877	24.0	5,796	22.7	6,226	22.9	6,149	22.2
Construction materials	547	3.6	586	2.8	853	3.5	968	3.8	1,023	3.8	1,120	4.0
Capital Goods												
Agriculture	96	0.6	91	0.4	108	0.4	121	0.5	126	0.5	128	0.5
Industrial	2,740	18.2	3,536	17.1	4,209	17.2	4,642	18.1	5,080	18.8	4,853	17.5
Transportation equipment	1,284	8.5	1,769	8.6	1,807	7.4	1,969	7.7	1,889	7.0	1,962	7.1
Other	48	0.3	84	0.4	45	0.2	46	0.2	67	0.2	60	0.2
Total	15,090	100	20,591	100	24,438	100	25,477	100	27,146	100	27,739	100

Source: Based on figures from the Central Bank January 2015 Monthly Bulletin (Table 317). June 2013 figures based on Central Bank July 2013 Monthly Bulletin (Table 317).

Ecuador's largest trading partners are the United States, the European Union, Peru, Chile, and Colombia. The following table sets forth information regarding the country of destination of the Republic's exports.

Exports - (FOB) by Country of Origin⁽¹⁾

(in millions of U.S\$, and as a % of total exports)

	2009		2010		2011		2012		2013		2014	
	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%
Americas												
United States.....	4,626	33.4	6,078	34.7	9,771	43.8	10,617	44.7	11,107	44.7	11,283	43.8
Peru.....	939	6.8	1,336	7.6	1,766	7.9	1,991	8.4	1,886	7.6	1,577	6.1
Colombia.....	678	4.9	793	4.5	1,026	4.6	1,056	4.4	907	3.6	947	3.7
Chile.....	900	6.5	847	4.8	1,106	5.0	1,991	8.4	2,455	9.9	2,301	8.9
Other (Americas).....	3,498	25.2	4,229	24.2	4,058	18.2	2,981	12.5	2,146	8.6	2,954	11.5
Total Americas.....	10,642	76.8	13,282	75.9	17,726	79.4	18,636	78.4	18,501	74.5	19,061	74.1
Europe												
European Union (EU).....	2,082	15.0	2,265	13.0	2,690	12.0	2,446	10.3	3,032	12.2	2,982	11.6
Italy.....	579	4.2	582	3.3	582	2.6	487	2.1	420	1.7	434	1.7

United Kingdom.....	99	0.7	84	0.5	139	0.6	164	0.7	184	0.7	178	0.7
Germany.....	327	2.4	320	1.8	493	2.2	377	1.6	412	1.7	527	2.0
Spain.....	317	2.3	354	2.0	468	2.1	442	1.9	778	3.1	525	2.0
Other (EU).....	761	5.5	924	5.3	1,007	4.5	975	4.1	1,238	5.0	1,319	5.1
Rest of Europe.....	757	5.5	765	4.4	923	4.1	947	4.0	1,038	4.2	988	3.8
Total Europe.....	2,838	20.5	3,030	17.3	3,613	16.2	3,392	14.3	4,071	16.4	3,970.1	15.4
Asia												
Taiwan.....	18	0.1	15	0.1	11	0.0	6	0.0	8	0.0	7	0.0
Japan.....	109	0.8	402	2.3	349	1.6	657	2.8	570	2.3	320	1.2
China.....	124	0.9	329	1.9	192	0.9	392	1.6	565	2.3	502	1.2
South Korea.....	7	0.0	9	0.1	29	0.1	40	0.2	45	0.2	58	0.2
Other countries.....	83	0.6	339	1.9	304	1.4	483	2.0	876	3.5	1,584	6.2
Total Asia.....	342	2.5	1,095	6.3	885	4.0	1,578	6.6	2,065	8.3	2,471	9.6
Africa	16	0.1	50	0.3	65	0.3	110	0.5	101	0.4	122	0.5
Oceania	22	0.2	30	0.2	31	0.1	31	0.1	33	0.1	40	0.2
Other countries	4	0.0	3	0.0	3	0.0	17	0.1	77	0.3	67	0.3
Total	13,863	100	17,490	100	22,322	100	23,765	100	24,848	100	25,732	100

Source: Based on figures from the Central Bank January 2015 Monthly Bulletin (Table 314)

- (1) Total export figures differ with export figures from "Balance of Payments" chart and "Real GDP by Expenditure" chart due to the exclusion of "non-registered commerce" and "other exports" figures in calculation of total exports in this chart. See footnote 1 of "Balance of Payment" chart.

The following table sets forth information regarding the country of origin of the Republic's imports for the periods presented.

Merchandise Imports (CIF) by Country of Origin
(in millions of U.S.\$, except percentages)

	For the Year Ended December 31,					
	2009	2010	2011	2012	2013	2014
North America						
Mexico.....	581.4	727.6	869.9	895.8	968.5	966.9
United States.....	3,962.4	5,736.4	6,120.6	6,802.4	7,777.8	8,749.4
Central America	40.8	102.2	88.7	94.4	108.3	104.0
South America and the Caribbean						
Argentina.....	495.3	584.9	543.7	479.9	416.5	501.8
Brazil.....	673.5	853.8	938.1	928.7	876.1	863.8
Bolivia.....	12.2	19.5	8.7	31.1	109.8	114.0
Colombia.....	1,537.9	2,022.3	2,220.9	2,198.2	2,296.2	2,201.9
Chile.....	498.8	564.3	618.8	628.0	629.5	582.8
Panama.....	-	-	-	1,601.3	1,767.7	1,353.7
Peru.....	665.7	1,035.6	1,141.9	1,129.8	1,119.8	1,025.0
Rest of South America and Caribbean.....	1,595.6	2,477.8	3,598.5	1,090.7	704.5	736.5
TOTAL AMERICA	10,063.3	14,124.5	16,149.9	15,880.3	16,784.7	17,218.2
Europe						
Germany.....	384.3	475.6	568.5	592.2	585.3	577.6
Italy.....	242.1	274.6	283.7	284.1	292.8	326.1

Spain	167.9	268.8	325.0	612.5	739.6	653.2
UK	111.2	76.9	145.3	486.3	342.6	150.9
Rest of EU	675.2	732.7	996.1	939.0	973.9	1.316
Rest of Europe	190.0	181.9	295.3	360.6	288.6	266.6
TOTAL EUROPE	1,771	2,011	2,614	3,275	3,222	3,291
Asia						
China	1,100.3	1,606.6	2,289.8	2,828.5	3,484.9	3,648.6
Japan	560.1	692.7	660.7	731.6	600.8	574.4
Taiwan	122.9	168.2	194.6	192.8	207.0	213.3
South Korea	522.3	896.9	929.9	796.4	1,014.2	940.3
Rest of Asia	639.7	845.1	1,115.7	1,363.4	1,447.3	1,478.4
TOTAL ASIA	2,945.4	4,209.5	5,190.6	5,912.8	6,754.2	6,854.9
Regions excluding North America, South America, Caribbean, Central America, Europe, Asia and postal traffic	310.6	246.2	483.2	409.1	384.4	375.77
Total	15,089.9	20,590.9	24,437.6	25,447.0	27,146.1	27,739.5

Source: Based on figures from the Central Bank January 2015 Monthly Bulletin (Table 314)

Foreign Direct Investment

Ecuador's foreign direct investment policy is governed largely by national implementing legislation for the Andean Community's Decisions 291 of 1991 and 292 of 1993. Generally, foreign investors enjoy the same rights Ecuadorian national investors have to form companies. Foreign investors may own up to 100% of a business entity in most sectors without prior Government approval, and face the same tax regime.

Currency transfers overseas are unrestricted with respect to earnings and profits distributed abroad resulting from registered foreign investment provided that obligations relating to employee revenue sharing and relevant taxes, as well as other corresponding legal obligations, are met.

Certain sectors of the Ecuadorian economy are reserved for the state. All foreign investment in petroleum exploitation and development in Ecuador must be carried out under contracts with the Hydrocarbons Secretariat of Ecuador.

Direct foreign investment reached U.S.\$307.8 million, U.S.\$165.5 million, U.S.\$643.8 million, and U.S.\$584.9 million in 2009, 2010, 2011, and 2012 respectively. Direct foreign investment in 2013 reached U.S.\$728.3 million, which is the largest amount of direct foreign investment in the last six years. In 2013, the petroleum sector represented the largest percentage of direct foreign investment with 34.7% of all investment. Manufacturing and commerce followed with 18.9% and 14.7% respectively. In the first nine months of 2014, direct foreign investment reached U.S.\$432.1 million, which represents a decrease of 16.3% when compared to the first nine months of 2013 when foreign direct investment reached U.S.\$516.2 million. This decrease was principally the result of a decline in both investment in services rendered to businesses and investment in construction and agriculture.

The following table sets forth information regarding foreign direct investment by sector for the periods indicated.

Foreign Investment by Sector (in millions of U.S\$, and as a % of total foreign investment)

For the Year Ended December 31,	For the 9 Months Ended

	September 30,													
	2009		2010		2011		2012		2013		2014		2013	
	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%
Agriculture, forestry, hunting and fishing	52.2	17.0	10.6	6.4	0.4	0.1	17.8	3.0	25.5	3.5	11.3	2.6	19.3	3.7
Commerce ⁽¹⁾	84.2	27.3	93.6	56.6	77.7	12.1	83.2	14.2	107.1	14.7	89.4	20.7	41.4	8.0
Construction	-13.9	-4.5	27.8	16.8	50.1	7.8	31.1	5.3	68.7	9.4	-67.0	0	65.0	12.6
Electricity and water	3.0	1.0	-5.9	-3.6	-10.6	-1.7	46.9	8.0	29.2	4.0	-1.7	-0.4	19.9	3.9
Petroleum ⁽²⁾	5.8	1.9	178.0	107.6	379.2	58.9	224.9	38.5	252.9	34.7	222.7	51.5	193.8	37.6
Manufacturing	117.7	38.3	120.3	72.7	121.9	18.9	135.6	23.2	137.9	18.9	66.1	15.3	81.8	15.8
Social and personal services	18.1	5.9	22.6	13.7	27.8	4.3	1.7	0.3	-2.3	-0.3	11.2	2.6	-1.1	-0.2
Services rendered to businesses	-23.6	-7.7	68.0	41.1	44.9	6.9	39.5	6.7	118.1	16.2	26.5	6.1	109.8	21.3
Transportation, storage and telecommunications	64.2	20.9	-349.6	-211.3	-47.4	-7.4	4.2	0.7	-8.8	-1.2	6.6	1.5	-13.7	-2.7
Total	307.8	100	165.5	100	643.8	100	584.9	100	728.3	100	432.1	100	516.2	100

Source: Based on Figures from the Central Bank Balance of Payments Quarterly Bulletin for the Third Quarter of 2014.

(1) Commerce includes investment in commercial infrastructure and real estate

(2) Includes mining and natural gas

The 2008 Constitution contains certain principles relating to foreign investment, including promoting national and international investment, with priority being given to national investment and a complementary role being attributed to international investment; subjecting foreign investment to Ecuador's national legal framework and regulations; prohibiting expropriation without indemnification; limiting access to strategic sectors, which will remain under state control; providing for disputes relating to international agreements to be resolved in a regional (Latin American) forum; and preventing disputes between the Republic and private companies from becoming disputes between sovereigns. These principles are materialized in the enactment of the Production Code, (see "Economic and Social Policies – Production Code"), the creation of the MICSE and *Ecuador Estratégico* in the procurement of foreign investment (see "The Ecuadorian Economy – Strategic Sectors of the Economy"), and Article 422 of the Constitution, which sets parameters for disputes relating to international agreements.

MONETARY SYSTEM

The Central Bank

The role of the Central Bank is to promote and contribute to the economic stability of the country. It acts as the manager of the public sector's accounts and provides financial services to all public sector institutions that are required to hold their deposit accounts in the Central Bank. Management of these accounts primarily involves transfer operations between entities, including from the Government to other entities, and transfers to accounts in other banks, both foreign and domestic. The Central Bank is also the central coordinator of the payment system. All domestic banks conduct their clearing operations through the Central Bank, and also use the bank to hold their liquidity reserves. In addition, the Central Bank monitors economic growth and economic trends. To accomplish this task, it has developed statistical and research methodologies to conduct analyses and policy recommendations on various economic issues.

The functions of the Central Bank were sharply reduced as a result of the Dollarization Program. It no longer sets monetary policy or exchange rate policy for Ecuador. Instead, the Ecuadorian economy is currently directly affected by the monetary policy of the United States, including U.S. interest rate policy. The Ecuadorian Economic Transformation Law, which made the U.S. dollar legal tender in Ecuador, provided for the Central Bank to exchange, on demand, sucres at a rate of 25,000 sucres per U.S.\$1. The law also prohibited the Central Bank from incurring any additional sucre-denominated liabilities, and required that the Central Bank redeem sucre coins and bank notes for U.S. dollars.

Pursuant to the 2008 Constitution, the role of the Central Bank has changed further in that its authority and autonomy have decreased. Currently, the main functions of the Central Bank are to execute Ecuador's monetary policy, which involves managing the system of payments, investing International Reserves, managing the liquidity reserve, and acting as depositary of public funds and as a fiscal and financial agent for the Republic. The Central Bank also sets policy and strategy design for national development, executes the Republic's macroeconomic program, and maintains financial statistics, which it publishes in monthly bulletins.

On January 16, 2013, the Central Bank named Diego Martínez as its new president. The President of the Central Bank is appointed to a five-year term and heads the Committee of Monetary and Financial Policy Regulation. According to the Monetary and Financial Law, this committee is comprised of delegates from Ecuador's Ministry of Finance, the Ministry of Production and Industrialization, the National Secretary of Planning and Development, the Ministry of Economic Policy, and a delegate appointed by the President. The Superintendent of Banks and the General Manager of the Central Bank may attend committee meetings but have no right to vote. Under the supervision of this committee, the General Manager oversees operations of the Central Bank, which operates through the office of the Vice General Manager in Quito and two other branches in Cuenca and Guayaquil.

The Monetary and Financial Law also establishes the role and structure of public banks, including the Government-owned *Banco del Estado* (the "State Bank"). Since 1979, the role of the State Bank has been to finance Government investment and infrastructure projects through loans to municipalities and provinces and to grant loans to municipalities and provinces. As of December 31, 2014, the State Bank has U.S.\$1,043 million of outstanding loans to Ecuador's Autonomous Decentralized Governments.

Although it has the capacity to do so, the Central Bank has not issued any notes in the past six years. The Republic is not currently under a structural agreement, such as a stand-by or similar agreement, with the International Monetary Fund or similar international multilateral institutions. On July 30, 2014, the Executive Board of the International Monetary Fund concluded an Article IV consultation with Ecuador, its first since 2008. The consultation took place in Washington D.C. through discussions with officials, and via video and telephone conferences with individuals in the public and private sector in Ecuador. In its published report, the IMF noted the significant improvements in Ecuador's social and economic indicators over the past decade and noted that Ecuador's growth prospects are generally favorable and that risks are broadly balanced. The

results of the consultation were announced in an August 20, 2014 press release by the International Monetary Fund which is available on the International Monetary Fund website.

Financial Sector

Supervision of the Financial System

The financial sector consists of various financial institutions, insurance companies, and the securities markets, in accordance with the Monetary and Financial Law. In accordance with the Monetary and Financial Law, the Committee of Monetary and Financial Policy Regulation regulates (1) all private sector financial institutions including banks and credit card issuers, (2) public sector and private financial institutions, with respect to their solvency, liquidation, financial prudence and other administrative matters, (3) insurance and re-insurance companies, and (4) the securities markets. In addition, the Committee of Monetary and Financial Policy Regulation provides general oversight and regulation for the financial system, including the Central Bank, the Superintendent of Banks, the COSEDE (defined herein), the Liquidity Fund, and private banks.

The Ecuadorian banking system is composed of the Central Bank, private commercial banks, cooperative banks, and several state development and state-owned banks.

The Monetary and Financial Law permits the establishment of universal banks (banks that can offer all types of banking services), and provides for equal treatment of foreign and domestic financial institutions. Ecuadorian financial institutions may establish foreign offices and invest in foreign financial institutions, with authorization from the Superintendent of Banks. Foreign subsidiaries of Ecuadorian financial institutions must also conform to the guidelines established by the Monetary and Financial Law, in order to promote prudent banking and investment policies, and ensure financial solvency. Each year, external auditors must provide opinions regarding capital adequacy, concentration of loans, interested debtors, and asset classifications on both unconsolidated and consolidated bases for all banks. The Republic has structured its guidelines under the Monetary and Financial Law so as to be consistent with the banking supervision guidelines established by the Basel Committee on Banking Supervision.

The Monetary and Financial Law designates the Superintendent of Banks as the principal regulatory authority for the Republic's financial system. The Superintendent of Banks is tasked primarily with prudential matters including capital adequacy, liquidity earnings, management risks, and the solvency and risk asset quality of financial institutions.

The Monetary and Financial Law creates the Committee of Monetary and Financial Policy Regulation to oversee and regulate the execution of monetary, foreign exchange, financial, insurance, and securities policies of the country. The committee replaces existing regulatory bodies, and also serves as an overall supervisory body to oversee the activities of the Republic's financial entities, including supervisory agencies such as the Superintendent of Banks. The committee is comprised of delegates from the Ecuador's Ministry of Finance, the Ministry of Production and Industrialization, the National Secretary of Planning and Development, the Ministry of Economic Policy, and a delegate appointed by the President. Among the principal functions of the committee are:

- the oversight and monitoring of the liquidity requirements of the Government's financial system, with the objective of ensuring that liquidity remains above certain levels (to be determined by the Committee of Monetary and Financial Policy Regulation);
- the auditing and supervision of the Central Bank and Superintendent of Banks;
- the establishment of regulations for the Republic's electronic payment system; and
- the oversight of borrowing requirements for private loans.

Since the crisis of the banking system in the late 1990s, during which a number of banks became insolvent, the Superintendent of Banks has worked to improve banking supervision standards. Since 2001, the Superintendent of Banks reformed the regulatory framework for banking supervision.

As part of the reforms, the Superintendent of Banks implemented measures that included the following:

- Programs for regulatory on-site audits and periodic reporting requirements. These are published in national newspapers, with the intention to ensure that banks comply with regulatory standards;
- Uniform accounting risks for the financial system;
- Liquidity risk, which derives from the incapacity of financial institutions to cover their liabilities and other obligations when due, in both local and foreign currency;
- Evaluation of market risk based on interest rate risk, which refers to the potential losses of net income or in the capital base, due to the incapacity of the institution to adjust the return on its productive assets (loan portfolio and financial investment) with the fluctuations in the cost of its resources produced by changes in interest rates; and
- Evaluation of credit risk based on a detailed method for classifying financial assets in terms of risk.

This method increased the amounts which financial institutions are required to reserve in order to mitigate potential losses arising from their loans ("loan-loss reserves"). With respect to loan-loss reserves, current regulations impose reserve requirements based on risk categories and type of financial assets. These requirements have been introduced to bring them in line with international standards, and to increase the average quality of the financial system's loan portfolio. As of December 31, 2014, the majority of banks in Ecuador are in compliance with Basel II, and all banks are expected to be in compliance within two years. Compliance with Basel II is mandatory for all banks by 2017.

The following table sets forth information regarding the risk categories and loan-loss reserve requirements currently in effect.

Risk Categories and Required Loan-loss Reserves
(in number of days past due, except for percentages)

Category ⁽¹⁾	Commercial ⁽²⁾	Consumer	Mortgage	Small Business ⁽³⁾	Loan-loss Reserve
A	0-30	0-15	0-60	0-15	1%-5%
B	31-90	16-45	61-180	16-45	6%-19%
C	91-180	46-90	181-270	46-90	20%-59%
D	181-360	91-120	271-450	91-120	60%-99%
E	>360	>120	>450	>120	100%

Source: Superintendent of Banks as of December 2014

(1) Ecuador subdivides Categories A, B, and C into sub-categories. However, categories in chart are simplified for ease of presentation.

(2) For commercial loans, in addition to the number of days due, three factors are considered for classification among risk categories: (a) debtor payment capacity and financial situation; (b) experience of payment (risk information from the system, debtor's credit history); and (c) risk of the economic environment.

(3) Classified as loans up to U.S.\$20,000.

The following table sets forth information regarding loans of the banking system by risk category as of December 31, 2014.

Classification of Aggregate Assets of the Ecuadorian Private Financial System ⁽¹⁾
(as a % of total loans)
As of December 31, 2014

Category	Commercial loans	Consumer loans	Mortgage loans	Small business
A	82.7	93.9	97.9	92.1
B	11.9	1.8	1.1	1.8
C	3.0	1.2	0.3	1.4
D	0.4	0.5	0.4	0.6
E	1.1	2.3	0.5	4.0
Total	100	100	100	100

Source: Superintendent of Banks as of December 2014

(1) Banks must hold 60% of deposits in Ecuador

The Financial Safety Net

President Correa's administration determined that the financial safety net in place when he took office was insufficient, as there was no lender of last resort. In many countries, the central bank acts as the lender of last resort. Due to the Ecuador's Dollarization Program, however, the Republic's lending capacity was limited to the *Fondo de Liquidez del Sistema Financiero Ecuatoriano* ("Liquidity Fund"). President Correa's administration believed that the lack of a strong lender of last resort increased the risks to the financial system, and decreased liquidity within the system.

In light of these perceived deficiencies, the Government passed the Financial Safety Net Law in December 2008. The new law created a four-tiered framework for the banking sector. These four tiers are described below.

Lender of Last Resort

In accordance with the Financial Safety Net Law, which was designed to strengthen the Liquidity Fund, the Liquidity Fund acts as the lender of last resort for private financial institutions. As of December 31, 2014, the Liquidity Fund consisted of approximately U.S.\$2,114.93 million, an increase compared to December 31, 2013, when the Liquidity Fund consisted of U.S.\$1,642.74 million. This increase is due to an increase in the percentage of required contributions from 6% to 7%, beginning in January 2014. The Liquidity Fund is overseen by the Superintendent of the Banks and administered by the Central Bank. The assets of the Liquidity Fund are subject to sovereign immunity and cannot be subject to attachment of any kind.

Banking Resolution System

The second tier of the Financial Safety Net Law is the creation of a banking resolution scheme called *Exclusión y Transferencia de Activos y Pasivos* ("Exclusion and Transfer of Assets and Liabilities" or "ETAP"). Under ETAP, healthier labor contingencies, deposits and assets can be excluded from the balance sheet of a troubled banking institution and transferred to a newly created entity or to one or more healthier banking institutions. This policy is intended to separate good assets from non-performing assets and create an efficient and orderly banking resolution process.

Deposit Insurance

The third tier of the Financial Safety Law consists of the *Corporación de Seguro de Depósitos* ("Deposit Insurance Corporation" or "COSEDE"). The COSEDE is the successor to the *Agencia de Garantía de Depósitos* ("Deposit Guarantee Agency" or "AGD"), which was previously responsible for insuring the accounts of depositors in Ecuador's banking systems. In December 1998, the AGD was created as a response to the banking crisis by the *Ley de Reordenamiento en Materia Económica en el Área Tributario-Financiera* ("Law Reorganizing Economic Matters in the Tax and Finance Areas"). The AGD had a dual role: to oversee the amounts the Republic deposited with the Central Bank in order to protect depositors, and to help restructure banks in liquidation.

In December 2009, the AGD closed. The net assets of the AGD were then temporarily transferred to the Ministry of Finance and to COSEDE and thereafter transferred to the *Corporación Financiera Nacional* ("CFN"), a separate Government institution. COSEDE had assets of U.S.\$453 million, U.S.\$622 million, U.S.\$800 million as of December 31, 2011, December 31, 2012, and December 31, 2013 respectively. As of November 30, 2014, COSEDE has assets of U.S.\$993.6 million.

In accordance with the Financial Safety Net Law, and Resolution JB-2009-1280, COSEDE administers the private financial institutions insurance deposit system, which does not include any public banking

institution. COSEDE insures deposits of up to U.S.\$31,000 per account, whereas the AGD could only guarantee up to U.S.\$12,000 per account. Pursuant to the Financial Safety Net Law, banks are required to contribute to COSEDE an amount determined annually in accordance with the total amount of deposits held. Under the Monetary and Financial, deposits in the COSEDE are subject to sovereign immunity and cannot be subject to attachment of any kind.

Superintendent of Banks

Under the fourth tier of the Financial Safety Law, the Superintendent of Banks is authorized to increase the capital and reserves requirement of banking institutions.

The Financial System

The following table sets forth, by type, the number of Financial Institutions in the Ecuadorian financial system for the periods indicated.

Number of Financial Institutions (As of December 31)						
	2009	2010	2011	2012	2013	2014
Banks	25	25	26	26	26	25
National banks	23	23	25	25	25	24
Private	22	22	24	24	24	23
Government-owned banks	1	1	1	1	1	1
Foreign banks	2	2	1	1	1	1
Other financial entities	56	56	58	63	63	63
Savings and loans associations ⁽¹⁾	38	38	40	39	39	39
Small lending institutions ⁽¹⁾	4	4	4	4	4	4
Financial institutions	10	10	10	10	10	9
Public banks	4	4	4	4	4	4
Insurance companies	45	45	45	44	44	35
Insurance companies	43	43	43	42	42	33
Reinsurance companies	2	2	2	2	2	2
Credit-card issuing entities	2	2	2	2	2	1
Total	128	128	131	135	135	124

Source: Superintendent of Banks as of December 2014

(1) Information for 2014 as of June 2014

Banking System

Overview

As of December 31, 2014, the Ecuadorian banking system had a total of 25 banking institutions, of which one was a foreign-owned bank and one was a state-owned bank. As of December 31, 2014 the amount of assets in the private banking sector amounted to U.S.\$33.6 billion.

The following table sets forth the total assets of the Ecuadorian private banking sector and the percentage of non-performing loans over total loans.

Banking System

For the Year Ended December 31,

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Total assets (in billions of U.S. dollars).....	17.5	20.6	23.9	27.9	30.7	33.6
Non-performing loans ⁽¹⁾ (as % of total loans).....	1.22%	1.08%	0.99%	1.24%	1.18%	1.33%

Source: Superintendent of Banks as of December 2014

(1) Non-performing loans are classified by economic sector. Commercial non-performing loans are classified as loans 31 days overdue, consumer non-performing loans are classified as loans 16 days overdue, real estate non-performing loans are classified as loans 61 days overdue, and microcredit non-performing loans are classified as loans 16 days overdue.

The following table sets forth deposit information for the private banking system on the dates indicated.

Private Bank Deposits
(in millions of U.S.\$, except for percentages)

As of December 31,				
	<u>Demand deposits</u>	<u>Time deposits</u>	<u>Total deposits ⁽¹⁾</u>	<u>Annual growth rate of deposits</u>
2009.....	9,706.9	4,101.9	13,748.8	6%
2010.....	11,979.5	4,242.7	16,222.2	18%
2011.....	13,360.0	5,198.0	18,557.9	14%
2012.....	15,991.8	5,920.8	21,912.7	18%
2013.....	17,619.0	6,631.1	24,250.5	11%
2014.....	19,013.5	7,861.0	26,874.5	11%

Source: Superintendent of Banks as of December 2014

(1) Total does not include reported operations, guarantee deposits and restricted deposits

Banking deposits constitute the principal source of financing for the banking system. From December 31, 2009 through December 31, 2013, total deposits increased 76%, from U.S.\$13,748.8 million to U.S.\$24,250.5 million. As of December 31, 2014, banking deposits totaled U.S.\$26,874.5 million, an increase of 10.8% since December 31, 2013. Total assets of the banking system increased from U.S.\$17.5 billion in 2009 to U.S.\$30.7 billion in 2013. As of December 31, 2014, total assets for the banking system totaled U.S.\$33.6 billion, an increase of 1.33% since December 31, 2013. This increase in total assets is due to an increase in consumer, commercial and housing loans during the period. The majority of funding for the Ecuadorian banking system is comprised of demand deposits, which increased 81.5% from U.S.\$9,970.6 million in 2009 to U.S.\$17,619.0 million in 2013. As of December 31, 2014, demand deposits totaled U.S.\$19,013.5, an increase of 7.9% since December 31, 2013. The lack of long term funding sources has resulted in loan portfolios with predominantly short tenors.

Foreign banks and financial institutions are also a source of liquidity in the Ecuadorian banking system. As of December 31, 2014 the balance of foreign liabilities in the banking sector amounted to approximately U.S.\$557.52 million, which is an increase from the balance of foreign liabilities in December 31, 2013, which was U.S.\$494.09 million.

The following table sets forth information regarding the principal sources of financing with respect to total liabilities as of the dates indicated.

Classification of the Main Financing Accounts with Respect to Liabilities
(as % of total liabilities)

As of December 31,			
	<u>Demand deposits</u>	<u>Time deposits</u>	<u>Foreign financing</u>
2009.....	62	26	4
2010.....	65	23	3
2011.....	62	24	3
2012.....	63	24	2

2013.....	63	22	2
2014.....	62	26	2

Source: Superintendent of Banks as of December 2014

The following table sets forth information regarding the allocation of principal asset accounts, with respect to total assets of the banking system as of the dates indicated.

Allocation of the Principal Asset Accounts with Respect to Total Assets of the Banking System
(as a % of total assets)

	As of December 31,	
	Portfolio of current loans	Investments
2009.....	50.1	12.7
2010.....	52.0	12.8
2011.....	53.9	13.0
2012.....	52.8	11.5
2013.....	52.6	12.7
2014.....	54.7	14.0

Source: Superintendent of Banks as of December 2014

As of December 31, 2014, the banking system represented 77% of the total assets of the private financial system. The banking system, for the year ended December 31, 2014, made a profit of U.S.\$334 million, which according to data from the Superintendent of Banks represented 0.33% of Ecuador's nominal GDP and an increase compared to U.S.\$268 million as of December 31, 2013. The banking system strengthened between 2013 and 2014, and its assets grew by 9.4% due to a 10.8% growth in deposits.

Ecuador's banks use their resources primarily to extend loans. Between 2009 and 2014, the Ecuadorian banking system's total loan portfolio increased by U.S.\$10.2 billion (108% and 476% as a percentage of capital requirement) and past due loans increased by U.S.\$292 million (108% and 14% as a percentage of capital requirement). Regulations require that banks have a legal lending limit equal to 10% of their net worth for uncollateralized loans and up to 20% of their net worth if the excess over the first 10% is 140% collateralized.

The following table identifies the loans made to the private sector, and the deposits of the private sector as of the dates indicated.

Loans to the Private Sector and Private Sector Deposits ⁽¹⁾

(in millions of U.S.\$)

As of December 31, 2014

Loans		Deposits	
Commercial and consumer loans.....	16,100.9	Demand Deposits	19,013.5
Development and mortgage banks.....	1,574.3	Time Deposits	7,861.0
Savings and loans associations.....	1,367.1	Guarantee Deposits	1.2
Education Loans.....	44.5	Others	721.0
Total	19,086.9	Total	27,596.7

Source: Superintendent of Banks as of December 2014

The following table sets forth information regarding the banking system's loan portfolio as of the dates indicated.

Banking System Loan Portfolio Balances

(in millions of U.S.\$, except for percentages)

As of December 31,				
Current loans	Past-due loans ⁽¹⁾	Total loan portfolio	Current loans as a percentage of the	Past-due loans as a percentage of

				<u>total loan portfolio</u>	<u>the total loan portfolio</u>
2009.....	9,182	272	9,454	97.1%	2.9%
2010.....	11,106	255	11,361	97.8%	2.2%
2011.....	13,371	306	13,677	97.8%	2.2%
2012.....	15,332	442	15,774	97.2%	2.8%
2013.....	16,808	449	17,257	97.4%	2.6%
2014.....	19,087	565	19,652	97.1%	2.9%

Source: Superintendent of Banks as of December 2014

(1) Past-due loans are classified by economic sector. Commercial past-due loans are classified as loans 31 days overdue, consumer past-due loans are classified as loans 16 days overdue, real estate past-due loans are classified as loans 61 overdue, and microcredit past-due loans are classified as loans 16 overdue.

From 2009 to 2011, the banking system's delinquency rate has gradually improved and past-due loans have represented 2.9%, 2.2%, and 2.2% of the total loan portfolio. The improvement of the financial portfolio has been due to economic stability and growth, which has allowed an increase in the financial portfolio with a low level of risk. The delinquency rate increased to 2.8% in 2012 as a result of an increase in consumer past-due loans which increased from U.S.\$175 million in 2011 to U.S.\$293 million in 2012. However the rate decreased to 2.6% in 2013 due to reduction in past-due loans of the commercial sector, which decreased to U.S.\$284 million. In 2014, the delinquency rate increased to 2.9%, as a result of the increase in delinquency rates in consumer credits from 4.7% to 5.5%.

As of December 31, 2014, 49% of all current loans were commercial, 35% were consumer, 8% were housing and 7% were microcredit.

The following table sets forth information regarding the number of past-due loans in different sectors of the economy as of the dates indicated.

Past due loans by sector of the economy
(in millions of U.S.\$, and as a percentage of past due loans)

	<u>2009</u>		<u>2010</u>		<u>2011</u>		<u>2012</u>		<u>2013</u>		<u>2014</u>	
	U.S.	%	U.S.	%	U.S.	%	U.S.	%	U.S.	%	U.S.\$	%
	\$		\$		\$		\$		\$			
Commercial.....	100	36.	79	31.	68	22.	62	14.	65	14.	72	12.7
		6		0		3		0		5		
Consumer.....	120	44.	128	50.	175	57.	293	66.	284	63.	383	68.0
		1		2		2		3		4		
Real estate.....	20	7.4	22	8.5	23	7.5	25	5.7	27	6.0	30	5.3
Microcredit.....	32	11.	26	10.	39	12.	62	14.	72	16.	78	13.8
		9		3		9		0		1		
Total.....	272	100	255	100	306	100	442	100	448	100	563	100

Source: Superintendent of Banks as of December 2014

Banking Sector

The first, second and third largest banks in Ecuador are Banco del Pichincha, Banco de Guayaquil and Banco del Pacífico in that order. As of December 31, 2014, the three banks accounted for about 57% of the reported combined income and 54% of Ecuador's banking assets. Return on equity for these three banks was 11.92% for 2014, an increase from 9.93% in 2013, while net profit also increased from U.S.\$155.3 million to U.S.\$268 million.

Banco del Pacífico is 100% owned by the Republic, having been taken over from private shareholders during the banking crisis in 1999 and its shares transferred to the Central Bank. During 2010 and 2011 there had been discussions relating to the re-privatization of Banco del Pacífico, however, these plans were abandoned in 2011 when ownership was transferred from the Central Bank to CFN. As of December 31, 2014, Banco del Pacífico had approximately U.S.\$4,251 million in assets. Its profits increased in 2014 when compared to 2013 from U.S.\$40.9 million in 2013 to U.S.\$48.1 million in 2014.

Pacific National Bank was Banco del Pacífico's U.S. subsidiary, based in Miami. Pacific National Bank had approximately U.S.\$355 million in assets, including U.S.\$154 million in loans (mostly commercial real estate), \$163 million in securities and \$3.6 million in repossessed property. In 2011, the bank was fined U.S.\$7 million by U.S. banking regulators for violations of the U.S. Bank Secrecy Act ("BSA") and anti-money laundering laws. In 2012, the Federal Reserve Bank of the United States placed Banco del Pacífico's shares in Pacific National Bank under the control of a trustee and ordered the sale of the shares to a third party. According to the regulatory consent order transferring the shares to the trustee, the share transfer to the trustee and sale are not related to the violations of the BSA, but due to the transfer of ownership of Banco del Pacífico from the Central Bank to CFN in 2011, which according to U.S. banking regulations does not qualify as a holding company for a U.S. chartered bank. In October 21, 2013, the shares were sold to a group of private investors.

As of December 31, 2014, approximately 2% of the profits in the banking sector came from Citibank Ecuador S.A, which is the only foreign bank operating in Ecuador.

In March 2013, Banco Territorial S.A, one of the oldest banks in Ecuador with assets of U.S.\$135 million, entered a liquidation process one week after its operations were suspended. Banco Territorial primarily provided services to small and medium companies in Guayaquil and had approximately 79,000 depositors, with total deposits of approximately U.S.\$122 million, or less than 1% of the total deposits in the private banking sector in Ecuador. As of December 31, 2014, the Banco Territorial had paid U.S.\$54.4 million to depositors, U.S.\$53.9 million of which was paid by COSEDE.

In August 2014, the Superintendence of Banks formally announced that Banco Sudamericano S.A. will undergo a forced liquidation process due to a failure to meet adequate solvency and liquidity requirements. As of the date of this Offering Circular, the Superintendent of Banks, along with COSEDE, have not announced a formal restructuring plan for the bank's assets. Banco Sudamericano S.A. owned 0.55% of the total assets in the Ecuadorian banking system.

On October 11, 2014, Promerica Financial Corporation, a Nicaraguan banking conglomerate with operations in Ecuador, acquired Banco de la Producción Produbanco S.A., an Ecuadorian banking entity. At the time of the merger, Banco de la Producción Produbanco S.A. represented 9.5% of the Ecuadorian banking system, with U.S.\$3,028 million in assets, while Promerica Financial Corporation represented 2.8% of the banking system with assets of U.S.\$843.5 million.

Cooperative Banks

In 2008, the Correa administration created the *Programa de Finanzas Populares* ("Program for Public Finance") to expand lending to smaller financial cooperatives, in order that they could increase lending to small businesses. These cooperatives extend micro-loans to individuals and businesses that could otherwise not attain a loan at commercial banks. In January 2008 co-operative loans were at 11.1% of total non-publicly owned bank lending. As of June 30, 2014, the percentage had increased to 16.7%.

Capital Markets

Retail trading of debt and equity securities of private Ecuadorian issuers has remained relatively limited and but has decreased in the six years ending in 2014. Most of the trading on Ecuador's capital markets involves the purchase and sale of bank securities and fixed income Government securities. In the last six years, Ecuador has experienced an increase in the issuance of corporate bonds. They have become an important

financing alternative for companies and issuers that want longer terms than those available through bank loans. The Ecuadorian capital markets consist of the Quito Stock Exchange and the Guayaquil Stock Exchange (the "Ecuadorian Stock Exchanges"), both opened in 1969. As of December 31, 2014, the Ecuadorian Stock Exchanges combined listed the securities of approximately 444 issuers. Issuers that subscribe to one exchange automatically become listed on the other exchange.

The Ecuadorian capital markets are regulated by the *Ley de Mercado de Valores* ("Capital Markets Law") and the Law to Strengthen and Optimize the Corporate and Securities Sector. Under this law, the Ecuadorian Stock Exchanges are supervised by the *Superintendencia de Compañías y Valores* (the "Superintendent of Companies and Securities") while the Committee of Monetary and Financial Policy is responsible for formulating the general securities policies of the Ecuadorian capital markets and for providing general oversight of the securities markets.

As of December 31, 2014 U.S.\$1,256 million worth of securities were traded in the secondary market, representing 16.6% of the Ecuadorian securities market. Repo trading represented 2.6% of the total market. The following table shows aggregate amounts of traded securities for the periods listed.

Aggregate Amounts of Traded Securities
(in millions of U.S. dollars)

	For the Year Ended December 31,					
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Repos	34.7	30.9	42.2	54.1	168.1	203.3
Other ⁽¹⁾	6,392.	5,062.	3,718.	3,695.	3,554.	7,340.
	<u>1</u>	<u>6</u>	<u>7</u>	<u>6</u>	<u>2</u>	<u>8</u>
Total	6,426.	5,093.	3,760.	3,749.	3,722.	7,544.
	8	5	9	7	3	1

Source: *Bolsa de Valores de Quito* ("Quito Stock Exchange")

(1) Includes Government securities, bank securities, and commercial paper, among others

In 2014, U.S.\$7,544.1 million worth of securities were traded on the Ecuadorian Stock Exchanges, representing an increase compared to the U.S.\$3,722.3 million of the securities traded in 2013. This increase is due to increased issuances of state bonds and treasury bills on the Guayaquil Stock Exchange.

Interest Rates and Money Supply

In July of 2007, the *Ley del Costo Máximo Efectivo del Crédito* ("Maximum Actual Credit Cost Law") went into effect to establish a new system for calculation of interest rates. The principal aspects of this law are:

- the prohibition on charging commissions for credit operations and pre-payments;
- the prohibition on imposing any fee that is not in the nature of compensation for the rendering of a service; and
- in December 2007, a change in the methodology for calculating the maximum interest rate of the Central Bank, whose methodology has since been declared unconstitutional, and has been further amended so that the maximum rate equals interest rates of credit operations of private financial institutions in each relevant sector, multiplied by an amount determined by the Central Bank.

The following table sets forth average deposit interest rates for the economy as a whole and average lending interest rates per sector for the periods shown.

Interest Rates
(in percentages)

	2009	2010	2011	2012	2013	2014
Deposit interest rate	5.2	4.3	4.5	4.5	4.5	5.1
Lending interest rate	9.2	8.7	8.2	8.2	8.2	8.2
Corporate commercial lending interest rate ⁽¹⁾	9.2	8.7	8.2	8.2	8.2	8.2
Maximum corporate commercial interest rate	9.3	9.3	9.3	9.3	9.3	9.3
Business commercial lending interest rate ⁽²⁾	9.9	9.5	9.5	9.5	9.5	9.5
Maximum business commercial interest rate	10.2	10.2	10.2	10.2	10.2	10.2
Medium and small business lending commercial interest rate ⁽³⁾	11.3	11.3	11.2	11.2	11.2	11.2
Maximum medium and small business commercial interest rate	11.8	11.8	11.8	11.8	11.8	11.8
Consumer lending interest rate	17.9	15.9	15.9	15.9	15.9	16.0
Maximum consumer interest rate	18.9	16.3	16.3	16.3	16.3	16.3
Retail lending interest rate ⁽⁴⁾	N/A	N/A	N/A	N/A	N/A	N/A
Maximum retail interest rate	N/A	N/A	N/A	N/A	N/A	N/A
Housing lending interest rate	11.2	10.4	10.6	10.6	10.6	10.7
Maximum housing interest rate	11.3	11.3	11.3	11.3	11.3	11.3
Microcredit increased accumulation lending interest rate ⁽⁵⁾	23.3	23.1	22.4	22.4	22.4	22.3
Maximum microcredit increased accumulation interest rate	25.5	25.5	25.5	25.5	25.5	25.5
Microcredit simple accumulation lending interest rate ⁽⁶⁾	27.8	25.4	25.2	25.2	25.2	25.2
Maximum microcredit simple accumulation interest rate	33.3	27.5	27.5	27.5	27.5	27.5
Microcredit subsistence accumulation lending interest rate ⁽⁷⁾	30.5	29.0	28.8	28.8	28.8	28.5
Maximum microcredit subsistence accumulation interest rate	33.9	30.5	30.5	30.5	30.5	30.5

Source: Based on figures from the Central Bank January 2015 Monthly Bulletin (Table 1102). Deposit and Lending Interest rates based on Table 1101.

- (1) "Corporate commercial lending rate" refers to credit transactions larger than U.S.\$1,000,000. This is the rate provided to businesses whose annual sales are equal or higher than the level determined by the Central Bank's *Instructivo de Tasa de Interés* ("Instructions on Interest Rates"), by economic sector.
- (2) "Business commercial lending rate" refers to credit transactions larger than U.S.\$200,000 but smaller than U.S.\$1,000,000. This is the rate provided to businesses whose annual sales are equal or higher than the level determined by the Central Bank's Instructions on Interest Rates by economic sector.

- (3) "Medium and small business lending rate" refers to credit transactions smaller than U.S.\$200,000. This is the rate provided to businesses whose annual sales are equal to or larger than U.S.\$100,000 and lower than the minimum annual sales levels of the corporate productive segment.
- (4) Beginning in 2009, the "retail lending interest rate" and the "consumer lending interest rate" were consolidated into the "consumer lending interest rate."
- (5) "Microcredit increased accumulation lending rate" refers to credit transactions whose amount per trade and balance due to microcredit financial institutions exceed U.S.\$10,000. This is the rate granted to entrepreneurs who register levels and annual sales of less than U.S.\$100,000.
- (6) "Microcredit simple accumulation lending rate" refers to credit transactions whose amount per transaction and balance due to microcredit financial institutions is larger than U.S.\$3,000, but smaller than U.S.\$10,000. This is the rate provided to entrepreneurs who register a sales level or annual income of less than U.S.\$100,000 and to self-employed individuals.
- (7) "Microcredit subsistence accumulation lending rate" refers to credit transactions that are less than or equal to U.S.\$3,000. This is the rate provided to micro entrepreneurs who recorded a level of annual sales less than U.S.\$100,000 and to self-employed, individuals or a group of borrowers with joint liability.

Average loan interest rates on short-term and long-term loans decreased from 9.2% in 2009, to 8.2% in 2014 primarily due to a policy of the Republic to reduce maximum lending rates. During the same period, the average interest rates on deposits decreased from 5.2% in 2008 to 4.5% in 2013 due to the decrease in loan interest rates. In 2014, the average interest rate on deposits rose to 5.1% due to the increase in demand deposits with high interest rates.

With respect to the various sectors, most loan interest rates declined during the period 2009 through 2014. This reduction of rates from 2009 to 2014 resulted in increased credit, with loans increasing by 108% from 2009 to 2014.

The following table sets forth the principal monetary indicators for the periods presented.

Principal Monetary Indicators
(in millions of U.S. dollars)

	At December 31,					
	2009	2010	2011	2012	2013	2014
Currency in circulation	4,230.10	4,545.40	5,290.98	6,326.74	7,367.06	9,539.90
Demand deposits	4,902.20	6,148.30	6,718.79	8,100.37	8,818.04	9,068.80
Fractional Currency	77.3	82.4	83.20	84.52	87.33	86.60
M1	9,209.60	10,776.1	12,092.9	14,511.6	16,272.4	18,695.2
Savings	1,702.60	1,606.70	1,594.78	2,360.24	3,898.14	3,506.10
Term deposits	9,378.80	0	1	8	1	0
M2 (M1 plus savings plus term deposits)	18,588.4	22,189.3	26,556.9	30,905.5	35,051.1	40,104.3
	0	0	8	0	4	

Source: Based on figures from the Central Bank January 2015 Monthly Bulletin (Table 111). Figures from 2009 and 2010 based on March 2011 Monthly Bulletin

In January 2000, following several weeks of severe exchange-rate depreciation, the Republic announced that it would dollarize the economy. On March 1, 2000, the National Assembly approved the Ecuadorian Economic Transformation Law which made the U.S. dollar legal tender in Ecuador. Further, pursuant to the Ecuadorian Economic Transformation Law, all sucre-denominated deposits were converted into U.S. dollars effective January 1, 2000, and the U.S. dollar became the unit of account in the financial system. As a result, U.S. dollar deposits that in prior periods were classified as deposits in foreign currency are for periods from and after January 1, 2000 classified as demand deposits, savings or term deposits, as applicable.

Inflation

Ecuador measures the inflation rate by the percentage change between two periods in the consumer price index ("CPI"). The CPI is computed by INEC based on a standard basket of 299 items of goods and services that reflects the pattern of consumption of urban Ecuadorian households in eight cities. The price for each good or service that make up the basket is weighted according to its relative importance in an average urban household's consumption pattern in order to calculate the CPI.

Prior to the adoption of the Dollarization Program, Ecuador was plagued by high inflation. From 1994 to 1999, the inflation rate ranged from a 22.8% low in 1995 to a 60.7% high in 1999. In 1999 and early 2000, the sharp devaluation of the sucre contributed to an increase in the Republic's inflation rate, which became one of the highest in Latin America at 96.1% in 2000.

The restrictions imposed by the Dollarization Program brought this to an end. The inflation rate was 2.7% in 2004, 2.2% in 2005, 2.8% in 2006, 3.3% in 2007 and 8.8% in 2008. The increase in inflation in 2008 was primarily caused by increases in food prices, due to climatic changes that affected the agricultural sector. In addition, international prices of fertilizer and agricultural commodities also increased. As a result of these increases, Ecuador fixed prices for some of these goods and limited the export of various agricultural products. During 2009, 2010, 2011 and 2012 the inflation rate was 4.3%, 3.3%, 5.4% and 4.2% respectively. The increase from 2010 to 2011 was principally due to increase in the prices of alcoholic beverages, tobacco and pharmaceuticals whose prices together increased 7.8% from the previous year, primarily due to increases in the taxes on alcoholic beverages.

At the end 2013, the inflation rate was 2.7%, a decrease from the 4.2% inflation rate recorded in 2012. This decrease was due to the imposition of price controls intended to curb price speculation on basic foodstuffs including, meats, various fruits and vegetables, and milk. As of December 31, 2014, the inflation rate was 3.7%. This increase is due to an increase in the prices of housing, water and electricity services during the period.

Given the constraints of dollarization, and Ecuador's inability to mint currency, the Republic is more vulnerable than other countries to external factors such as global recessions, the volatility of commodity and raw material prices and natural disasters affecting the agricultural sector. The relative strength or weakness of the dollar, relative to the currencies of Ecuador's Andean trading partners, has also affected Ecuador's inflation rate during those periods.

The following table sets forth inflation rates in the Republic as measured by the CPI for the periods presented.

Inflation	
	% Change in CPI from Previous Year at Period End ⁽¹⁾
2009.....	4.3
2010.....	3.3
2011.....	5.4
2012.....	4.2
2013.....	2.7
2014.....	3.7

Source: Based on figures from the Central Bank January 2015 Monthly Bulletin Table (421)

(1) The data reflects percentage change in consumer prices in urban areas over the 12 months ending on December 31.

PUBLIC SECTOR FINANCES

Overview

Budget Process

The 2008 Constitution and the Public Planning and Finance Code set forth the public sector's budget process. According to Article 292 of the 2008 Constitution, the General State Budget (the "General State Budget") is the instrument for establishing and managing Government income and spending, and includes all public sector income and expenses, with the exception of those belonging to social security, public banks, public companies and the Autonomous Decentralized Governments. The drafting and implementation of the General State Budget adheres to the National Development Plan, while the budgets of the Autonomous Decentralized Governments and those of other public entities adhere to regional and provincial plans, with the framework of the National Development Plan. This plan is published by the Government every four years, and lays out the goals and priorities of the Government for the time period. The National Development Plan for 2013 to 2017 was released in August of 2013.

The executive branch formulates the annual budget estimate, and the four-year budgetary schedule, and presents both to the National Assembly for approval. The levels of revenue, expenditure, and debt are based on the macroeconomic projections and targets of the Ministry of Finance and the Central Bank. The Ministry of Finance is primarily responsible for the preparation of the public sector's annual budget, based on guidelines issued by various planning agencies and other ministries.

The executive branch submits the draft annual budget and the four-year budgetary schedule to the National Assembly within the first 90 days of its initial term and, in subsequent years, 60 days before the start of the relevant fiscal year. The National Assembly must adopt or object to the draft budget within 30 days. The objections of the National Assembly are limited to the areas of revenue and spending and cannot alter the overall amount of the draft budget. If the National Assembly objects to the draft budget or schedule, the executive branch may, within ten days, accept the objection and submit a new proposal to the National Assembly for approval. If the National Assembly does not object within 30 days, the draft annual budget and the four-year budgetary schedule become effective.

The 2008 Constitution also establishes predetermined budget allocations for the Autonomous Decentralized Governments, the health sector, the education sector, and for research, science, technology and innovation. The creation of any other predetermined budget allocations is forbidden.

The Ministry of Finance has the authority to modify the budget during its execution phase in an amount up to 15% of any approved allocation. These adjustments must be made in accordance with the priorities and goals established in the National Development Plan and the constitutional limits established in Article 126 of the Public Planning and Finance Code. For more information regarding the National Development Plan and constitutional limits, see "Public Debt – General."

Income and expenses belonging to social security, state banks, public companies and the Autonomous Decentralized Governments are not considered part of the General State Budget. As such, Autonomous Decentralized Governments prepare their budgets in accordance with the guidelines prepared by the *Secretaría Nacional de Planificación y Desarrollo* (the "National Secretary of Planning and Development" or "SENPLADES") but are not bound by these guidelines by the 2008 Constitution. The executive branch of each Autonomous Decentralized Government is responsible for drafting the budget and submitting it for approval before the corresponding legislative bodies. The General State Budget and local budgets, upon approval, are implemented and made public, as is the General State Budget, and are implemented by the respective local governments.

In 2002, in response to increasing Government expenditures, the National Assembly enacted the Law to Promote Responsibility, Stabilization and Fiscal Transparency, which was aimed at reducing public indebtedness and establishing greater transparency in the Government's use of public funds. During the second half of 2005, the Government, with the support of the National Assembly, replaced the *Fondo de Estabilización, Inversión Social, y Reducción del Endeudamiento Público* (the "Stabilization, Social Investment and Public Indebtedness Reduction Fund" or "FEIREP") that was previously created by the 2002 law. FEIREP was replaced by CEREPS. This resulted in an increase in Government investment in social and productive sectors of the economy to strengthen the economic performance while limiting the current expenses.

In 2008, CEREPS was eliminated due to the 2008 Constitution and the enactment of LOREYTF. The Republic believes that the new law enhances transparency and flexibility to the budget process by providing enhanced management of state resources and prioritizing social investments. The law also eliminated all predetermined use of resources; currently all of the Republic's resources go directly to a single system of accounts in the Central Bank. Title 3 of the Public Planning and Finance Code also provides transparency by providing unrestricted access to all budget and financial information of the Republic and annual financial statements of public companies.

In accordance with the terms of the 2008 Constitution, the macroeconomic rules and the restrictions on the assumption of public debt were changed as follows:

- permanent expenditures must be financed by permanent income; expenditures related to health, education and justice will be treated as preferential and may be, under exceptional circumstances, financed by non-permanent income; and
- public debt or income from petroleum products may not be used for current Government expenditures.

Under the 2008 Constitution, each of the following is subject to the National Development Plan:

- policies;
- programs and public projects;
- scheduling and execution of the state budget; and
- investment and allocation of public resources.

Pursuant to the Planning and Public Finance Law, each of the following is also subject to the National Development Plan:

- public actions, programs and projects;
- public debt;
- international cooperation;
- scheduling, formulation, approval and execution of the general state budget;
- state banks' budgets;
- national-level public companies; and
- social security.

At the request of the Ministry of Finance, or on its own, the Office of the Comptroller General can perform an audit of all public sector entities that administer public funds for compliance with proposed budgets and compliance under the law.

Fiscal Policy

In October 2010, the National Assembly approved the Public Planning and Finance Code, which regulates the state planning process and coordinates planning with fiscal policy. This law establishes guidelines for fiscal management, including rules that:

- allow for more flexibility for the Ministry of Finance to reallocate and reassign expenditures up to 15% of the approved Government budget;

- set an explicit total public debt ceiling of 40% of GDP including Central Government, non-financial public sector and the Autonomous Decentralized Governments;
- allow the Ministry of Finance to issue *Certificados de Tesorería* ("short-term treasury notes" or "CETES"), at its discretion, without having to undergo the same approval process required for long-term internal and external sovereign debt;
- allow for the establishment of citizen committees for financial public policy consultations;
- determine that all excess cash not spent during a fiscal year will be accounted for as initial cash for the following fiscal year; and
- establish the functions and responsibilities of the Debt and Finance Committee. See "Public Debt – General."

The non-financial public sector deficit is primarily financed by the issuance of CETES and bonds placed with IESS. There is no maximum amount of CETES that may be issued per year nor is there a requirement to place a certain percentage in the public or private sector. However, IESS may only hold 75% of the value of its total portfolio in CETES. Towards the end of 2012, the Government drew on its International Reserves with the Central Bank to cover its liquidity. This led to a decrease in reserve levels in December 2012. As of September 30, 2014, International Reserves (defined herein) cover 82.3% of current account payments. For more information regarding International Reserves please see "Balance of Payments – International Reserves." The Government received external funding from FLAR, which in September 2012 disbursed a balance-of-payments back-up credit of U.S.\$514.6 million. The China Development Bank also disbursed U.S.\$500 million. In the first several months of 2013, the Government received U.S.\$1.4 billion from China Development Bank under a new line of credit that was negotiated in December 2012. These funds were used to restore Ecuador's International Reserves.

Non-Financial Public Sector Revenues and Expenditures

The following table sets forth actual revenues and expenditures for the consolidated non-financial public sector for the periods presented.

Summary of Consolidated Non-financial Public Sector Revenues and Expenditures (in millions of U.S.\$ and as a % of GDP)

	For the Year Ended December 31,										For the 9 Months Ended September 30,			
	2009	% of GDP	2010	% of GDP	2011	% of GDP	2012	% of GDP	2013	% of GDP	2014	% of GDP	2013	% of GDP
Revenue														
Petroleum Revenue														
Exports ⁽¹⁾	5,212	8.3	7,845	11.3	12,935	16.2	12,220	13.9	11,433	12.1	8,605	11.5	8,732	12.4
Domestic sales	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Petroleum Revenue (a)	5,212	8.3	7,845	11.3	12,935	16.2	12,412	14.2	11,433	12.1	8,605	11.5	8,732	12.4
Non-petroleum revenue														
Income Tax	2,518	4.0	2,353	3.4	3,030	3.8	3,313	3.8	3,847	4.1	3,365	4.5	3,112	4.4
Value-added Tax	3,288	5.3	3,760	5.4	4,200	5.3	5,415	6.2	6,056	6.4	4,711	6.3	4,514	6.4
Specific consumption taxes	448	0.7	530	0.8	618	0.8	685	0.8	744	0.8	588	0.8	549	0.8
International trade taxes	951	1.5	1,153	1.7	1,156	1.4	1,261	1.4	1,352	1.4	987	1.3	998	1.4
Social Security Contributions	2,061	3.3	2,549	3.7	3,971	5.0	4,756	5.4	4,547	4.8	3,349	4.5	3,269	4.7
Other taxes	3,107	5.0	3,650	5.2	3,514	4.4	4,353	5.0	6,084	6.4	4,519	6.0	4,440	6.3
Total non-petroleum revenue (b)	12,373	19.8	13,994	20.1	16,489	20.7	19,783	22.6	22,630	24.0	17,519	23.3	16,882	24.0
Operating Income of Public Companies (c) ..	794	1.3	1,346	1.9	1,766	2.2	2,567	2.9	3,196	3.4	3,739	5.0	2,425	3.5
Total Revenue (a+b+c)	18,378	29.4	23,186	33.3	31,190	39.1	34,570	39.5	37,260	39.4	29,863	39.8	28,039	39.9
Expenses														
Current Expenditures														
Interest	349	0.6	413	0.6	502	0.6	652	0.7	971	1.0	722	1.0	652	0.9
Foreign	323	0.5	377	0.5	452	0.6	533	0.6	714	0.8	569	0.8	497	0.7
Domestic	26	0.0	35	0.1	51	0.1	119	0.1	257	0.3	153	0.2	155	0.2
Wages and salaries	5,929	9.5	6,786	9.8	7,265	9.1	8,346	9.5	8,896	9.4	6,514	8.7	6,217.6	8.9
Purchases of goods and services	1,924	3.1	2,090	3.0	2,543	3.2	3,473	4.0	4,435	4.7	2,860	3.8	3,015	4.3
Others	5,728	9.2	7,616	11.0	11,633	14.6	11,961	13.7	12,675	13.4	9,694	12.9	9,273	13.2

Total Current Expenditure	13,930	22.3	16,905	24.3	21,942	27.5	24,431	27.9	26,977	28.6	19,789	26.4	19,157	27.3
Capital Expenditure and net lending														
Gross capital formation	6,310	10.1	6,571	9.4	9,014	11.3	10,312	11.8	14,039	14.9	9,799	13.0	8,977	12.8
Central Government	3,507	5.6	3,698	5.3	5,297	6.6	6,191	7.1	8,506	9.0	5,583	7.4	5,219	7.4
Public Companies	1,685	2.7	1,494	2.1	2,152	2.7	2,497	2.9	3,988	4.2	3,228	4.3	2,648	3.8
Rest of General Government	974	1.6	1,156	1.7	1,545	1.9	1,560	1.8	1,529	1.6	981,4	1.3	1,101	1.6
Others	144	0.2	223	0.3	21	0.0	64	0.1	17	0.0	6	0.0	8	0.0
Other Capital Expenditure	370	0.6	647	0.9	334	0.4	650	0.7	592	0.6	1,144	1.5	377	0.5
Total Capital Expenditure	6,680	10.7	7,218	10.4	9,348	11.7	10,963	12.5	14,631	15.5	10,943	14.6	9,354	13.3
Total Expenditure	20,610	33.0	24,123	34.7	31,290	39.2	35,394	40.4	41,607	44.0	30,733	40.9	28,511	40.6
Surplus/Deficit	-2,232	-3.6	-937	-1.3	-101	-0.1	-824	-0.9	-4,348	-4.6	-870	-1.2	-472	-0.7

Source: Based on figures from the Central Bank October 2014 Monthly Bulletin (Table 221)

(1) This figure is different than the crude oil exports figure in the Exports FOB table in that it includes derivate revenues, as opposed to only crude oil, and measures revenues from petroleum exports for the non-financial public sector, only.

Other than in 2009, for the five-year period from 2009 to 2013, the amount of total revenues met the approximate budgeted targeted amount. The large deficit in 2009 was primarily attributable to the fall in petroleum prices due to the global financial crisis. The subsequent recovery for the years 2010 and 2011 was due to the rise of petroleum prices and the increased performance of tax revenues due to improved Government tax administration and collection and the availability of newly created tax incentives that encourage participation in Ecuador's tax system. The increased deficit in 2012 is due to increased Government spending, particularly in wages and salaries.

In 2009, the non-financial public sector registered a deficit of U.S.\$2,232 million (equivalent to -3.6% of GDP). Total expenditures totaled U.S.\$20,610 million (equivalent to 33.0% of GDP) and total revenues totaled U.S.\$18,378 million (equivalent to 29.4% of GDP).

In 2010, the non-financial public sector registered a deficit of U.S.\$937 million (equivalent to -1.3% of GDP). In 2010, total expenditures totaled U.S.\$24,123 million (equivalent to 34.7% of GDP) and total revenues totaled U.S.\$23,186 million (equivalent to 33.3% of GDP).

In 2011, the non-financial public sector registered a deficit of U.S.\$101 million (equivalent to less than 0.1% of GDP). In 2011, total expenditures totaled U.S.\$31,290 million (equivalent to 39.2% of GDP) and total revenues totaled U.S.\$31,190 million (equivalent to 39.1% of GDP).

In 2012, the non-financial public sector registered a deficit of U.S.\$824 million (equivalent to -0.9% of GDP). In 2012, total expenditures totaled U.S.\$35,394 million (equivalent to 40.4% of GDP) and total revenues totaled U.S.\$34,570 million (equivalent to 39.5% of GDP).

In 2013, the non-financial public sector registered a deficit of U.S.\$4,348 million (equivalent to 4.6% of GDP). This deficit was due to an increase in public sector investment, primarily in infrastructure projects financed by bilateral debt. The increase in spending on infrastructure projects is due to a number of projects that had been in the planning or initial stages in previous years and that reached or accelerated the construction phase in 2013 (including the Coca Codo Sinclair hydroelectric project, the Sopladora hydroelectric project, the

Minas San Francisco hydroelectric project and the Cañar-Naranjal flood control project) and therefore required increased expenditures as construction began or accelerated. Total expenditures totaled U.S.\$41,607 million (equivalent to 44.0% of GDP) and total revenues totaled U.S.\$37,259 million (equivalent to 39.4% of GDP).

In the first nine months of 2014, the non-financial public sector registered a deficit of U.S.\$870 million, equivalent to 1.2% of GDP. This deficit was the result of increases in wages and salaries and current expenses. The non-financial public sector registered a deficit of U.S.\$472 million, equivalent to 0.7% of the GDP, in the first nine months of 2013, as a result of slightly lower petroleum revenues during that period. Total expenditures totaled U.S.\$30,733 million (equivalent to 40.9% of GDP) and total revenues totaled U.S.\$29,863 million (equivalent to 39.8% of GDP) in the first nine months of 2014, compared to total expenditures of U.S.\$28,511 million (equivalent to 40.6% of GDP) and total revenues of U.S.\$28,039 million (equivalent to 39.9% of GDP) in the first nine months of 2013.

Central Government Revenues and Expenditures

The Government derives its revenues primarily from sales of petroleum, tax collection and import duties, and other revenue, including transfers. The following table shows the actual Central Government revenues and expenditures for the periods presented. The Central Government ("Central Government") includes the Republic's ministries, supervising entities, and other Government entities.

Summary of Consolidated Central Government Sector Revenues and Expenditures⁽¹⁾

(in millions of U.S\$, and as a % of GDP)

	For the Year Ended December 31,										For the 9 Months Ended September 30,			
	2009	% of GDP	2010	% of GDP	2011	% of GDP	2012	% of GDP	2013	% of GDP	2014	% of GDP	2013	% of GDP
Revenue														
Petroleum revenue	2,298	3.7	4,411	6.3	5,971	7.5	6,086	6.9	4,677	5.0	3,062	4.1	3,461	4.9
Non-petroleum revenue	9,285	14.9	10,665	15.3	11,227	14.2	13,437	15.3	15,723	16.6	12,318	16.4	11,927	17.0
Tax revenue														
Taxes on goods and Services														
Value-added tax	3,019	4.8	3,886	5.6	4,200	5.3	5,415	6.2	6,056	6.4	4,711	6.3	4,514	6.4
Selected excise taxes	448	0.7	530	0.8	618	0.8	685	0.8	744	0.8	588	0.8	549	0.8
Total taxes on goods and services	3,467	5.5	4,416	6.3	4,818	6.1	6,100	7.0	6,800	7.2	5,299	7.1	5,064	7.2
Taxes on income and profits	2,518	4.0	2,353	3.4	3,030	3.8	3,313	3.8	3,847	4.1	3,365	4.5	3,112	4.4
Taxes on International Trade														
Import duties	923	1.5	1,152	1.7	1,156	1.5	1,261	1.4	1,352	1.4	987	1.3	998	1.4
Exit tax	-	-	428	0.6	558	0.7	1,275	1.5	1,322	1.4	999	1.3	999	1.4
Total taxes on international trade	923	1.5	1,580	2.3	1,714	2.2	2,536	2.9	2,675	2.8	1,986	2.6	1,997	2.8
Vehicle tax	118	0.2	156	0.2	174	0.2	195	0.2	214	0.2	185	0.2	172	0.2
Other taxes	231	0.4	289	0.4	28	0.0	111	0.0	132	0.1	110	0.1	105	0.1
Total tax revenue	7,257	11.6	8,794	12.6	9,765	12.3	12,255	14.0	13,668	14.5	10,944	14.6	10,448	14.9
Non-tax revenue	752	1.2	1,512	2.2	1,210	1.5	1,128	1.3	1,961	2.1	1,292	1.7	1,384	2.0

Transfers	1,276	2.0	359	0.5	252	0.3	54	0.1	95	0.1	82	0.1	95	0.1
Total revenues	11,583	18.5	15,076	21.7	17,198	21.7	19,523	22.3	20,400	21.6	15,380	20.5	15,388	21.9
Current expenditure														
Interest accrual:														
Foreign	294	0.5	306	0.4	357	0.4	465	0.5	652	0.7	481	0.6	464	0.7
Domestic	180	0.3	224	0.3	316	0.4	363	0.4	516	0.5	408	0.5	293	0.4
Total interest accrual	474	0.8	530	0.8	673	0.8	828	0.9	1,169	1.2	889	1.2	757	1.1
Wages and salaries	4,708	7.5	6,017	8.7	6,466	8.1	7,353	8.4	7,897	8.4	5,756	7.7	5,508	7.8
Purchase of goods and services	824	1.3	1,095	1.6	1,279	1.6	1,658	1.9	2,035	2.2	1,601	2.1	1,346	1.9
Other current expenditures	966	1.5	843	1.2	983	1.2	900	1.0	1,664	1.8	819	1.1	1,259	1.8
Transfers	1,962	3.1	1,291	1.9	998	1.3	1,258	1.4	1,511	1.6	1,217	1.6	1,086	1.5
Total current expenditure	8,934	14.3	9,775	14.1	10,399	13.1	11,996	13.7	14,276	15.1	10,281	13.7	9,955	14.2
Capital expenditure														
Fixed capital expenditure	3,507	5.6	3,896	5.6	5,209	6.6	6,191	7.1	8,538	9.0	5,250	6.9	5,219	7.4
Other	-	-	136	0.2	159	0.2	328	0.4	-	-	22	0.0	-	-
Capital Transfers	1,777	2.8	2,399	3.4	2,668	3.3	2,724	3.1	3,048	3.2	2,678	3.8	1,086	1.5
Total capital expenditure	5,284	8.5	6,432	9.2	8,036	10.1	9,244	10.5	11,586	12.3	7,950	10.6	7,533	10.7
Total Expenditure	14,218	22.7	16,207	23.3	18,435	23.3	21,240	24.2	25,861	27.4	18,232	24.3	17,488	24.9
Adjustment on treasury accounts	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Overall surplus or deficit	-2,635	-4.2	-1,131	-1.6	-1,236	-1.6	-1,717	-2.0	-5,461	-5.8	-2,852.1	-3.8	-2,100	-3.0

Source: Based on figures from the Central Bank December 2014 Monthly Bulletin (Table 21)

- (1) Revenues are cash, expenditures are accrued
- (2) Includes all interest payments under foreign debt obligations

Taxation and Customs

In 2009, Central Government revenues totaled U.S.\$11,583 million (equivalent to 18.5% of GDP), of which U.S.\$2,298 million (equivalent to 3.7% of GDP) corresponds to petroleum revenue, U.S.\$7,257 million (equivalent to 11.6% of GDP) corresponds to tax revenue, U.S.\$752 million (equivalent to 1.2% of GDP) corresponds to non-tax revenue and U.S.\$1,276 million (equivalent to approximately 2.0% of GDP) is in respect of transfers received.

In 2010, Central Government revenues totaled U.S.\$15,076 million (equivalent to 21.7% of GDP), of which U.S.\$4,411 million (equivalent to 6.3% of GDP) corresponds to petroleum revenue, U.S.\$8,794 million (equivalent to 12.6% of GDP) corresponds to tax revenue, U.S.\$1,512 million (equivalent to 2.2% of GDP) corresponds to non-tax revenue and U.S.\$359 million (equivalent to approximately 0.5% of GDP) is in respect of transfers received.

In 2011, Central Government revenues totaled U.S.\$17,198 million (equivalent to 21.7% of GDP), of which U.S.\$5,971 million (equivalent to 7.5% of GDP) corresponds to petroleum revenue, U.S.\$9,765 million (equivalent to 12.3% of GDP) corresponds to tax revenue, U.S.\$1,210 million (equivalent to 1.5% of GDP)

corresponds to non-tax revenue and U.S.\$252 million (equivalent to approximately 0.3% of GDP) is in respect of transfers received.

In 2012, Central Government revenues totaled U.S.\$19,523 million (equivalent to 22.3% of GDP), of which U.S.\$6,086 million (equivalent to 6.9% of GDP) corresponds to petroleum revenue, U.S.\$12,255 million (equivalent to 14.0% of GDP) corresponds to tax revenue, U.S.\$1,128 million (equivalent to 1.3% of GDP) corresponds to non-tax revenue and U.S.\$54 million (equivalent to approximately 0.1% of GDP) is in respect of transfers received.

In 2013, Central Government revenues totaled U.S.\$20,400 million (equivalent to 21.6% of GDP), of which U.S.\$4,677 million (equivalent to 5.0% of GDP) corresponds to petroleum revenue, U.S.\$13,668 million (equivalent to 14.5% of GDP) corresponds to tax revenue, U.S.\$1,961 million (equivalent to 2.1% of GDP) corresponds to non-tax revenue and U.S.\$95 million (equivalent to approximately 0.1% of GDP) is in respect of transfers received.

In the first nine months of 2014, Central Government revenues totaled U.S.\$15,380 million (equivalent to 20.5% of GDP), of which U.S.\$3,062 million (equivalent to 5.0% of GDP) corresponds to petroleum revenue, U.S.\$10,944 million (equivalent to 14.6% of GDP) corresponds to tax revenue, U.S.\$1,292 million (equivalent to 1.7% of GDP) corresponds to non-tax revenue and U.S.\$82 million (equivalent to approximately 0.1% of GDP) is in respect of transfers received. In the first nine months of 2013, Central Government revenues totaled U.S.\$15,388 million (equivalent to 21.9% of GDP), of which U.S.\$3,461 million (equivalent to 4.9% of GDP) corresponds to petroleum revenue, U.S.\$10,448 million (equivalent to 14.9% of GDP) corresponds to tax revenue, U.S.\$1,384 million (equivalent to 2.0% of GDP) corresponds to non-tax revenue and U.S.\$95 million (equivalent to approximately 0.1% of GDP) is in respect of transfers received.

The Constitution grants the National Assembly the authority to create, amend or eliminate taxes by means of the law, without detriment to the attributions granted to Autonomous Decentralized Governments. Pursuant to the Constitution, only the President may submit bills that levy, amend or eliminate taxes. Municipal governments may also levy taxes. The Constitution provides that tax policy shall promote redistribution and shall stimulate employment, the production of goods and services, as well as ecologically, socially and economically responsible conduct. Furthermore, the Constitution expressly prioritizes direct and progressive taxes.

The value added tax applies to most sales of tangible assets as well as most services, except for educational, public transportation, public services, childcare services and others. The value added tax has been the largest component of tax revenues in the past six years, generating U.S.\$6,056 million of total tax revenues in 2013 and steadily increasing since 2009. This increase is not due to an increased rate, which has held steady at 12% for the past six years. Instead, the increase in revenues is due to the Government's increased capacity to collect this tax due to an improved administrative system and the tax reforms described in further detail below. In the first nine months of 2014, the value added tax generated U.S.\$4,711 million, an increase from the first nine months of 2013, when the value added tax generated U.S.\$4,514 million.

The second largest component of tax revenues is income tax, which accounted for U.S.\$3,847 million of tax revenues in 2013. Effective personal income tax rates for residents and non-residents who file tax returns in Ecuador range from 0% to 35%. The standard corporate tax rate in 2014 was 22%, down from 25% in 2012. However, a tax reform enacted in December 2014 increased the corporate tax rate to 25% for profits on distributions from Ecuadorian entities to residents domiciled in tax havens. Non-resident individuals are also subject to a flat income tax of 22% in 2013 (down from 24% in 2011 and 23% in 2012). In the first nine months of 2014, the taxes on income and profits generated U.S.\$3,365 million, an increase from the first nine months of 2013, when taxes on income and profits generated U.S.\$3,112 million.

Revenues from income taxes have also steadily increased in the past six years. This increase is due to several tax reforms implemented during this period.

Tax Reforms

Historically, many individuals and companies did not pay taxes in Ecuador. Upon taking office, President Correa aimed to change this behavior and institute a culture of paying taxes among citizens and companies. To that end, the Ministry of Education established the *Día de la Cultura Tributaria* ("Tax Culture Day") to be commemorated every April 27 and ran multiple television advertisements concerning the importance of tax payments. Ecuador completed these cultural efforts with legal reforms. Two of the most important reforms include the Reform Act to the Internal Tax Regime Law and the Reform Act for Tax Equity in Ecuador, which were enacted on December 23, 2009 and include the following measures:

- a 1% to 2% Currency Outflow tax, which was subsequently amended in November of 2011 to a 5% Currency Outflow Tax with an exemption for the first U.S.\$1,000 as long as no credit card or debit card is used (for more information regarding the Currency Outflow Tax see "Balance of Payments and Foreign Trade – Foreign Trade–Trade Policy");
- taxation on dividends received by company shareholders as profits;
- changes in the manner in which the *Impuesto a los Consumos Especiales* ("Special Consumer Good Tax" or "ICE") calculates taxes on certain items for products such as cigarettes, alcoholic beverages and soft drinks. See "The Ecuadorian Economy–Economic and Social Policies–Environmental Improvement and State Resources Optimization Law;"
- incentives for the production sector, such as a proposal to return the value added tax ("VAT") for certain tourism activities, and exemptions on tax for reinvestment in science and technology); and
- a refund of the 12% VAT for the public sector.

Other measures include the institution of numerous new individual tax deductions that encouraged the participation in payment of taxes. Taxpayers can apply these new deductions prior to the end of the tax year. Ecuador believes that the deductions and the advance payment system encourage participation and decreased the rate of tax evasion in the country. Ecuador has also improved its tax administration system to more easily identify tax evasion. Also, Ecuador believes that the decrease in the corporate tax rate in 22% in 2013, compared to 25% in 2012, has encouraged business growth and allowed for a larger corporate tax base.

In December 2012, the National Assembly enacted the Comprehensive Law of Redistribution of Income for Social Expenditures, which went into effect on January 1, 2013. This law expands the scope of the VAT to certain financial services provided by credit card administrators and private financial entities that were previously exempt.

In August 2014, the Ministry of Production and Industrialization introduced a U.S.\$42 flat tax rate on all international online purchases under U.S.\$400 and up to 4 kilograms. Before the introduction of this tax only international online purchases in excess of \$400 and 4 kilograms were subject to tax. This tax is intended to encourage local market consumption by discouraging small online purchases made outside the country. The tax will be imposed on shipping companies for each package that enters the country. Packages shipped through certain state-owned postal services subject to international treaties will be exempt from the tax. Books for students for educational purposes are also exempt.

Foreign Aid

From 2009 to 2013, foreign aid to Ecuador consisted of less than U.S.\$123 million. The total amounts per year have been U.S.\$38.3 million, U.S.\$38.5 million, and U.S.\$45.8 million, in 2009, 2010, and 2011, respectively. As of 2012, Ecuador is no longer listed as a country in need for foreign aid based on revenues per capita requirements from the World Bank. As such, it did not receive foreign aid in 2012, 2013, or in the first nine months of 2014.

Central Government Expenditures

In 2009, Central Government expenditure as a percentage of GDP was 22.7%. Overall expenses in 2009 constituted U.S.\$14,218 million. Since then, the amount of Central Government expenditures has steadily

increased to U.S.\$25,861 million in 2013. The continuing increases in Central Government spending over the last six years can be primarily attributed to increases in (1) wages and salaries, which have increased, in absolute terms, from U.S.\$4,708 million in 2009 (when they constituted 33.1% of Central Government spending and 7.5% of total GDP) to U.S.\$7,897 million in 2013 (when they constituted 30.5% of Central Government spending and 8.4% of total GDP) and (2) fixed capital expenditures, which have increased from U.S.\$3,507 million in 2009 (when they constituted 24.7% of Central Government spending and 5.6% of total GDP) to U.S.\$8,538 million in 2013 (when they constituted 33.0% of Central Government spending and 9.0% of total GDP). The Government has also increased the amount of investment in infrastructure projects, specially highways, bridges, and hydroelectric plants. For more information see "The Ecuadorian Economy – Strategic Sectors of the Economy." In the first nine months of 2014, Central Government expenditures equaled U.S.\$17,448 million, an increase from Central Government expenditures in the first nine months of 2013 when they equaled U.S.\$18,232 million.

2014 and 2015 Budgets

In November of 2013, the National Assembly approved a U.S.\$34.3 billion budget for 2014, which is a 5.9% increase from the U.S.\$32.4 billion budget approved in 2013. The budget projects tax revenues at U.S.\$13.60 billion, assumes an average crude oil price of U.S.\$86.4 per barrel, and targets GDP growth of approximately 4.5% to 5.1% and a 3.2% inflation rate. It allocates U.S.\$1.4 billion for transportation, U.S.\$1.2 billion for electricity projects, U.S.\$2.4 billion for public health and U.S.\$4.9 billion for education and education initiatives. Overall, the budget proposes a deficit of U.S.\$5.4 billion, which is the result of the Republic's investments in infrastructure.

According to data from the Ministry of Finance, the 2014 budget was modified during the year. As of June 30, 2014, Ecuador increased the 2014 budget to U.S.\$36.2 billion. The modification was due to increases in construction costs of the Republic's hydroelectric plants and reflects a 5.53% increase from the initial budget for 2014. Since this increase is within 15% of the approved 2014 budget, National Assembly approval for the aforementioned modifications was not required. See "Public Sector Finances – Budget Process."

On October 31, 2014, the executive branch presented the 2015 draft budget to the National Assembly. The draft budget proposes a budget of U.S.\$36.3 billion for the year, which is a 5.8% increase from the U.S.\$34.3 billion budget for 2014. The draft budget projects tax revenues of U.S.\$15.6 billion, a 14.7% increase from the projected tax revenue for the 2014 budget. It assumes an average crude oil price of U.S.\$79.7 per barrel, which represents a 7.8% decrease from the U.S.\$86.4 assumption in the 2014 budget. GDP growth is targeted to be approximately 4.1% with a 3.9% inflation rate compared to 4.5% to 3.2%, respectively, in the 2014 budget. The draft budget also estimates that there will be a budget deficit of U.S.\$5.4 billion, which is the same estimate made in the 2014 budget. The draft budget, as presented, was approved by the National Assembly on November 20, 2014 and became effective on January 1, 2015.

On January 2015, in response to the decline of oil prices in the last quarter of 2014, Ecuador reduced its 2015 budget by U.S.\$1.4 billion, resulting in a modified budget of U.S.\$34.9 billion for 2015. The 2015 budget, as modified in January 2015, assumes an average crude oil price of U.S.\$60 per barrel. The Minister of Finance has announced that the adjustments will include a reduction of U.S.\$839.8 million in investment expenditures and U.S.\$580 million in current expenditures. These reductions are made primarily in the following sectors: national treasury (U.S.\$276 million), education (U.S.\$255 million), communications (U.S.\$229 million), health (U.S.\$169 million), agriculture and fishing (U.S.\$100 million). In addition to the reduction in expenditures, it is expected that the reduction in oil revenues will be compensated for by inflows from several sources, such as external financing (including loans from Chinese government entities issued pursuant to memorandums of understanding, as further described in "Public Debt- Debt Obligations" and a contingent credit with the IDB for U.S.\$300 million,) corporate tax increases in the aggregate amount of approximately U.S.\$518 million (see "The Ecuadorian Economy-Economic and Social Policies-Tax Reforms") and increased tariff duties of approximately U.S.\$240 million.

PUBLIC DEBT

General

Public sector debt, including internal and external debt of the financial and non-financial public sector and the external Central Bank debt balance, was U.S.\$30,140.0 million as of December 31, 2014, compared to U.S.\$22,846.7 million as of December 31, 2013, U.S.\$18,652.3 million as of December 31, 2012 and U.S.\$14,561.8 million as of December 31, 2011. The increase in public sector debt in 2014 was mainly due to the issuance of the 2024 Bonds. As calculated by the Ministry of Finance, the ratio of total public sector debt to GDP increased from 24.2% as of December 31, 2013 to 29.8 % at December 31, 2014. Interest payments on all debt obligations represent approximately 1% of GDP.

Since President Correa was elected in 2007, Ecuador has changed the focus of its public debt. Ecuador has focused on its relationships with Latin American-based multilateral entities and new bilateral partners, such as China. Ecuador has executed several loan agreements with China in the past six years and continues to collaborate with long-time partners such as Spain and Brazil. In Latin America, Ecuador has strengthened ties with IDB, CAF, and FLAR.

Under the 2008 Constitution, the National Assembly has the power to adopt legislation governing the issuance of public debt and to appropriate funds required for debt service. Acting pursuant to this constitutional mandate, the National Assembly approved the Code of Planning and Public Finance, which governs the procedures that must be observed in all public debt matters. The Code of Planning and Public Finance rules concerning public debt apply to the Ministry of Finance, which is the only Government institution allowed to contract for the issuance of sovereign debt by the Republic of Ecuador, as well as obligations of the municipalities guaranteed by the Government.

Because all public debt governed by the Code of Planning and Public Finance must comply with the public indebtedness policies adopted by the executive branch, the Ministry of Finance must obtain the approval of the Debt and Finance Committee of the Republic of Ecuador before signing any agreement with respect to sovereign debt including the Notes. See "Monetary System – Fiscal Policy." This requirement is established by Article 289 of the 2008 Constitution and Article 139 of the Code of Planning and Public Finance. Approval is not required for any obligation that is less than 0.15% of the General State Budget and does not have a sovereign guarantee. Any contract executed by the Ministry of Finance that required, but did not obtain the approval of the Debt and Finance Committee is null and void and unenforceable and may give rise to civil and criminal liability for the individuals involved. Approval of the Debt and Finance Committee is evidenced by a signed memorandum signed by each member of the Debt and Finance Committee. Once the Ministry of Finance obtains approval of the Debt and Finance Committee, it may sign the agreement incurring debt obligations, provided that the Attorney General of Ecuador has approved any clauses providing for foreign applicable law and/or arbitration in a foreign jurisdiction. Loan proceeds are disbursed to the Ministry of Finance, which in turn, transfers such proceeds to the ultimate borrower.

The use of proceeds for public debt is limited by Article 126 of the Public Planning and Finance Code. Under the Public Planning and Finance Code, proceeds of public debt transactions may only be used to: (1) finance Government programs, (2) finance infrastructure projects that have the capacity to repay the debt obligation and (3) refinance an existing external debt obligation on more favorable terms. The Public Planning and Finance Code prohibits public transactions for the purpose of paying ongoing expenses, with the exception of expenses related to health, education, and justice, under exceptional circumstances as determined by the President.

Although public debt service is the primary responsibility of the entity for whose benefit the loan was received, debt governed by the Code of Planning and Public Finance is an obligation of the Government. Accordingly, transfers from the Government to any entity pursuant to the annual budget take into account debt service obligations for the following year.

This external debt process is in place as a mechanism to ensure that Ecuador does not reach the high levels of debt it had incurred before the Correa administration. The system of authorization through the Constitution and the Debt and Finance Committee, plus the 40% of GDP debt limit and other provisions from the Public Planning and Finance Code seek to maintain a stable external debt and have resulted in a low debt to GDP ratio as compared to other countries.

External Debt

The total external debt of the public sector in Ecuador was U.S.\$17,581.9 million at December 31, 2014, compared to U.S.\$12,920.1 million at December 31, 2013, U.S.\$10,871.8 million at December 31, 2012, and U.S.\$10,055.3 million at December 31, 2011. The increase in public sector external debt since December 31, 2011 is primarily the result of the disbursements of loans to develop various major infrastructure projects, mostly related to hydroelectric energy in Ecuador, to promote energy independence and reduce reliance on non-renewable energy sources, and the issuance of the 2024 Bonds.

The following table sets forth information regarding Ecuador's public sector external debt as of dates indicated.

Public Sector External Debt						
(by debtor, in billions of U.S. dollars at the end of the year, except percentages)						
	At December 31,					
	2009⁽¹⁾	2010	2011	2012	2013	2014 ⁽²⁾
Central Government	6.50	7.73	9.18	9.88	11.86	15.43
Public financial and non-financial entities	0.90	0.94	0.88	0.99	1.06	2.15
Total	7.39	8.67	10.06	10.87	12.92	17.58
External public debt as a percentage of nominal GDP ⁽³⁾	11.8%	12.4%	12.7%	12.4%	13.7%	17.4%

Source: Ministry of Finance December 2014 Bulletin

(1) Includes U.S.\$3.95 billion in aggregate principal amount of 2012 and 2030 bonds that were tendered in 2009

(2) Includes the 2024 Bonds.

(3) Calculated using Central Bank GDP data for all years except 2014 figure where Ministry of Finance estimated year end 2014 GDP is used.

The following table shows the composition of the Republic's external public debt by type of creditor for the periods presented. Provincial governments and municipalities may incur debt through the Ministry of Finance if they follow certain requirements established by law, and certain provincial and municipal governments have issued external debt, which is included in the table above under the heading of "Public financial and non-financial entities."

Public Sector External Debt by Type of Creditor						
(in billions of U.S. dollars)						
	At December 31,					
	2009	2010	2011	2012	2013	2014
Multilateral	4.87	5.26	5.29	5.87	6.01	6.56
Bilateral	1.35	2.26	3.62	3.87	5.75	7.96
Commercial and Bonds	1.12	1.11	1.10	1.10	1.13	3.06
Total Public Sector External Debt	7.39	8.67	10.0	10.8	12.9	17.5
			6	7	2	8

Source: Ministry of Finance December 2014 Bulletin

The increase in bilateral debt of the Government and public financial and non-financial entities from December 31, 2009 to December 31, 2014 was due mainly to new debt being obtained from bilateral lenders rather than from the international bond markets, following the repurchase by the Government of the 12% U.S. dollar Denominated Global Bonds due in 2012 and the U.S. dollar Denominated Step-Up Global Bonds due in 2030. For more information see "Public Debt – Debt Obligations – 2012 and 2030 Bonds and tender offer."

As of December 31, 2014, total indebtedness owed to multilateral institutions was U.S.\$6.56 billion. The Government is current on all its obligations to multilateral institutions.

In 2009 the top three bilateral lenders to Ecuador were Spain, Italy and Japan, with debt levels of approximately U.S.\$326.3 million (21.5% of the total bilateral debt), U.S.\$277.1 million (18.3% of the total bilateral debt) and U.S.\$258.4 million (17.0% of the total bilateral debt). As of December 31, 2013, the top three bilateral lenders to Ecuador were China, Brazil and Spain, with debt levels of U.S.\$4,633.9 million (79.2% of the total bilateral debt), U.S.\$292.6 million (5.1% of the total bilateral debt) and U.S.\$190.7 million (3.3% of the total bilateral debt) respectively. As of December 31, 2014, the top three bilateral lenders to Ecuador continued to be China, Brazil and Spain, with debt levels of U.S.\$5,074.4 million (63.7% of the total bilateral debt), U.S.\$302.8 million (3.8% of the total bilateral debt) and U.S.\$158.1 million (1.9% of the total bilateral debt) respectively. The Government is current on all of its obligations to bilateral lenders.

Since 2010, Ecuador has agreed to three separate loan agreements with China Development Bank totaling U.S.\$5 billion, which are related to a multi-party contractual structure that involves crude oil delivery contracts entered into with PetroChina and Unipet. Deliveries under these contracts are based upon international spot prices, such as WTI plus or minus a spread, plus a premium paid due to the term of the contracts. The spread is calculated using Argus, a crude oil price assessment publication ("Argus") and the quality of crude oil as measured by the American Petroleum Institute. Under these agreements, Ecuador is required to invest the loaned amounts in specific infrastructure projects or programs in Ecuador.

The following table lists current material bilateral and multilateral indebtedness by agreement and lender.

Material Public External Debt
(in millions U.S.\$)

Creditor	Interest Rate Type	Currency	Date Issued	Maturity	Balance as of December 31, 2014
Multilateral					
IDB	Variable, Fixed	U.S.\$	1996- 2014	2014-2049	3,045.8
CAF	Variable	U.S.\$	2004- 2013	42014-2029	2,683.8
FLAR	Variable	U.S.\$	2012	2015	617.6
Others ⁽¹⁾	Fixed, Variable	Euro, U.S.\$	1964- 2012	2014-2044	212.80
Total Multilateral Debt					6,560.0
Bilateral ⁽²⁾					
China	Fixed, Variable	RMB, U.S.\$	2010-2013	2013-2033	5,074.4
Brazil	Variable	U.S.\$	1997-2013	2013-2023	302.8
Spain	Fixed	U.S.\$	1987-2006	2016-2036	158.1
Italy.....	Fixed	Euro	1995	2025	127.9
France.....	Fixed	Euro	1985-2013	2017-2028	119.5
Others ⁽³⁾	Fixed, Variable	DEG, Won, Libra, Chf	1983-2013	2014-2053	591.8
Total Bilateral Debt					7,960.9
Other Debt ⁽⁴⁾					9,621.0
Total External Debt					17,581.9

Source: Interest rate, currency, date of issue and maturity information based on information from Ministry of Finance. Balance figures based on December 2014 Bulletin.

- (1) Other multilateral loans include loans with the International Fund for Agricultural Development and the *Banco Internacional de Reconstrucción y Fomento*.
- (2) Includes amounts from loans to Paris Club members.
- (3) Other bilateral lenders include South Korea, Germany, France, and the United States, among others.
- (4) "Other debt" includes commercial debt and amounts owed under the 2012 and 2030 Bonds, the 2015 Bonds, the 2024 Bonds and the Brady Bonds.

The following table shows the rates of interest applicable to the outstanding principal balance of the Republic's public external debt at the dates indicated.

Interest on Public Sector External Debt				
	At December 31, 2014		At December 31, 2013	
	Amount (in millions of U.S. dollars, except percentages)	Percentage	Amount (in millions of U.S. dollars, except percentages)	Percentage
Fixed Rate				
0-3%.....	697	3.9	728.0	5.6
3-5%.....	336.7	1.9	457.6	3.5
5-8% ⁽¹⁾	8,063.2	45.9	5,788.3	44.8
More than 8% ⁽²⁾	994.2	5.6	979.6	7.6
Floating Rate	7,490.9	42.6	4,966.7	38.4
Total	17,581.3	100	12,920.1	100

Source: Ministry of Finance December 2014 Bulletin

(1) Reflect the amounts under the 2024 Bonds.

(2) Reflects the amounts under the 2012 and 2030 and the 2015 Bonds.

The following table sets forth scheduled debt service for the Republic's the total public external debt for the periods presented.

Public Sector External Debt Service Maturity 2014-2023									
	(in millions of dollars)								
	For the Year Ending December 31,								
	2015	2016	2017	2018	2019	2020	2021	2022	2023
Central Government	1,841	1,524	2,356	1,856	1,451	1,329	964	869	798
Principal.....	1,010	774	1,692	1,287	961	896	598	534	491
Interest.....	831	750	664	569	490	433	366	335	307
Rest of Public Sector	223	330	331	347	299	132	131	122	100
Principal.....	166	221	235	270	240	84	89	86	69
Interest.....	57	109	96	77	59	48	42	36	31
Total Debt Service	2,064	1,854	2,687	2,203	1,750	1,461	1,095	991	898

Source: Ministry of Finance as of December 2014.

Internal Debt

The Government's internal debt consists of obligations to both public sector and private entities. Public sector internal debt increased from U.S.\$2.84 billion at December 31, 2009 to U.S.\$12.56 billion at December 31, 2014, due primarily to increased issuances of long and short term government notes.

The following table sets forth the public sector internal debt for the periods presented.

Public Sector Internal Debt						
(in billions of U.S. dollars, except percentage)						
	At December 31					
	2009	2010	2011	2012	2013	2014
Central Government Notes.....	2.73	3.70	3.66	6.95	9.12	11.78
Governmental Entities ⁽¹⁾	0.11	0.97	0.85	0.83	0.80	0.78
Total	2.84	4.67	4.51	7.78	9.93	12.56
Internal public debt as a percentage of nominal GDP ⁽²⁾	4.5%	6.7%	5.7%	8.9%	10.5%	12.4%

Source: Ministry of Finance December 2014 Bulletin

(1) Direct issuances backed by IESS and the State Bank. Government is the debtor under all internal debt issuances.

(2) Calculated using Central Bank GDP data for all years except 2014 figure where Ministry of Finance estimated year end 2014 GDP is used.

As of December 31, 2014, approximately 93.8% of Ecuador's internal public indebtedness consists of long-term originally issued dollar-denominated notes. Currently, all internal debt obligations are issued through the Ministry of Finance. As of December 31, 2014 approximately 6.2% of Ecuador's internal public indebtedness is backed by Governmental Entities, such as IESS and the State Bank.

The Ministry of Finance and COSEDE, acting as trustees, temporarily assumed the debts and assets of AGD. They were then permanently transferred to CFN. For further information on these transfers, see "Monetary System - The Financial Safety Net- Deposit Insurance." Notes issued by the AGD matured and were fully paid off by the Government in December 2014.

Public Sector Internal Debt

(in millions of U.S.\$, except percentages)

	2009		2010		2011		2012		2013		2014	
	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%
Short-term notes	—	—	—	—	—	—	—	—	—	—	—	—
Long-term notes ⁽¹⁾	2,545	89.5	3,565	76.4	3,525	78.2	6,817	87.6	8,992	90.6	11,779	93.8
AGD notes ⁽²⁾	135	4.8	133	2.9	133	3.0	133	1.7	133	1.3	—	—
CFN notes ⁽³⁾	49	1.7	—	—	—	—	—	—	—	—	—	—
Total notes	2,729	96.0	3,698	79.3	3,659	81.2	6,950	89.3	9,125	91.9	11,779	93.8
Governmental Entities ⁽⁴⁾	113	4.0	967	20.7	848	18.8	830	10.7	802	8.1	780	6.2
Total internal debt	2,842	100	4,665	100	4,507	100	7,781	100	9,927	100	12,558	100

Source: Ministry of Finance October 2014 Bulletin

- (1) Securities placed by Ecuador according to decrees and resolutions issued to finance projects from the state budget and annual investment plan.
- (2) Law 98-17 of November 26, 1998, published in Official Gazette No. 78 of December 1, 1998 ("Law 98-17") authorized the issuance of government bonds as part of the resources for the operations of the Deposit Guarantee Agency. These bonds were issued for a term of 15 years, payment of principal at maturity and annual interest payments at a rate of 12%.
- (3) These bonds issued under Law 98-17 as a capital contribution to the National Finance Corporation. The value of these bonds was U.S.\$424.9 million and they had 7 and 11-year terms with semi-annual payments of principal and interest at Libor plus 180 days margin.
- (4) Direct issuances backed by IESS and the State Bank.

Ecuador has not issued any short-term debt (maturity equal to or less than one year), and it does not intend to issue such debt in the future. Ecuador's medium-term and short-term obligations have generally been issued to finance development projects and to restructure or provide for revenue shortfalls in the Government's budget for a given year. Notes issued for development projects are generally privately held by entities contracted to undertake these development projects. Notes issued for budget restructuring, which generally have a maturity greater than one year, are placed on the Quito and Guayaquil stock exchanges, and are currently held by both public and private holders.

Debt Obligations

Brady Bonds and Eurobonds

In May 1994, the Government reached an agreement with its commercial bank creditors to restructure the Republic's medium and long-term commercial bank debt (the "Brady Plan"). The Brady Plan offered creditors the opportunity to exchange existing principal for either: (i) 30-year notes of the same face amount (the "Par Notes"), with interest initially fixed at three percent (3%) incrementally increased over the first 10 years up to a rate of five percent (5%) or (ii) 30-year notes with a face amount equal to 55% of the face value of the debt exchanged (the "Discount Notes" together with the Par Notes, the "Brady Bonds") and bearing interest at the London Interbank Offered Rate ("LIBOR") plus 13-16%. The principal of Par Notes and Discount Notes was fully collateralized by 30-year U.S. Treasury notes and interest on those Notes was collateralized on a 12-month rolling basis. The Brady Plan also offered creditors the opportunity to exchange accrued and unpaid interest for two instruments: (i) 20-year notes bearing interest at LIBOR plus 13-16% (the "PDI Notes") and (ii) 10-year notes bearing-interest at LIBOR plus 13-16% and representing certain accrued and unpaid past due interest under the Consolidation Agreement (the "IE Notes").

On December 21, 1994, the Republic issued U.S.\$191.0 million of IE Notes. On February 28, 1995, the Republic issued U.S.\$1.9 billion, U.S.\$1.4 billion and U.S.\$2.4 billion of Par Notes, Discount Notes and PDI Notes, respectively. The Republic also agreed to make certain additional cash payments in respect of past due interest.

On April 25, 1997, the Republic issued U.S.\$350 million of its 11.25% Fixed Rate Eurobonds due 2002 and U.S.\$150 million of its Floating Rate Eurobonds due 2004 (together, the "Eurobonds"). In late 1999 and early 2000, the Republic defaulted on its Par Bonds, Discount Bonds, 11.25% Fixed Rate Eurobonds due 2002, Floating Rate Eurobonds due 2004, IE Notes and PDI Notes (together, the "Old Notes"). In June 2000, the Republic launched a global exchange offer whereby it offered U.S. dollar Denominated Global Bonds due 2012 (the "2012 Bonds") and U.S. dollar Denominated Step-Up Global Bonds due 2030 (the "2030 Bonds" together with the 2012 Bonds, the "2012 and 2030 Bonds") together with a cash payment for any and all of the Old Notes.

In December 2005, the Republic successfully launched an issuance of the 2015 Bonds. The use of the proceeds of the 2015 Bonds was to buyback certain of the 2012 Bonds in accordance with their terms. The last interest payment on the 2015 Bonds, which was due on December 15, 2014, was paid by the Republic in accordance with the relevant indenture. The Republic is current on its financial obligations under the 2015 Bonds and intends to make all payments on the 2015 Bonds as they become due and payable. The 2015 Bonds will mature in December 2015.

2012 and 2030 Bonds and tender offer

In 2008, Ecuador defaulted on its interest payments for the 2012 and 2030 Bonds in the aggregate amount of approximately U.S.\$157 million and principal payments of approximately U.S.\$3,200 million. The 2012 and 2030 Bonds were originally issued in exchange for prior debt offerings of the Republic in order to extend the maturity dates of those prior obligations. This default followed the publication of a report in 2008 by the Commission of Integral Audit of Public Credit ("CAIC"), a committee composed of representatives from both the Ecuadorian government and private sector organizations and members of civil society. CAIC reviewed Ecuador's debt obligations from 1976 to 2006 and in its report made a number of findings regarding the legitimacy of Ecuador's debt obligations (including the 2012 and 2030 Bonds), in particular relating to concerns involving the public assumption of private debt, appropriate authorizations, sovereign immunity, and the relevant economic terms of the debt obligations incurred. After the default, which occurred during the first term of President Correa's administration, Ecuador offered to repurchase the 2012 and 2030 Bonds. In April 2009 and November 2009 the Republic launched tender offers, in cash, to holders of the 2012 and 2030 Bonds. Approximately 93.22% of the bonds were tendered in the April 2009 and the November 2009 tender offers and were bought out at 35 cents on the dollar. Although some holders continue to hold the defaulted 2012 and 2030 Bonds, Ecuador has successfully repurchased additional 2012 and 2030 Bonds from remaining holders from 2009 onwards. As of the date hereof, the total aggregate amount of outstanding principal on the 2012 and 2030 Bonds is U.S.\$78.7 million, which represents 2.5% of the original aggregate principal amount of the 2012 and 2030 Bonds.

On December 12, 2014, GMO Trust issued proceedings against the Republic in respect of an alleged U.S.\$15,876,000 holding of 2030 Bonds. GMO voluntarily withdrew its complaint pursuant to a settlement agreement between the parties. A stipulation dismissing the complaint was filed on March 16, 2015; under that stipulation, the case cannot be re-filed.

On January 30, 2015, Daniel Penades issued proceedings against the Republic in respect of an alleged U.S.\$455,000 holding of 2030 Bonds. Daniel Penades has not yet served the Republic with his summons and complaint, and therefore the Republic as yet has no obligation to make any response to the suit.

2024 Bonds

On June 17 2014, the Republic successfully issued U.S.\$2,000 million of Bonds due June 2024 (the "2024 Bonds") with a coupon of 7.95%. The most recent interest payment on the 2024 Bonds, which was due

on December 20, 2014, was paid by the Republic in accordance with the relevant indenture. The Republic is current on its financial obligations under the 2024 Bonds and intends to make all payments as they become due and payable. The Republic is using the proceeds of the 2024 Bonds to finance its various hydroelectric projects and other infrastructure projects contemplated in its National Development Plan.

Other obligations

In June 2003, the Republic agreed with its Paris Club creditors to reschedule U.S.\$81 million of bilateral debt. Payments due on official development aid loans were rescheduled over a period of 20 years and those on other credits were rescheduled over a period of eighteen years. As of September 2014, the Republic was in compliance with all of the terms of its Paris Club loans. Further, in recent years, the Republic has launched successful debt exchanges in Germany, Spain and Italy.

Ecuador's other significant external debt transactions in 2014 include a U.S.\$116 million 2-year loan from Deutsche Bank to finance projects of the Ecuadorian air force and a U.S.\$400 million 3-year loan facility from Goldman Sachs. In April of 2014, the World Bank extended a U.S.\$1,000 million line of credit to Ecuador intended to help provide additional financing for Ecuador's hydroelectric projects. In September 2014, Noble Americas Corp. ("Noble") extended a U.S.\$1,000 million facility agreement to Petroecuador. The loan agreement with Noble is linked to a supply contract with Petroecuador to purchase diesel and naphtha products from Noble. Both the supply contract and the loan agreement have a term of 5 years. Also, in September 2014, FLAR extended a U.S.\$617 million three-year loan to finance Ecuador's current account deficit. In October 2014, the Republic entered into a U.S.\$100 million seven-year facility with Credit Suisse to finance roads and housing projects and a U.S.\$509 million 15-year facility with China Exim Bank to finance the construction of a 500kV transmission line project.

On November 24, 2014, Ecuador entered into a facility agreement with Bank of China Limited, Panama Branch (U.S.\$218 million commitment) and Deutsche Bank AG, Hong Kong Branch (U.S.\$93 million commitment) as the lenders. The total commitment of this credit facility is U.S.\$311 million. The loans are to be used to pay for up to 85% of the amount payable by the Ministry of Transportation and Public Works to SINOHYDRO Corporation Limited in connection with several highway and bridge construction projects. The facility has a final maturity date of November 24, 2027.

On December 1, 2014, Ecuador entered into a U.S.\$124.8 million facility agreement with the European Investment Bank. The loan is to be used for the financing of public infrastructure companies in Ecuador and provides for a term of four years.

On January 7, 2015, Ecuador entered into a memorandum of understanding with the China Development Bank Corporation in connection with a loan of up to U.S.\$1.5 billion. The proceeds of the loan are to be used for eligible infrastructure and development projects in Ecuador. On the same date, Ecuador entered into a framework agreement for future cooperation with China Exim Bank. This agreement allows the Ministry of Finance to regularly submit priority lists of projects which it proposes to be financed by China Exim Bank, within three years of the date of the agreement. The initial priority list includes six projects to be financed at a total cost of U.S.\$5.3 billion. The rights and obligations of the parties will be stipulated in relevant loan agreements to finance specific projects.

On February 26, 2015, Ecuador, entered into a Foreign Purchase Credit Agreement with Deutsche Bank, Sociedad Anónima Española. The loan is to be used to purchase radar equipment and other equipment for the air defense of Ecuador. This agreement provides for a U.S.\$88 million facility to be repaid in a term of nine years.

DESCRIPTION OF THE NOTES

Ecuador will issue Notes (as defined below) under an indenture between Ecuador and The Bank of New York Mellon (the "Trustee"), dated March 24, 2015 (the "Indenture"). The following description summarizes the material provisions of the Notes and the Indenture. This summary does not contain all of the information that may be important to you as a potential investor in the Notes. You should read the Indenture and the forms of Notes before making your investment decision.

General

Authorization

The issue of the Notes was authorized by the Republic's Debt and Finance Committee under Acta Resolutiva No.006 dated March 13, 2015 and Acta Resolutiva No.007 dated March 18, 2015.

Basic Terms

The Notes will:

- be general, direct, unsecured, unsubordinated and unconditional obligations of Ecuador, will be backed by the full faith and credit of Ecuador and will rank equally in terms of priority with Ecuador's External Indebtedness (other than Excluded Indebtedness), provided, that, such ranking is in terms of priority only and does not require that Ecuador make ratable payments on the Notes with payments made on its other External Indebtedness;
- be initially issued in an aggregate principal amount of U.S.\$750,000,000 of 10.500% Notes due March 24, 2020 (the "Notes");
- mature at par on March 24, 2020 (subject to any Optional Redemption, prepayment or repurchase);
- be issued in denominations of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof;
- be represented in the form of global notes, without coupons, registered in the nominee name of the common depositary for Euroclear and Clearstream for the accounts of its participants; and
- be redeemable at the option of Ecuador (see "Optional Redemption").

The reimbursement price at maturity is equal to 100% of the Notes' principal amount plus accrued interest.

Interest

Interest on the Notes will:

- accrue at the rate of 10.500% per annum;
- accrue from and including the date of issuance or the most recent payment date;
- be payable semi-annually in arrears on March 24 and September 24 of each year, commencing on September 24, 2015;
- be payable to the holders of record at the end of the Business Day immediately preceding the related interest payment date; and

- be computed on the basis of a 360-day year comprised of twelve 30-day months.

Payment

Ecuador will make payments of principal of, interest (including Additional Amounts (as defined below), if any) on and premiums, if any, on the Notes by wire transfer of immediately available funds to the London Paying Agent on the Business Day prior to each scheduled payment date. The London Paying Agent, will apply the amounts it receives from Ecuador towards the payment of principal, interest (including Additional Amounts, if any) and premiums, if any, then due. While the Notes are held in global form, the London Paying Agent will make such payments to Euroclear or Clearstream or its nominee, as the registered owner of the Notes, by check or wire transfer in immediately available funds. Euroclear or Clearstream will distribute the funds it receives from the London Paying Agent to beneficial holders of the Notes having accounts at Euroclear or Clearstream, in accordance with Euroclear's or Clearstream's records and operating procedures. To hold a beneficial interest in the Notes you must hold an account at Euroclear or Clearstream directly or through a financial or other institution that has a direct or indirect account with Euroclear or Clearstream.

None of Clearstream or Euroclear is an agent of Ecuador. The Trustee is a fiduciary of the holders of the Notes and any monies it receives from Ecuador will, pending payment, be held by it in trust for the exclusive benefit of the holders of the Notes. Euroclear and Clearstream are clearing agencies. The manner in which each of Euroclear and Clearstream maintains records of beneficial interest in the Notes and how it distributes payments made by Ecuador on account of such interest are within its sole discretion. None of Ecuador, the Trustee, the London Paying Agent or the initial purchasers shall have any responsibility or liability for any aspect of the records of, or payments made by, Euroclear or Clearstream or their nominees or direct participants, or for any failure on the part of Euroclear or Clearstream or their direct participants in making payments to holders of the Notes from the funds they receive. Ecuador's obligations to make payments of principal of and interest on the Notes shall be satisfied when such payments are received by the Trustee.

If Ecuador issues definitive Notes, the London Paying Agent will make payments by check mailed to the holder's registered address or, upon application by the holder of at least U.S.\$1,000,000 in principal amount of definitive Notes delivered to the Trustee not later than the relevant record date, by wire transfer to an account designated by such holder.

If any date for an interest or principal payment on the Notes is not a Business Day, Ecuador will make the payment on the next Business Day. No interest on the Notes will accrue as a result of this delay in payment.

If any money that Ecuador pays to the London Paying Agent for the purpose of making payments on any Notes is not claimed at the end of two years after the applicable payment was due and payable, then the money will be repaid to Ecuador. Ecuador will hold the money in trust for the relevant holders until six years from the date on which the payment first became due or a shorter period of time provided by law. Before any such repayment, the Trustee may mail or publish in an authorized newspaper notice that such money remains unclaimed. After any such repayment, holders entitled to receive payment from such monies may look only to Ecuador for such payment, and neither the Trustee nor any paying agent will be liable for such payment.

Additional Amounts

Unless otherwise required by law, Ecuador will make all principal and interest payments on the Notes without withholding or deducting any present or future taxes imposed by Ecuador or any of its political subdivisions or taxing authorities. If Ecuador is required by law to deduct or withhold taxes, Ecuador will pay the holders of the Notes such additional amounts as may be necessary to ensure that they receive the same amount as they would have received without any withholding or deduction. Any such amounts to be paid by Ecuador in accordance with this paragraph shall be "Additional Amounts".

Ecuador will not, however, pay any Additional Amounts in respect of any tax, assessment or other Governmental charge that is imposed due to any of the following:

- the holder or beneficial owner has or had some connection with Ecuador other than merely holding the Note or the receipt of any payment of principal of or interest on that Note;
- the holder has failed to present, where presentation is required, its Note for payment within 30 days after the payment first became due or, if the full amount of such payment is not received by the London Paying Agent on or prior to such due date, the date on which notice is given to the holder that such payment has been received and is available to the holder except to the extent that holder thereof would have been entitled to Additional Amounts on presenting the same for payment as on the last day of such period of 30 days;
- the holder or beneficial owner has failed to comply with any certification or other reporting requirement concerning its nationality, residence, identity or connection with Ecuador or any of its political subdivisions or taxing authorities, and Ecuador or any of its political subdivisions or taxing authorities requires compliance with these reporting requirements as a precondition to exemption from all or any portion of any tax withholding or deduction and has notified the holder or beneficial owner, as applicable, in writing at least 60 days prior to the first scheduled payment date for which compliance will be required;
- where the withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other directive implementing the conclusions of the ECOFIN Council meeting of November 26-27, 2002 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- a Note has been presented for payment by or on behalf of a holder who would have been able to avoid the withholding or deduction by presenting the relevant Note to another paying agent in a member state of the European Union.

Ecuador will pay any present or future stamp, court or documentary taxes or any other excise or property taxes, charges or similar levies that arise in Ecuador or any of its political subdivisions or taxing authorities in respect of the creation, issue, execution, delivery or registration of the Notes. Ecuador will also indemnify the holder and the Trustee from and against any stamp, court or documentary taxes or any other excise or property taxes, charges or similar levies in connection with the enforcement of Ecuador's obligations under the Notes following an event of default.

Repurchase

Ecuador may at any time, in accordance with applicable laws, tender for or repurchase the Notes at any price in the open market or otherwise. Any Notes so purchased (including upon any redemption) shall not be re-issued or resold except in compliance with the Securities Act and other applicable law. Ecuador may hold Notes it purchases or may surrender them to the Trustee for cancellation.

Optional Redemption

Ecuador will have the right at its option, upon giving not less than 30 days nor more than 60 days' notice to the holders of the Notes, to redeem the Notes, in whole or in part, at any time or from time to time prior to their maturity, at a redemption price equal to the greater of (i) 100.00% of the principal amount of such Notes and (ii) the sum of the present value of each remaining scheduled payment of principal and interest thereon (exclusive of interest accrued to the date of redemption) discounted to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate (as defined below) plus 50 basis points (the "Make-Whole Amount"), plus in each case accrued and unpaid interest to the redemption date on the Notes to be redeemed on such date (an "Optional Redemption").

On and after the redemption date, unless there is a default in the payment of amounts due, interest will cease to accrue on the Notes or any portion of the Notes called for redemption. If less than all of the Notes are

to be redeemed, the Notes to be redeemed shall be selected on a *pro rata* basis, selected by lot or by such method as the Trustee shall deem fair and appropriate (subject to the procedures of Euroclear and Clearstream).

"Comparable Treasury Issue" means the United States of America Treasury security or securities selected by an Independent Investment Banker (as defined below) as having an actual or interpolated maturity comparable to the period from the redemption date to the maturity date of the Notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of comparable debt securities of a comparable maturity to the period from the redemption date to the maturity date of such Notes.

"Comparable Treasury Price" means, with respect to any redemption date, (i) the average of the Reference Treasury Dealer Quotations (as defined below) for such redemption date, after excluding the highest and lowest such Reference Treasury Dealer Quotations or (ii) if Ecuador obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such quotations. When obtaining a Comparable Treasury Price, Ecuador must consult at least three Reference Treasury Dealers.

"Independent Investment Banker" means one of the Reference Treasury Dealers (as defined below) appointed by Ecuador.

"Reference Treasury Dealer" means a dealer selected by Ecuador that is a primary United States government securities dealers.

"Reference Treasury Dealer Quotation" means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Independent Investment Banker (after consultation with the Republic), of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to Ecuador by such Reference Treasury Dealer at 3:30 p.m., New York time on the third Business Day preceding such redemption date.

"Treasury Rate" means, with respect to any redemption date, the rate per annum equal to the semi-annual equivalent yield to maturity or interpolated maturity of the Comparable Treasury Issue (as defined below), assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

Certain Covenants

Ecuador has agreed that as long as any of the Notes remain outstanding or any amount payable by Ecuador under the Indenture remains unpaid, Ecuador will:

1. obtain and maintain in full force and effect all Ecuadorian Authorizations, necessary under the laws of Ecuador for the execution and delivery of, and performance by Ecuador under, the Notes and the Indenture or for their validity or enforceability, and take all necessary and appropriate Governmental and administrative action in Ecuador in order to be able to make all payments to be made by it under the Notes and the Indenture;
2. ensure that at all times its obligations under the Notes are general, direct, unsecured, unsubordinated and unconditional obligations of Ecuador and shall be backed by the full faith and credit of Ecuador and ensure that the Notes shall rank equally in terms of priority with Ecuador's External Indebtedness (other than Excluded Indebtedness), provided, that, such ranking is in terms of priority only and does not require that Ecuador make ratable payments on the Notes with payments made on its other External Indebtedness;
3. use its reasonable best efforts to list and thereafter to maintain the listing of the Notes on the Luxembourg Stock Exchange; and

4. not create or suffer to exist, or permit the Central Bank to create or suffer to exist, any Lien upon any of its present or future assets or revenues to secure or otherwise provide for the payment of any External Indebtedness of Ecuador or the Central Bank unless, on or prior to the date such Lien is created or comes into existence, the obligations of the Republic under the Notes and the Indenture are secured equally and ratably with such External Indebtedness.

Ecuador may, however, create or permit to subsist the following Liens ("Permitted Liens"):

- any Lien on property to secure External Indebtedness arising in the ordinary course of business to finance export, import or other trade transactions, which matures (after giving effect to renewals and refinancings) no more than one year after it was originally incurred;
- any Lien upon property to secure the purchase price of such property or to secure any External Indebtedness incurred solely for the purpose of financing the acquisition of such property;
- any Lien on property arising by operation of law (or pursuant to any agreement establishing a Lien equivalent to one which would otherwise exist under relevant local law), including without limitation any right of set-off with respect to demand or time deposits with financial institutions and bankers' liens with respect to property held by financial institutions (in each case deposited with or delivered to such financial institutions in the ordinary course of the depositor's activities);
- any Lien existing on such property at the time of its acquisition;
- any Lien in existence as of the date of issuance of the Notes;
- any Lien securing External Indebtedness issued upon surrender or cancellation of the principal amount of any of the Excluded Indebtedness, as defined under "—Certain Defined Terms" below, to the extent the Lien is created to secure the External Indebtedness;
- any Lien created in connection with any Project Financing, as defined under "—Certain Defined Terms" below, provided that the properties to which any such Lien applies are solely with respect to (A) properties which are the subject of such Project Financing or (B) revenues or claims which arise from the operation, failure to meet specifications, failure to complete, exploitation, sale or loss of, or damage to, such properties;
- additional Liens created in any calendar year upon assets, revenues or receivables of Ecuador having, when encumbered, a fair market value not exceeding an aggregate amount equal to U.S.\$50,000,000 (or the equivalent in other currencies) to collateralize, or to purchase collateral, guarantees or other credit support in respect of, new borrowings by Ecuador, provided that, to the extent that in any calendar year U.S.\$50,000,000 (or the equivalent in other currencies) exceeds such aggregate fair market value of the assets, revenues or receivables so encumbered during that year, the aggregate fair market value of assets, revenues and receivables which may be encumbered in subsequent calendar years shall be increased by the amount of such excess; *provided*, however, that the fair market value of the assets, revenues or receivables so encumbered in any calendar year shall in no event exceed U.S.\$150,000,000 (or the equivalent in other currencies); and
- any renewal or extension of any of the Liens described above; provided, that no renewal or extension of any permitted Lien shall (A) extend to or cover any property other than the property then subject to the Lien being extended or renewed or (B) increase the amount of financing secured by that Lien.

Events of Default

Each of the following is an event of default under the Notes:

1. *Non-Payment:* Ecuador fails, after the applicable payment date, to (i) make any payment of principal or Make-Whole Amount on the Notes (unless such non-payment is due to an administrative or technical error and is remedied within five Business Days of the date when such payment is due) or (ii) make any payment of an interest amount or Additional Amount on the Notes within 30 days of the date when such payment is due;
2. *Breach of Other Obligations:* Ecuador fails to perform or comply with any other obligation under the Notes or under the Indenture and Ecuador does not or cannot cure that failure within 30 days after it receives written notice from the Trustee or holders of at least 25% of the aggregate principal amount of the Notes then outstanding regarding that default;
3. *Cross Default:*
 - Ecuador fails to make any payment in respect of any External Indebtedness (other than Excluded Indebtedness) in an aggregate principal amount in excess of U.S.\$50,000,000 (or its equivalent in any other currency) when due (as such date may be extended by virtue of any applicable grace period or waiver);
 - The holders of at least 25% of the aggregate outstanding principal amount of any External Indebtedness (other than Excluded Indebtedness) having an aggregate principal amount in excess of U.S.\$50,000,000 (or its equivalent in any other currency), accelerate or declare such External Indebtedness to be due and payable, or required to be prepaid (other than by a regularly scheduled prepayment), prior to its stated maturity, as a result of Ecuador's failure to pay the principal or interest on such External Indebtedness, and such acceleration, declaration or prepayment is not annulled or rescinded within 30 days;
4. *Moratorium:* Ecuador, or a court of proper jurisdiction, declares a moratorium with respect to the payment of principal of, or interest on, Ecuador's External Indebtedness (other than Excluded Indebtedness);
5. *Validity:* Ecuador denies, repudiates or contests any of its payment obligations under the Notes or the Indenture in a formal administrative, legislative, judicial or arbitral proceeding; or any constitutional provision, treaty, law, regulation, decree, or other official pronouncement of Ecuador, or any final decision by any court in Ecuador having jurisdiction, renders it unlawful for Ecuador to pay any amount due on the Notes or to perform any of its obligations under the Notes or the Indenture;
6. *IMF Membership:* Ecuador fails to maintain its membership in the IMF;
7. *CAF, FLAR, and IDB Membership:* The Republic fails to maintain its membership in, or its eligibility to use the general resources or equivalent of, any of CAF, FLAR and IDB;
8. *Judgment:* There shall have been entered against Ecuador or the Central Bank in a matter related to External Indebtedness (other than Excluded Indebtedness) a final judgment, decree or order by a court of competent jurisdiction from which no appeal may be made, or is made within the time limit for doing so, for the payment of money in excess of U.S.\$50,000,000 (or its equivalent in another currency) and 120 days shall have passed since the entry of any such order without Ecuador having satisfied such judgment; or
9. *Arbitral award:* There shall be made against the Republic or the Central Bank in a matter related to External Indebtedness (other than Excluded Indebtedness) an arbitral award by a tribunal of competent jurisdiction from which no appeal or application to a tribunal or court of competent

jurisdiction to set aside may be made, or is made within the time limit for doing so, for the payment of money in excess of U.S.\$50,000,000 (or its equivalent in another currency) and 120 days shall have passed since the making of any such award without the Republic having satisfied the award.

If any of the above events of default occurs and is continuing, the Trustee may, and at the written direction of holders of at least 25% of the aggregate principal amount of the then-outstanding Notes, will declare the principal amount of all the Notes to be immediately due and payable by notifying Ecuador in writing. The Notes will become due and payable on the date such written notice is received by or on behalf of Ecuador, unless prior to such date all events of default in respect of all of the Notes have been cured or waived by the holders of not less than a majority of the principal amount of the outstanding Notes as provided in the Notes or in the Indenture.

The Trustee will, on behalf of the holders of all of the Notes, by written notice to Ecuador, rescind and annul such declaration of acceleration and its consequences, if:

- all events of default (other than the non-payment of principal that became due solely as a result of such acceleration) have been cured, waived by the holders of not less than a majority of the principal amount of the outstanding Notes or remedied; and
- the Trustee will have been reimbursed or otherwise compensated by Ecuador for all documented costs, expenses and liabilities reasonably incurred by the Trustee as a result of any such event of default.

Limitation on Time for Claims

Claims against Ecuador for the payment of principal of or interest on the Notes (including Additional Amounts and Make-Whole Amounts, if any) must be made within six years after the date on which such payment first became due, or such shorter period provided by applicable law.

Modifications – Collective Action

Any Modification of the Indenture or the terms and conditions of the Notes may be made or given pursuant to a written or other action of the holders of the Notes in accordance with the applicable provisions of the Indenture or the Notes.

The Notes contain collective action clauses regarding future Modifications, as defined under "—Certain Defined Terms" below, of the terms and conditions of the Notes or the Indenture as described below:

In the case of any Modification of the terms and conditions of the Notes or of the Indenture which constitutes a Non-Reserved Matter, as defined under "—Certain Defined Terms" below, such Modification may be made with the consent of Ecuador and of holders of at least 66 2/3% in aggregate principal amount of the Notes then outstanding.

In the case of any Modification of the terms and conditions of the Notes or of the Indenture which constitutes a Reserved Matter, as defined under "—Certain Defined Terms" below, such Modification may be made with the consent of Ecuador and of holders of at least 75% in aggregate principal amount of the Notes then outstanding.

Additionally, the Notes allow Ecuador to make Reserved Matter Modifications affecting two or more series of debt securities.

If the Republic proposes any Reserved Matter Modification (i) to the terms and conditions of the Notes and the terms and conditions of at least one other series of debt securities issued by the Republic, and/or (ii) to the Indenture insofar as it affects the Notes and to any other indenture(s), fiscal agency agreement(s) or similar issuance documentation relating to at least one other series of debt securities insofar as it affects such debt securities, (in each case, containing multiple series modification provisions in substantially the same form as in

the Indenture), any modification to the terms and conditions of two or more series may be made, and, in each case, further compliance therewith may be waived, with the consent of the Republic, and (x) the holders of at least 66⅔% of the aggregate principal amount of the outstanding debt securities of all series that would be affected by that reserved matter modification (taken in aggregate); and (y) the holders of more than 50% of the aggregate principal amount of the outstanding debt securities of each affected series (taken individually).

Any such proposed Reserved Matter Modification may be made in respect of some series of debt securities only and may be used for different groups of two or more series of debt securities, containing multiple series modification provisions substantially in the same form as in the Indenture, simultaneously.

If the Republic proposes any Reserved Matter Modification (i) to the terms and conditions of the Notes and the terms and conditions of at least one other series of debt securities issued by the Republic, and/or (ii) to the Indenture insofar as it affects the Notes and to any other indenture(s), fiscal agency agreement(s) or similar issuance documentation relating to at least one other series of debt securities insofar as it affects such debt securities, (in each case, containing multiple series modification provisions in substantially the same form as in the Indenture), any modification to the terms and conditions of two or more series may be made, and, in each case, further compliance therewith may be waived, with the consent of the Republic, and the holders of at least 75% of the aggregate principal amount of the outstanding debt securities of all series that would be affected by that Reserved Matter Modification (taken in aggregate), provided that the Uniformly Applicable condition is satisfied.

Any such proposed Reserved Matter Modification may be made in respect of some series of debt securities only and may be used for different groups of two or more series of debt securities, containing multiple series modification provisions substantially in the same form as in the Indenture, simultaneously.

The "Uniformly Applicable" condition will be satisfied if:

- (a) the holders of all the affected series of debt securities are invited to exchange, convert, or substitute their debt securities, on the same terms, for (i) the same new instrument or other consideration or (ii) a new instrument, new instruments or other consideration from an identical menu of instruments or other consideration; or
- (b) amendments proposed to the terms and conditions of each affected series of debt securities would, following implementation of such amendments, result in the amended instruments having identical provisions (other than provisions which are necessarily different, having regard to different currency of issuance),

and, for the purposes of establishing whether the Uniformly Applicable condition has been satisfied:

- (c) the "same terms" is to be construed as meaning the same offer on principal, the same offer on all interest accrued but unpaid prior to an exchange or event of default and the same offer on past due interest (or other relevant financial features of the applicable debt securities), but any such offer may contain differences as between different series of affected debt securities which are necessary having regard to the currency of denomination; and
- (d) the Republic shall promptly furnish one or more officer's certificate(s) to the Trustee, certifying that the Uniformly Applicable condition has been satisfied, and the Trustee shall be entitled to accept such officer's certificate(s) as conclusive evidence of the facts therein set forth.

Any debt securities owned or controlled, directly or indirectly, by the Republic or any Public Sector Instrumentality, which would be disregarded for the purposes of a vote (or written action) under the series of debt securities of which they form part, shall also be disregarded for the purposes of this calculation.

For the purpose of calculating the par value of the Notes and any affected series of debt securities which are to be aggregated with the Notes, the Republic may appoint a calculation agent (the "Calculation Agent"). The Republic shall, with the approval of the Calculation Agent, promulgate the methodology in

accordance with which the par value of the Notes and such affected series of debt securities will be calculated. In any such case where a Calculation Agent is appointed, the same person will be appointed as the Calculation Agent for the Notes and each other affected series of debt securities for these purposes, and the same methodology will be promulgated for each affected series of debt securities. If any series of affected debt securities are denominated in a currency other than U.S. dollars, the Republic shall appoint a single Calculation Agent who shall specify a commercially reasonable method for determining the U.S. dollar equivalent of such debt securities for purposes of voting.

The Republic shall appoint an Aggregation Agent (who may also be the Calculation Agent), which shall be independent of the Issuer, to calculate whether a Reserved Matter Modification has been approved by the required principal amount of the outstanding debt securities of the affected series of debt securities.

If any Reserved Matter Modification is sought in the context of a simultaneous offer to exchange the debt securities of one or more series for new debt instruments of Ecuador or any other person, Ecuador shall ensure that the relevant provisions of the Notes, as amended by such Modification, are no less favorable to the holders of the Notes than the provisions of the new instrument being offered in the exchange, or if more than one debt instrument is offered, no less favorable than the new debt instrument issued having the largest aggregate principal amount.

Ecuador agrees that it will not issue new Notes with the intention of placing such Notes with holders expected to support any Modification proposed by Ecuador (or that Ecuador plans to propose) for approval pursuant to the Modification provisions of the Indenture or of the terms and conditions of the Notes.

Any Modification consented to or approved by the holders of the Notes pursuant to the Modification provisions of the Indenture or of the terms and conditions of the Notes will be conclusive and binding on all holders of the Notes, whether or not they have given such consent or were present at a meeting of holders at which such action was taken, and on all future holders of the Notes (whether or not notation of such Modification is made upon the Notes). Any instrument given by or on behalf of any holder of a Note in connection with any consent to or approval of any such Modification will be conclusive and binding on all subsequent holders of such Note.

Before seeking the consent of any holder of a Note to a Reserved Matter Modification, Ecuador will provide the Trustee (for onward distribution to the holders of the Notes) the following information:

- a description of the economic or financial circumstances that, in Ecuador's view, explain the request for the proposed Reserved Matter Modification;
- if Ecuador has entered into a standby, extended funds or similar program with the IMF, CAF, FLAR, or IDB, a copy of that program (including any related technical memorandum);
- a description of Ecuador's proposed treatment of its other major creditor groups (including, where appropriate, Paris Club creditors, other bilateral creditors and internal debt holders) in connection with Ecuador's efforts to address the situation giving rise to the requested Reserved Matter Modification; and
- if any proposed Reserved Matter Modification contemplates debt securities being aggregated in more than one group of debt securities, a description of the proposed treatment of each such group.

For purposes of determining whether the required percentage of holders has consented to or voted in favor of any Modification, any Notes owned or controlled, directly or indirectly, by Ecuador or any Public Sector Instrumentality, as defined under "—Certain Defined Terms" below, shall be disregarded and deemed not to be outstanding. In determining whether the Trustee shall be protected in relying upon any Modification, only Notes that the Trustee knows to be so owned shall be so disregarded. Upon request of the Trustee, and together with any request for any Modification of the Indenture by Ecuador, Ecuador shall deliver to the Trustee a

certificate signed by an authorized representative of Ecuador listing all Notes, if any, known by Ecuador to be owned or held by or for the account of Ecuador or any Public Sector Instrumentality.

Ecuador and the Trustee may, without the vote or consent of any holder of the Notes, amend the Notes or the Indenture for the purpose of:

- adding to Ecuador's covenants for the benefit of the holders of the Notes;
- surrendering any of Ecuador's rights or powers;
- securing the Notes pursuant to the requirements of the Notes or otherwise;
- curing any ambiguity, or curing, correcting or supplementing any proven error in the terms and conditions of the Notes or in the Indenture;
- making any formal, minor or technical change; or
- amending the terms and conditions of the Notes or the Indenture in any manner which Ecuador and the Trustee may determine shall not adversely affect the interests of any holder of the Notes.

The Notes will clear and settle through Euroclear and Clearstream and will be issued in global book-entry form and registered in the nominee name of a common depositary for Euroclear and Clearstream. Beneficial interests in the Notes may be held through Euroclear and Clearstream and their direct and indirect participants. See "Settlement and Clearance" for a description of the procedures applicable to book-entry securities.

The Trustee shall not be required to sign any amendment that adversely affects its rights, duties, liabilities or immunities.

Definitive Notes

Ecuador will issue Notes in definitive form (i.e. not in book-entry but physical form) only if:

- the depositary notifies Ecuador that it is unwilling or unable to continue as depositary, is ineligible to act as depositary or, ceases to be a clearing agency registered under the US Securities Exchange Act of 1934, as amended and Ecuador does not appoint a successor depositary or clearing agency within 90 days;
- Ecuador decides that it no longer wishes to have all or part of the Notes represented by global notes;
- the Trustee has instituted or been directed in writing by the requisite holders to institute any judicial proceeding to enforce the rights of the holders under the Notes and has been advised by its legal counsel that it should obtain possession of the Notes for purposes of the proceeding;
- an event of default has occurred and is continuing and (A) any holder requests the Trustee to exchange its interest in the Note in the form of a Global Note for a Definitive Note, or (B) 25% of all outstanding holders direct the Trustee to exchange all of Notes represented by global notes for Notes in definitive form; or
- certain other events provided in the Indenture occur.

In the event Ecuador issues Notes in definitive form, the beneficial owners receiving those Notes should review their terms and conditions, and in particular the restrictions on transfers of the Notes, set forth in the Note certificates.

Trustee, London Paying Agent, Luxembourg Listing Agent, Transfer Agents; Registrar

The Bank of New York Mellon, London Branch will serve as the London paying agent and the Trustee will serve as the transfer agent and registrar for the benefit of the holders of Notes. The Republic, acting for the exclusive benefit of the holders of the Notes, may also appoint, one or more paying agents in London, England for the purpose of facilitating Ecuador's payment of amounts due on the Notes. Ecuador may at any time instruct the Trustee to terminate the appointment of any paying agent and instruct the Trustee to appoint other paying agents. So long as any of the Notes remain outstanding, there shall be maintained, at Ecuador's expense, (1) in London, England in an office or agency where the Notes may be presented for payment, (2) in New York, New York in an office or agency where the Notes may be presented for exchange, transfer and registration of transfer as provided in the Indenture and, (3) in New York, New York in an office or agency where notices and demands in respect of the Notes or the Indenture may be served. A paying agent will also be maintained in a Member State of the European Union that is not obliged to deduct or withhold tax pursuant to European Council Directive 2003/48/EC or any other European Council Directive implementing the conclusions of the ECOFIN Council meeting of November 26-27, 2002 on the taxation of savings income or any law implementing or complying with, or introduced in order to, conform to such Directive. In addition, so long as the Notes are listed on the Luxembourg Stock Exchange and trade on the Euro MTF, and the rules of such exchange so require, a paying agent and a transfer agent will be maintained in Luxembourg. Ecuador will provide prompt notice of the termination, appointment or change in the office of any paying agent, transfer agent or registrar acting in connection with the Notes.

Notices

All notices to the holders of Notes will be published, at the expense of Ecuador, in the Wall Street Journal of New York, New York, the Financial Times of London, England, and, if and so long as the Notes are listed on the Luxembourg Stock Exchange (and, if applicable, traded on the Euro MTF market of the Luxembourg Stock Exchange), the Luxemburger Wort of Luxembourg. If any of such newspapers shall cease to be published, the Trustee or upon consultation with Ecuador, will substitute for it another newspaper customarily published in New York, London or Luxembourg, as the case may be. If, because of temporary suspension of publication or general circulation of any newspaper or for any other reason, it is impossible to make any publication of any notice in the manner provided above, any other publication or other notice which is acceptable to the Trustee shall constitute a sufficient publication of such notice. Notices will also be published on the website of the Luxembourg Stock Exchange. Notices shall be deemed to have been given on the date of publication or, if published on different dates, on the date of the first such publication. Notices will also be delivered to holders at their registered addresses or sent in accordance with the clearing system's then applicable procedures. Notices to holders of Global Notes shall be given in accordance with the Depositary procedures.

So long as a clearing system, or its nominee, is the registered holder of a global note, each person owning a beneficial interest in that global note must rely on the procedures of that clearing system to receive notices in connection with the Notes. Each person owning a beneficial interest in a global note who is not a direct participant in a clearing system must rely on the procedures of the participant through which the person owns its interest in the global note to receive notices provided to the clearing system. Ecuador will consider mailed notice to have been given three Business Days after it has been sent.

Further Issues of Securities

Ecuador may, from time to time, without the consent of the holders of the Notes, create and issue additional Notes with the same terms and conditions as the Notes in all respects (or in all respects except for the amount of the first interest payment and the issue price) so long as the additional Notes are consolidated and form a single series with the outstanding Notes, provided that such additional Notes do not have, for purposes of US federal income taxation, a greater amount of original issue discount than the outstanding Notes have as of the date of the issue of such additional Notes (regardless of whether any holders of such Notes are subject to US federal income taxation).

Submission to Arbitration

Any dispute, controversy or claim of any nature arising out of, relating to or having any connection with the Indenture, including any dispute as to the existence, validity, interpretation, performance, breach, termination or consequences of the nullity of the Indenture (a "Dispute") where the Republic is either a party, claimant, respondent or otherwise is necessary thereto, will not be referred to a court of any jurisdiction and will instead be referred to and finally resolved by arbitration under the Rules of the LCIA ("LCIA Rules") as at present in force as modified by the Indenture, which LCIA Rules are deemed to be incorporated by reference. In particular:

- (a) There will be three arbitrators.
 - (i) Each arbitrator will be an English or New York qualified lawyer of at least 15 years' standing with experience in relation to international banking or capital markets disputes. At least one of those arbitrators will be a lawyer qualified in New York.
 - (ii) If there are two parties to the Dispute, each party will be entitled to nominate one arbitrator. If there are multiple claimants and/or multiple respondents, all claimants and/or all respondents shall attempt to agree upon their respective nomination(s) such that the claimants shall together be entitled to nominate one arbitrator and the respondents will together be entitled to nominate one arbitrator. If any such party or multiple parties fail to nominate an arbitrator within thirty (30) days from and including the date of receipt of the relevant request for arbitration, an arbitrator will be appointed on their behalf by the LCIA Court in accordance with the LCIA Rules and applying the criteria at clause (ii) above. In such circumstances, any existing nomination or confirmation of the arbitrator chosen by the party or parties on the other side of the proposed arbitration will be unaffected, and the remaining arbitrator(s) will be appointed in accordance with the LCIA Rules.
- (b) The third arbitrator and chairman of the arbitral tribunal will be appointed by the LCIA Court in accordance with the LCIA Rules and applying the criteria at clause (ii) above.
- (c) The seat, or legal place, of arbitration will be London, England.
- (d) The language to be used in the arbitration shall be English. The arbitration provisions of the Indenture shall be governed by English law.
- (e) Without prejudice to any other mode of service allowed by law, the Republic hereby appoints Law Debenture Corporate Services Limited, with its registered office at 5/F, 100 Wood Street, EC2V 7EX, London, England (the "Process Agent") as its agent under the Indenture for service of process in relation to any proceedings before the English courts in relation to any arbitration contemplated by the Indenture or in relation to recognition or enforcement of any such arbitral award obtained in accordance with the Indenture.

If the Process Agent is unable to act as the Republic's agent under the Indenture for the service of process, the Republic must immediately (and in any event within ten (10) days of the event taking place) appoint another agent (a "Replacement Agent") on terms acceptable to the Trustee.

The Republic agrees that failure by the Process Agent or, as applicable, a Replacement Agent, to notify the Republic of the process will not invalidate the proceedings concerned.

Any Dispute where the Republic is not a party, claimant, respondent or otherwise is necessary thereto, will be subject to the non-exclusive jurisdiction of any New York state or United States federal court sitting in the Borough of Manhattan, the City of New York, and any appellate court from any thereof, in any action or proceeding arising out of or relating to the Indenture (except actions or proceedings arising under or in connection with U.S. federal and state securities laws), and the Trustee and the holders of the Notes hereby

irrevocably submit to such jurisdiction and agree that all claims in respect of such Dispute may be heard and determined in such New York state or United States federal court.

Sovereign Immunity

The execution and delivery of the Indenture by the Republic constitutes, and the Republic's performance of and compliance with its obligations will constitute an act of commercial public credit as provided under the laws of the Republic. To the extent permitted by law, the Republic irrevocably and unconditionally agrees that:

- (a) the Republic submits to the jurisdiction of any Ecuadorian court and to any legal process in the Republic's courts (other than attachment proceedings prior to recognition or enforcement of an arbitral award), in connection with the enforcement of an arbitral award obtained in accordance with the Indenture, except with respect to the Immune Property, which shall be entitled to immunity from enforcement in accordance with mandatory provisions of the laws of Ecuador;
- (b) the Republic submits to the jurisdiction of any court outside the Republic and to any legal process, orders or other measures in courts outside the Republic, whether through service or notice, attachment in aid of execution, execution against property of any sort, actions in rem or the grant of injunctions or specific performance, in connection with the enforcement of an arbitral award obtained in accordance with the Indenture;
- (c) the Republic undertakes not to invoke any defense on the basis of any kind of immunity, for itself and/or its assets which do not constitute Immune Property in respect of any of the foregoing legal actions or proceedings; and
- (d) the Republic submits to the jurisdiction of the English courts in connection with any proceeding invoking the supervisory jurisdiction of those courts in relation to an arbitration conducted pursuant to the Indenture.

The levy of execution on assets of the Republic within the territory of the Republic shall be carried out in accordance with and under the laws of the Republic.

The Republic irrevocably waives, to the fullest extent permitted by law, any requirement or provision of law that requires the posting of a bond or other security as a condition to the institution, prosecution or completion of any action or proceeding.

An arbitral award obtained in accordance with the Indenture will be conclusive and may be enforced in any jurisdiction in accordance with the New York Convention or in any other manner provided for by law.

"Immune Property," in accordance with the provisions of the law of Ecuador, means:

- (a) any property which is used or designated for use in the performance of the functions of the diplomatic mission of Ecuador or its consular posts;
- (b) aircraft, naval vessels and other property of a military character or used or designated for use in the performance of military functions;
- (c) property forming part of the cultural heritage of Ecuador or part of its archives;
- (d) unexploited natural non-renewable resources in Ecuador;
- (e) funds managed in the national Treasury Account;

- (f) assets and resources comprising available monetary reserves of Ecuador;
- (g) public domain assets used for providing public services in Ecuador; and
- (h) national assets located in the territory of Ecuador and belonging to the Republic, such as streets, bridges, roads, squares, beaches, sea and land located over 4,500 meters above sea level.

"New York Convention" means the New York Convention on the Recognition and Enforcement of Arbitral Awards 1958.

Indemnity

The Republic will indemnify the holders of the Notes and pay the Trustee on demand for the benefit of the holders of the Notes any attached amounts plus any accrued amounts to the date of payment at the interest rate set forth in the Notes in the event the Trustee or Paying Agent fails (without negligence or willful misconduct) to pay some or all of those amounts to the depositary for credit to the holders of the Notes because those funds are attached by one or more holders of Excluded Indebtedness prior to the receipt of such funds by the depositary or because any Trustee or Paying Agent is otherwise restrained or prevented from transferring the funds to the depositary as a result of legal action taken by one or more holders of Excluded Indebtedness.

Transfer Restrictions

The Notes have not been and will not be registered under the Securities Act, and will be subject to restrictions on transferability and resale. See "Transfer Restrictions".

Governing Law

The Notes and the Indenture will be governed by the laws of the State of New York, except for those parts concerning submissions to arbitration, which shall be governed by English law.

Judgment Currency

U.S. dollars are the sole currency of account and payment for all sums due and payable by Ecuador under the Indenture and the Notes. If, for the purpose of obtaining judgment in any court, it is necessary to convert a sum due hereunder in U.S. dollars into another currency, Ecuador will agree, to the fullest extent that they may legally and effectively do so, that the rate of exchange used shall be that at which in accordance with normal banking procedures a person could purchase U.S. dollars with such other currency in New York, New York, on the Business Day immediately preceding the day on which final judgment is given.

The obligation of Ecuador in respect of any sum due to any noteholder or the Trustee in U.S. dollars shall, to the extent permitted by applicable law, notwithstanding any judgment in a currency other than U.S. dollars, be discharged only to the extent that on the Business Day following receipt of any sum adjudged to be so due in the judgment currency such noteholder or Trustee may in accordance with normal banking procedures purchase U.S. dollars in the amount originally due to such person with the judgment currency. If the amount of U.S. dollars so purchased is less than the sum originally due to such person, Ecuador agrees, as a separate obligation and notwithstanding any such judgment, to indemnify such person against the resulting loss; and if the amount of U.S. dollars so purchased is greater than the sum originally due to such person, such person will, by accepting a Note, be deemed to have agreed to repay such excess.

Certain Defined Terms

The following are certain definitions used in the Notes:

- "Business Day" means any day except a Saturday, Sunday or other day on which commercial banks in London, the City of New York or Quito, Ecuador are required or authorized by law to be closed.
- "Ecuadorian Authorization" means any approval, authorization, permit, consent, exemption or license or other action of or by, and any notice to or filing with, any Governmental authority, agency, regulatory or administrative body of Ecuador or of any Ecuadorian political subdivision.
- "Excluded Indebtedness" means the following series of securities issued by the Republic:
 - (i) the 12 percent U.S. dollar Denominated Global Bonds due 2012; and
 - (ii) the U.S. dollar Denominated Step-up Global Bonds due 2030.
- "External Indebtedness" means all Indebtedness (other than the Notes) that is not (i) issued pursuant to agreements or evidenced by instruments that expressly submit the resolution of all disputes to the exclusive jurisdiction of the courts of Ecuador or (ii) governed by Ecuadorian law.
- "Indebtedness" means for any person (a) all indebtedness of or guaranteed by such person for or in connection with borrowed money, and (b) all obligations of or guaranteed by such person (other than those specified in clause (a) above) evidenced by debt securities, debentures, notes or other similar instruments; provided that Indebtedness shall not include commercial agreements not having the commercial effect of a borrowing.
- "Lien" means any lien, pledge, mortgage, security interest, deed of trust, charge or other encumbrance or other preferential arrangement having the practical effect of constituting a security interest.
- "Majority" means greater than 50%.
- "Modification" means any modification, amendment, supplement, request, demand, authorization, direction, notice, consent, waiver (other than a waiver of an event of default that is waived by the majority of the holders as set forth under "—Events of Default" above), or other action provided by the Indenture or the terms and conditions of the Notes.
- "Non-Reserved Matter" means any Modification other than a Modification constituting a Reserved Matter.
- "Project Financing" means any financing of all or part of the costs of the acquisition, construction or development of any properties in connection with a project if the person or persons providing such financing expressly agree to look to the properties financed and the revenues to be generated by the operation of, or loss of or damage to, such properties as the principal source of repayment for the moneys advanced.
- "Public Sector Instrumentality" means the Central Bank, any department, ministry or agency of the Government or any corporation, trust, financial institution or other entity owned or controlled by the Government or any of the foregoing.
- "Reserved Matter" means any Modification that would:
 - A. change the due date for the payment of the principal of (or premium, if any) or any installment of interest on the Notes;

- B. reduce the principal amount of the Notes, the portion of such principal amount which is payable upon acceleration of the maturity of the Notes, the interest rate on the Notes or the premium payable upon redemption of the Notes;
- C. change the coin or currency in which payment of interest, premium or principal in respect of the Notes is payable and the place where such payment must be made;
- D. reduce the proportion of the principal amount of the Notes the vote or consent of the holders of which is necessary to make any Modification to or with respect to the terms and conditions of the debt securities of one or more series or the Indenture, or change the definition of "Outstanding" under the Notes;
- E. change Ecuador's obligation to pay Additional Amounts on the Notes;
- F. change the governing law provision of the Notes;
- G. change the arbitral forum to which the Republic has submitted, the Republic's waiver of immunity, the scope of the Republic's indemnities in the Indenture or the Republic's appointment of the process agent without appointing a substitute process agent in London, in respect of actions or proceedings brought by any holder based upon the Notes;
- H. change the seniority of the Notes;
- I. authorize and/or instruct the Trustee, on behalf of all holders, to exchange or substitute all their Notes for, or convert all their Notes into, other obligations or securities of Ecuador or any other person; or
- J. change the definition of "Uniformly Applicable" or "Reserved Matter".

Registration and Book-Entry System

Ecuador may issue the Notes in whole or in part in the form of one or more global notes, the ownership and transfer of which are recorded in computerized book-entry accounts, eliminating the need for physical movement of Notes. Ecuador refers to the intangible Notes represented by a global Note as "book-entry" Notes.

Ecuador will deposit any global Note it issues with the common depositary of the clearing system. The global Note will be registered in the name of the nominee of the common depositary. Unless a global Note is exchanged for definitive Notes, discussed above under "—Definitive Notes," it may not be transferred, except among the clearing system, its nominees or common depositaries and their successors. Clearing systems include Euroclear and Clearstream in Europe.

Clearing systems process the clearance and settlement of book-entry securities for their direct participants. A "direct participant" is a bank or financial institution that has an account with a clearing system. The clearing systems act only on behalf of their direct participants, who in turn act on behalf of indirect participants. An "indirect participant" is a bank or financial institution that gains access to a clearing system by clearing through or maintaining a relationship with a direct participant.

Euroclear and Clearstream are connected to each other by a direct link.

Ecuador, the Trustee and any Paying Agent will treat the registered holder of a global note as the absolute owner of the note for all purposes. The legal obligations of Ecuador, the Trustee, and any agent run only to the registered owner of a global note, which will be the relevant clearing system or the nominee of the common depositary. For example, once Ecuador arranges for payments to be made to the registered holder, Ecuador will no longer be liable for the amounts so paid on the note. In addition, if you own a beneficial

interest in a global note, you must rely on the procedures of the institutions through which you hold your interests in the note (including Euroclear, Clearstream, and their participants) to exercise any of the rights granted to the holder of the note. Under existing industry practice, if you desire to take any action that the holder of a note is entitled to take, then the registered holder would authorize the clearing system participant through which you own your beneficial interest to take the action, and the participant would then either authorize you to take the action or act for you on your instructions.

SUBSCRIPTION AND SALE

Citigroup Global Markets Limited is acting as the Lead Manager (the "Lead Manager") of this offering. Subject to the terms and conditions in the purchase agreement dated the date of this Offering Circular (the "Purchase Agreement"), the Lead Manager will agree to purchase and the Republic will agree to sell to the Lead Manager, the total principal amount of the Notes.

The Purchase Agreement provides that the obligations of the Lead Manager to purchase the Notes are subject to approval of legal matters by counsel and to other conditions. The Lead Manager must purchase all the Notes if it purchases any of the Notes.

The Republic has been advised that the Lead Manager proposes to resell the Notes at the offering price set forth on the cover page of this Offering Circular within the United States to qualified institutional buyers (as defined in Rule 144A) in reliance on Rule 144A and outside the United States in reliance on Regulation S. See "Transfer Restrictions." The price at which the Notes are offered may be changed at any time without notice.

The Notes have not been and will not be registered under the Securities Act or any state securities law and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except in transactions exempt from, or not subject to, the registration requirements of the Securities Act. See "Transfer Restrictions."

Accordingly, the Lead Manager has agreed that, except as permitted by the Purchase Agreement and set forth in "Transfer Restrictions," it will not offer or sell the Notes within the United States or to, or for the account or benefit of, U.S. persons as part of the distribution of the Notes.

In addition, until 40 days after the commencement of this offering, an offer or sale of Notes within the United States by a dealer that is not participating in this offering may violate the registration requirements of the Securities Act if that offer or sale is made otherwise than in accordance with Rule 144A.

Although application has been made to list the Notes on the Official List of the Luxembourg Stock Exchange and to have the Notes trade on the Euro MTF Market, the listing does not assure that a trading market for the Notes will develop. The Lead Manager intends to make a secondary market for the Notes. However, it is not obligated to do so and may discontinue making a secondary market for the Notes at any time without notice. No assurance can be given as to how liquid the trading market for the Notes will be. The Republic cannot provide any assurances that the prices at which the Notes will trade in the market after this offering will not be lower than the initial offering price or that an active trading market for the Notes will develop and continue after this offering.

The Republic estimates that its portion of the total expenses of this offering, including underwriter's fees, will be U.S.\$6,000,000.

In connection with the offering, the Lead Manager may purchase and sell Notes in the open market. Purchases and sales in the open market may include short sales, purchases to cover short positions and stabilizing purchases.

- Short sales involve secondary market sales by the Lead Manager of a greater number of Notes than it is required to purchase in the offering.
- Covering transactions involve purchases of Notes in the open market after the distribution has been completed in order to cover short positions.
- Stabilizing transactions involve bids to purchase Notes so long as the stabilizing bids do not exceed a specified maximum.

Purchases to cover short positions and stabilizing purchases, as well as other purchases by the Lead Manager for its own account, may have the effect of preventing or retarding a decline in the market price of the Notes. They may also cause the price of the Notes to be higher than the price that would otherwise exist in the open market in the absence of these transactions. The Lead Manager may conduct these transactions in the over-the-counter market or otherwise. If the Lead Manager commences any of these transactions, it may discontinue them at any time.

The Lead Manager is a full service financial institution engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. The Lead Manager and its respective affiliates have in the past performed commercial banking, investment banking and advisory services for the Republic from time to time for which they have received customary fees and reimbursement of expenses and may, from time to time, engage in transactions with and perform services for the Republic in the ordinary course of their business for which they may receive customary fees and reimbursement of expenses. In the ordinary course of its various business activities, the Lead Manager and its respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own accounts and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve the Republic's securities and instruments.

The Republic has agreed to indemnify the Lead Manager against certain liabilities, including liabilities under the Securities Act, or to contribute to payments that the Lead Manager may be required to make because of any of those liabilities.

Selling Restrictions

United States of America

No registration under Securities Act

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and in compliance with any applicable state securities laws. Accordingly, the Notes are being offered, sold or delivered only: (a) outside the United States in offshore transactions in reliance on Regulation S and (b) in the United States only to QIBs in connection with resales by the Lead Manager, in reliance on, and in compliance with, Rule 144A. In addition, until 40 days after the commencement of the offering, an offer or sale of any of the Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if the offer or sale is made otherwise than in accordance with Rule 144A.

Canada

The distribution of the Notes in Canada is being made only on a private placement basis exempt from the requirement that the Republic prepare and file a prospectus with the applicable securities regulatory authorities. The Republic is not a reporting issuer in any province or territory in Canada and its Notes are not listed on any stock exchange in Canada and there is currently no public market for the Notes in Canada. The Republic currently has no intention of becoming a reporting issuer in Canada, filing a prospectus with any securities regulatory authority in Canada to qualify the resale of the Notes to the public, or listing its securities on any stock exchange in Canada. Accordingly, to be made in accordance with securities laws, any resale of the Notes in Canada must be made under available statutory exemptions from registration and prospectus requirements or under a discretionary exemption granted by the applicable Canadian securities regulatory authority. Canadian purchasers are advised to seek legal advice prior to any resale of the Notes.

Each Canadian purchaser who purchases Notes on a private placement basis pursuant to this Canadian offering circular will be deemed to have represented to and agreed with the Republic and the Lead Manager that such purchaser: (i) is entitled under applicable securities laws to purchase such Notes without the benefit of a

prospectus qualified under such securities laws; (ii) is resident in Canada; (iii) is not a U.S. person as defined in Rule 902 of Regulation S under the U.S. Securities Act of 1933; (iv) is purchasing the Notes with the benefit of the prospectus exemption provided by Section 2.3 of National Instrument 45-106 – Prospectus and Registration Exemptions ("NI 45-106") (that is, such purchaser is an "accredited investor" within the meaning of NI 45-106 and is either purchasing Notes as principal for its own account, or is deemed to be purchasing the Notes as principal for its own account in accordance with applicable securities laws); (v) if not an individual, the purchaser was not created or used solely to purchase or hold Notes as an accredited investor under NI 45-106; (vi) is a permitted client within the meaning of National Instrument 31-103 – Registration Requirements, Exemptions and Ongoing Registrant Obligations; and (vii) if required by applicable securities laws or stock exchange rules, the purchaser will execute, deliver and file or assist the Republic in obtaining and filing such reports, undertakings and other documents relating to the purchase of the Notes by the purchaser as may be required by any securities commission, stock exchange or other regulatory authority.

United Kingdom

The Lead Manager has represented, warranted and agreed that:

- (a) **Financial promotion:** it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the "FSMA")) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Republic; and
- (b) **General compliance:** it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Republic of Italy

The offering of the Notes has not been registered with the Commissione Nazionale per le Società e la Borsa ("CONSOB") pursuant to Italian securities legislation. The Lead Manager represents and agrees that any offer, sale or delivery of the Notes or distribution of copies of this Offering Circular or any other document relating to the Notes in the Republic of Italy will be effected in accordance with all Italian securities, tax and exchange control and other applicable laws and regulations.

Any such offer, sale or delivery of the Notes or distribution of copies of this Offering Circular or any other document relating to the Notes in the Republic of Italy must be:

- (a) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with Legislative Decree No. 58 of 24 February 1998, CONSOB Regulation No. 16190 of 29 October 2007 and Legislative Decree No. 385 of 1 September 1993 (in each case as amended from time to time); and
- (b) in compliance with any other applicable laws and regulations or requirement imposed by CONSOB or any other Italian authority.

Switzerland

The Notes may not be publicly offered, sold or advertised, directly or indirectly, in, into or from Switzerland, as such term is used under the Swiss Code of Obligations, and will not be listed on the SIX Swiss Exchange or on any other exchange or regulated trading facility in Switzerland. Neither this Offering Circular nor any other offering or marketing material relating to the Notes constitutes an Offering Circular as such term is understood pursuant to article 652a or article 1156 of the Swiss Code of Obligations or a listing Offering Circular within the meaning of the listing rules of the SIX Swiss Exchange or any other regulated trading facility in Switzerland and neither this Offering Circular nor any other offering or marketing material relating

to the Notes may be publicly distributed or otherwise made publicly available in Switzerland, as such term is used under the Swiss Code of Obligations.

Singapore

This Offering Circular has not been registered as an Offering Circular with the Monetary Authority of Singapore under the Securities and Futures Act, Cap. 289 of Singapore (the "SFA") and accordingly, the Notes may not be offered or sold, nor may the Notes be the subject of an invitation for subscription or purchase, nor may this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase of the Notes be circulated or distributed, whether directly or indirectly, to any person in Singapore other than (a) to an institutional investor (as defined in Section 4A of the SFA) pursuant to Section 274 of the SFA, (b) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to an offer referred to in Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA or (c) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are acquired by persons who are relevant persons specified in Section 276 of the SFA, namely:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor; or
- (c) the shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within 6 months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:
 - (1) to an institutional investor (under Section 274 of the SFA) or to a relevant person as defined in Section 275(2) of the SFA, or any person pursuant to an offer that is made on terms that such shares, debentures and units of shares and debentures of that corporation or such rights or interest in that trust are acquired at a consideration of not less than \$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets and further for corporations, in accordance with the conditions specified in Section 275(1A) of the SFA;
 - (2) where no consideration is or will be given for the transfer;
 - (3) where the transfer is by operation of law; or
 - (4) as specified in Section 276(7) of the SFA.

Hong Kong

The Lead Manager has represented and agreed that:

- (1) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than (a) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong ("SFO") and any rules made under the Ordinance; or (b) in other circumstances which do not result in the document being an "Offering Circular" as defined in the

Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and

- (2) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under that Ordinance.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (Law No. 25 of 1948, as amended) and, accordingly, the Lead Manager has undertaken that it will not offer or sell any Notes directly or indirectly, in Japan or to, or for the benefit of, any Japanese Person or to others for re-offering or resale, directly or indirectly, in Japan or to any Japanese Person except under circumstances which will result in compliance with all applicable laws, regulations and guidelines promulgated by the relevant Japanese governmental and regulatory authorities and in effect at the relevant time. For the purposes of this paragraph, "Japanese Person" shall mean any person resident in Japan, including any corporation or other entity organised under the laws of Japan.

United Arab Emirates (excluding the Dubai International Financial Centre)

The Lead Manager has represented and agreed that the Notes have not been and will not be offered, sold or publicly promoted or advertised by it in the United Arab Emirates other than in compliance with any laws applicable in the United Arab Emirates governing the issue, offering and sale of securities.

The Lead Manager has acknowledged that the information contained in this Offering Circular does not constitute a public offer of securities in the United Arab Emirates in accordance with the Commercial Companies Law (Federal Law 8 of 1984 (as amended)) or otherwise and is not intended to be a public offer and the information contained in this Offering Circular is not intended to lead to the conclusion of any contract of whatsoever nature within the territory of the United Arab Emirates.

Dubai International Financial Centre

The Lead Manager has represented and agreed that it has not offered and will not offer the Notes to any person in the Dubai International Financial Centre unless such offer is:

- (a) an "Exempt Offer" in accordance with the Offered Securities Rules of the Dubai Financial Services Authority (the "DFSA"); and
- (b) made only to persons who meet the Professional Client criteria set out in Rule 2.3.2 of the DFSA Conduct of Business Module.

Qatar

The Lead Manager has represented and agreed that it has not offered, sold or delivered and will not offer, sell, or deliver, directly or indirectly, any Notes in Qatar, except: (a) in compliance with all applicable laws and regulations of Qatar; and (b) through persons or corporate entities authorized and licensed to provide investment advice and/or engage in brokerage activity and/or trade in respect of foreign securities in Qatar.

This Offering Circular has not been reviewed or approved by or registered with the Qatar Exchange, the Qatar Central Bank or the Qatar Financial Markets Authority. This Offering Circular is strictly private and

confidential and may not be reproduced or used for any other purpose, nor provided to any person other than the recipient thereof.

Chile

Neither the Republic nor the Notes are registered in the Securities Registry (*Registro de Valores*) or the Foreign Securities Registry (*Registro de Valores Extranjeros*) of the Chilean Securities and Insurance Commission (*Superintendencia de Valores y Seguros de Chile*), or SVS, or is subject to the control and supervision of the SVS. As unregistered securities, the Republic is not required to disclose public information about the Notes in Chile. The Notes may not be publicly offered in Chile unless they are registered in the corresponding securities registry.

This Offering Circular and other offering materials relating to the offer of the Notes do not constitute a public offer of, or an invitation to subscribe for or purchase, the Notes in the Republic of Chile, other than to individually identified purchasers pursuant to a private offering within the meaning of Article 4 of the Chilean Securities Market Act (*Ley de Mercado de Valores*) (an offer that is not addressed to the public at large or to a certain sector or specific group of the public).

General

No action has been taken by the Republic or by the Lead Manager that would, or is intended to, permit a public offer of the Notes in any country or jurisdiction where any such action for that purpose is required.

Accordingly, the Lead Manager has undertaken that it will not, directly or indirectly offer or sell any Notes or distribute or publish any offering circular, this Offering Circular, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of Notes by it will be made on the same terms.

BOOK-ENTRY SETTLEMENT AND CLEARANCE

Global Notes

The Notes will initially be issued in the form of two registered notes in global form (which Ecuador refers to in this Offering Circular as "Global Notes"), without interest coupons, as follows:

- Notes sold to qualified institutional buyers in reliance on Rule 144A under the Securities Act will be represented by one or more Global Notes (which Ecuador refers to in this Offering Circular as the "Restricted Global Notes"); and
- Notes sold in offshore transactions to non-U.S. persons in reliance on Regulation S will be represented by one or more Global Notes (which Ecuador refers to in this Offering Circular as the "Regulation S Global Notes").

Upon issuance, the Global Notes will be deposited with the common depository and registered in the nominee name of the common depository for Euroclear and Clearstream.

Ownership of beneficial interests in each Global Note will be limited to persons who either have accounts with Euroclear (which Ecuador refers to in this Offering Circular as the "Euroclear participants") or persons who have accounts with Clearstream (which Ecuador refers to in this Offering Circular as the "Clearstream participants") or to persons who hold interests through Euroclear participants or Clearstream participants. The Republic expects that under procedures established by Euroclear:

- upon deposit of each Global Note with the common depository, Euroclear or Clearstream will credit portions of the principal amount of the Global Note to the accounts of the Euroclear or Clearstream participants designated by the Lead Manager; and
- ownership of beneficial interests in each Global Note will be shown on, and transfer of ownership of those interests will be effected only through, records maintained by Euroclear (with respect to interests of Euroclear participants) or Clearstream (with respect to interests of Clearstream participants) and the records of Euroclear or Clearstream participants (with respect to other owners of beneficial interests in each Global Note).

Investors may hold their interests in the Regulation S Global Note directly through Euroclear or Clearstream, Luxembourg, if they are participants in those systems, or indirectly through organizations that are participants in those systems. Investors may also hold their interests in the Regulation S Global Note through organizations other than Euroclear or Clearstream, Luxembourg that are Euroclear participants. The Bank of New York Mellon, London Branch will act as the common depository for the interests in the Regulation S Global Note.

Beneficial interests in the Global Notes may not be exchanged for Notes in physical certificated form except in the limited circumstances described below.

Each Global Note and beneficial interests in each Global Note will be subject to restrictions on transfer as described under "Transfer Restrictions."

Exchanges between the Global Notes

Beneficial interests in one Global Note may generally be exchanged for interests in another Global Note. Depending on whether the transfer is being made during or after the 40-day restricted period, and to which Global Note the transfer is being made, the Issuer or Trustee may require the seller to provide certain written certifications in the form provided in the Indenture (as defined in "Description of the Notes").

A beneficial interest in a Global Note that is transferred to a person who takes delivery through another Global Note will, upon transfer, become subject to any transfer restrictions and other procedures applicable to beneficial interests in the other Global Note.

Book-Entry Procedures for the Global Notes

All interests in the Global Notes will be subject to the operations and procedures of Euroclear and, if applicable, Clearstream, Luxembourg. The Republic provides the following summaries of those operations and procedures solely for the convenience of investors. The operations and procedures of each settlement system are controlled by that settlement system and may be changed at any time. None of the Republic, the Trustee, any agent or the Lead Manager is responsible for those operations or procedures.

Euroclear was created to hold securities for its participants and to facilitate the clearance and settlement of securities transactions between its participants through electronic book-entry changes to the accounts of its participants. Euroclear's participants include securities brokers and dealers, including the Lead Manager; banks and trust companies; clearing corporations; and other organizations. Indirect access to Euroclear's system is also available to others such as banks, brokers, dealers and trust companies; these indirect participants clear through or maintain a custodial relationship with a Euroclear participant, either directly or indirectly. Investors who are not Euroclear participants may beneficially own securities held by or on behalf of Euroclear only through Euroclear participants or indirect participants in Euroclear.

So long as the depositary is the registered owner of a Global Note, that depositary will be considered the sole owner or holder of the Notes represented by that Global Note for all purposes under the Indenture. Except as provided below, owners of beneficial interests in a Global Note:

- will not be entitled to have Notes represented by the Global Note registered in their names;
- will not receive or be entitled to receive physical, certificated notes; and
- will not be considered the owners or holders of the Notes under the Indenture for any purpose, including with respect to the giving of any direction, instruction or approval to the Trustee under the Indenture.

As a result, each investor who owns a beneficial interest in a Global Note must rely on the procedures of Euroclear to exercise any rights of a holder of Notes under the Indenture (and, if the investor is not a participant or an indirect participant in Euroclear, on the procedures of the Euroclear participant through which the investor owns its interest in the Notes).

Payments of principal and interest with respect to the Notes represented by a Global Note will be made by the Trustee to the common depositary as the registered holder of the Global Note. Neither the Republic nor the Trustee will have any responsibility or liability for the payment of amounts to owners of beneficial interests in a Global Note, for any aspect of the records relating to or payments made on account of those interests by Euroclear, or for maintaining, supervising or reviewing any records of Euroclear relating to those interests.

Payments by participants and indirect participants in Euroclear to the owners of beneficial interests in a Global Note will be governed by standing instructions and customary industry practice and will be the responsibility of those participants or indirect participants and Euroclear.

Transfers between participants in Euroclear will be effected under Euroclear's procedures and will be settled in same-day funds. Transfers between participants in Clearstream, Luxembourg will be effected in the ordinary way under the rules and operating procedures of those systems.

Cross-market transfers between Euroclear participants, on the one hand, and participants in Clearstream, Luxembourg, on the other hand, will be effected within Euroclear through the Euroclear participants that are acting as depositaries for Clearstream, Luxembourg. To deliver or receive an interest in a

Global Note held in a Clearstream, Luxembourg account, an investor must send transfer instructions to Clearstream, Luxembourg, as the case may be, under the rules and procedures of that system and within the established deadlines of that system. If the transaction meets its settlement requirements, Clearstream, Luxembourg, as the case may be, will send instructions to its Euroclear depositary to take action to effect final settlement by delivering or receiving interests in the relevant Global Notes in Euroclear, and making or receiving payment under normal procedures for same-day funds settlement applicable to Euroclear. Clearstream, Luxembourg participants may not deliver instructions directly to the Euroclear depositaries that are acting for Clearstream, Luxembourg.

Euroclear and Clearstream, Luxembourg have agreed to the above procedures to facilitate transfers of interests in the Global Notes among participants in those settlement systems. However, the settlement systems are not obligated to perform these procedures and may discontinue or change these procedures at any time. Neither the Republic nor the Trustee nor any paying agent will have any responsibility for the performance by, Euroclear or Clearstream, Luxembourg or their participants or indirect participants of their obligations under the rules and procedures governing their operations.

Certificated Notes

Notes in physical, certificated form will be issued and delivered to each person that Euroclear or Clearstream identifies as a beneficial owner of the related Notes only if:

- the depositary notifies the Republic at any time that it is unwilling or unable to continue as depositary for the Global Notes and a successor depositary is not appointed within 90 days;
- Euroclear or Clearstream ceases to be registered as a clearing agency under the U.S. Securities Exchange Act of 1934 and a successor depositary is not appointed within 90 days; or
- the Trustee receives a notice from the registered holder of the Global Note requesting exchange of a specified amount for individual note certificates following a failure to pay at maturity or upon acceleration of any Note.

TRANSFER RESTRICTIONS

The Notes are subject to the following restrictions on transfer. By purchasing Notes, each prospective investor will be deemed to have made the following acknowledgments, representations to and agreements with the Republic and the Lead Manager:

(1) Each prospective investor acknowledges that:

- the Notes have not been registered under the Securities Act or any other securities laws and are being offered for resale in transactions that do not require registration under the Securities Act or any other securities laws; and
- unless so registered, the Notes may not be offered, sold or otherwise transferred except under an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act or any other applicable securities laws, and in each case in compliance with the conditions for transfer set forth in paragraph (4) below.

(2) Each prospective investor represents that it is not an affiliate (as defined in Rule 144 under the Securities Act) of the Republic, that it is not acting on the Republic's behalf and that either:

- it is a qualified institutional buyer (as defined in Rule 144A) and is purchasing Notes for its own account or for the account of another qualified institutional buyer, and it is aware that the Lead Manager is selling the Notes to it in reliance on Rule 144A; or
- it is not a U.S. person (as defined in Regulation S under the Securities Act) or purchasing for the account or benefit of a U.S. person, other than a distributor, and it is purchasing Notes in an offshore transaction in accordance with Regulation S.

(3) Each prospective investor acknowledges that neither the Republic nor the Lead Manager nor any person representing the Republic or the Lead Manager has made any representation to such prospective investor with respect to the Republic or the offering of the Notes, other than the information contained in this Offering Circular. Each prospective investor represents that it is relying only on this Offering Circular in making its investment decision with respect to the Notes. Each prospective investor agrees that it has had access to such information concerning the Republic and the Notes as it has deemed necessary in connection with its decision to purchase Notes, including an opportunity to ask questions of and request information from the Republic.

(4) Each prospective investor represents that it is purchasing Notes for its own account, or for one or more investor accounts for which it is acting as a fiduciary or agent, in each case not with a view to, or for offer or sale in connection with, any distribution of the Notes in violation of the Securities Act, subject to any requirement of law that the disposition of its property or the property of that investor account or accounts be at all times within its or their control and subject to its or their ability to resell the Notes pursuant to Rule 144A or any other available exemption from the registration requirements of the Securities Act. Each prospective investor agrees on its own behalf and on behalf of any investor account for which it is purchasing Notes, and each subsequent holder of the Notes by its acceptance of the Notes will agree, that until the end of the applicable resale restriction period pursuant to Regulation S or Rule 144, the Notes may be offered, sold or otherwise transferred only:

- (a) to the Republic;
- (b) under a registration statement that has been declared effective under the Securities Act;
- (c) for so long as the Notes are eligible for resale under Rule 144A, to a person whom the seller reasonably believes is a qualified institutional buyer that is purchasing for its own account or for the account of

another qualified institutional buyer and to whom it has given notice that the transfer is being made in reliance on Rule 144A;

(d) pursuant to Regulation S; or

(e) under any other available exemption from the registration requirements of the Securities Act; subject in each of the above cases to any requirement of law that the disposition of the seller's property or the property of an investor account or accounts be at all times within the seller or such account's control.

Each prospective investor also acknowledges that:

- the Republic and the Trustee reserve the right to require, in connection with any offer, sale or other transfer of Notes before the applicable resale restriction period ends pursuant to Regulation S or Rule 144 under clauses (d) and (e) above, the delivery of an opinion of counsel, certifications and/or other information satisfactory to the Republic and the Trustee;
- Notes (other than those issued outside the United States pursuant to Regulation S) will, until the expiration of one year from the original issuance date of the Notes (or such other date as specified in Rule 144 or as specified in another applicable exemption under the Securities Act), unless otherwise agreed by us and the holder thereof, bear a legend substantially to the following effect:

THIS NOTE (OR ITS PREDECESSOR) WAS ORIGINALLY ISSUED IN A TRANSACTION NOT SUBJECT TO THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND THIS NOTE MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED IN THE ABSENCE OF REGISTRATION OR AN APPLICABLE EXEMPTION THEREFROM. EACH PURCHASER OF THIS NOTE IS HEREBY NOTIFIED THAT THE SELLER OF THIS NOTE MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A THEREUNDER.

THE HOLDER OF THIS NOTE AGREES FOR THE BENEFIT OF THE ISSUER THAT (A) THIS NOTE MAY BE OFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED, ONLY (I) TO THE ISSUER OF THIS NOTE, (II) IN THE UNITED STATES TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (III) OUTSIDE THE UNITED STATES IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 AND RULE 904 UNDER THE SECURITIES ACT, (IV) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE) OR (V) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH OF CASES (II) THROUGH (V) IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES, AND (B) THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER OF THIS NOTE FROM IT OF THE RESALE RESTRICTIONS REFERRED TO IN (A) ABOVE.

BY ACCEPTANCE OF THIS NOTE BEARING THE ABOVE LEGEND, WHETHER UPON ORIGINAL ISSUANCE OR SUBSEQUENT TRANSFER, EACH HOLDER OF THIS NOTE ACKNOWLEDGES THE RESTRICTIONS ON THE TRANSFER OF THESE NOTES SET FORTH ABOVE AND AGREES THAT IT SHALL TRANSFER THIS NOTE ONLY AS PROVIDED HEREIN AND IN THE INDENTURE.

THE FOREGOING LEGEND MAY BE REMOVED FROM THIS NOTE ON SATISFACTION OF THE CONDITIONS SPECIFIED IN THE INDENTURE.

- Notes issued outside the United States pursuant to Regulation S will, unless otherwise agreed by us and the holder thereof, bear a legend substantially to the following effect:

THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY IN ANY JURISDICTION AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT IN ACCORDANCE WITH THE INDENTURE AND PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OR PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT.

Each prospective investor acknowledges that the Republic, the Trustee, any agent, the Lead Manager and others will rely upon the truth and accuracy of the above acknowledgments, representations and agreements. Each prospective investor agrees that if any of the acknowledgments, representations or agreements such prospective investor is deemed to have made by its purchase of Notes is no longer accurate, it will promptly notify the Republic and the Lead Manager. If any prospective investor is purchasing any Notes as a fiduciary or agent for one or more investor accounts, such prospective investor represents that it has sole investment discretion with respect to each of those accounts and that it has full power to make the above acknowledgments, representations and agreements on behalf of each account.

TAXATION

Ecuador Taxation

The following is a general discussion of Ecuadorian tax considerations. The discussion is based upon the tax laws of Ecuador as in effect on the date of this Offering Circular, which are subject to change. Prospective investors should consult their own tax advisers with respect to Ecuadorian tax consequences of the investment. This summary does not discuss the effects of any treaties that may be entered into by, or be effective with respect to, Ecuador.

All payments of principal and interest for the Notes offered for sale pursuant to this Offering Circular and accepted by the Republic, and any gains made by a holder from such sale, will be exempt from any Ecuadorian income tax, including withholding tax, if the holder is a foreign holder, i.e.:

- The holder is an individual and is not resident in the Republic for tax purposes; or
- The holder is a non-Ecuadorian entity that does not hold the Notes through a permanent establishment or fixed base in the Republic.

There are no Ecuadorian stamp, registration or similar taxes payable by a foreign holder in connection with offers or sales of Notes pursuant to this Offering Circular.

United States Federal Income Taxation

Generally

The following summary of certain material U.S. federal income tax consequences to original purchasers of the Notes of the purchase, ownership and disposition of the Notes is based upon existing U.S. federal income tax laws, which are subject to change, possibly with retroactive effect. No assurances can be given that any changes in these laws or authorities will not affect the accuracy of the discussions set forth in this summary. The Republic has not sought any ruling from the U.S. Internal Revenue Service (the "IRS") with respect to the statements made and the conclusions reached in this discussion, and there can be no assurance that the IRS will agree with all of such statements and conclusions.

This summary does not purport to discuss all aspects of U.S. federal income taxation that may be relevant to a particular investor in light of that investor's individual circumstances, such as investors whose functional currency is not the U.S. dollar or certain types of investors subject to special tax rules (*e.g.*, financial institutions, insurance companies, dealers in securities or currencies, certain securities traders, regulated investment companies, pension plans, tax-exempt organizations and investors holding Notes as a position in a "straddle," "conversion transaction," or "constructive sale" transaction). In addition, this summary does not discuss any non-U.S., state, or local tax considerations. This summary only applies to investors that hold Notes as "capital assets" (generally, property held for investment) within the meaning of the U.S. Internal Revenue Code of 1986, as amended (the "Code").

For purposes of this summary, the term "U.S. Holder" means a beneficial owner of a Note who is, for U.S. federal income tax purposes, an individual who is a citizen or resident of the United States, a corporation (including an entity treated as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States, any state of the United States or the District of Columbia, an estate whose income is subject to U.S. federal income tax regardless of its source or a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more "United States persons," as defined for U.S. federal income tax purposes, have the authority to control all substantial decisions of the trust or the trust was in existence on August 20, 1996 and has in effect a valid election to be treated as a United States person. If a partnership (or other entity treated as a partnership for U.S. federal income tax purposes) holds the Notes, the tax treatment of a partner in such partnership will generally depend upon the

status of the partner and the activities of the partnership. As used herein, the term "non-U.S. Holder" means a beneficial owner of a Note that is not a U.S. Holder for U.S. federal income tax purposes.

Prospective purchasers of Notes should consult their own tax advisors concerning the U.S. federal income tax consequences of the purchase, ownership and disposition of Notes in light of their particular circumstances, as well as the effect of any relevant state, local, foreign or other tax laws.

U.S. Holders

Payments of Interest and Additional Amounts

Ecuador expects, and the remainder of this summary assumes, that the Notes will be issued at par or at a discount that is de minimis for U.S. federal income tax purposes. Accordingly, payments of interest on a Note generally will be taxable to a U.S. Holder as ordinary interest income at the time they are received or accrued, depending on the U.S. Holder's regular method of tax accounting. In addition to interest on a Note, a U.S. Holder will be required to include any tax withheld from the interest payment as ordinary interest income, even though such holder did not in fact receive it, and any Additional Amounts paid in respect of such tax withheld.

Interest (and any Additional Amounts) on the Notes will constitute income from sources outside the United States. Under the foreign tax credit rules, that interest generally will be classified as "passive category income" (or, in certain cases, as "general category income"), which may be relevant in computing the foreign tax credit allowable to a U.S. Holder under the U.S. federal income tax laws.

Sale, Exchange, Retirement or Other Taxable Disposition of a Note

A U.S. Holder generally will recognize gain or loss upon the sale, exchange, retirement or other taxable disposition of a Note (including payments as a result of an acceleration) in an amount equal to the difference between the amount realized upon that sale, exchange, retirement or other taxable disposition (other than amounts representing accrued and unpaid interest, which will be taxed as such to the extent not previously included in income) and the U.S. Holder's adjusted tax basis in the Note. The amount realized is the sum of cash plus the fair market value of any property received upon the sale, exchange, retirement or other taxable disposition of a Note. A U.S. Holder's adjusted tax basis in a Note generally will equal the U.S. Holder's initial investment in the Note. Gain or loss generally will be capital, and will be long-term gain or loss if the Note is held for more than one year. The ability of a U.S. Holder to offset capital losses against ordinary income is limited. Any capital gain or loss recognized on the sale, exchange, retirement or other taxable disposition of a Note generally will be treated as income or loss from sources within the United States for foreign tax credit limitation purposes. Therefore, U.S. Holders may not be able to claim a credit for any Ecuadorian tax imposed upon a disposition of a Note unless (subject to special limits) such holder has other income from foreign sources and certain other requirements are met.

Medicare Tax

A U.S. Holder that is an individual or estate, or a trust that does not fall into a special class of trusts that is exempt from such tax, will be subject to a 3.8% tax on the lesser of (i) the U.S. Holder's "net investment income" (or, in the case of an estate or trust, the "undistributed net investment income") for the relevant taxable year and (ii) the excess of the U.S. Holder's modified adjusted gross income for the taxable year over a certain threshold (which in the case of individuals will be between U.S.\$125,000 and U.S.\$250,000, depending on the individual's circumstances). A U.S. Holder's net investment income generally will include its interest income and its net gains from the disposition of a Note, unless such interest income or net gains are derived in the ordinary course of the conduct of a trade or business (other than a trade or business that consists of certain passive or trading activities).

Information with Respect to Foreign Financial Assets

Owners of "specified foreign financial assets" with an aggregate value in excess of U.S.\$50,000 on the last day of the taxable year, or U.S.\$75,000 at any time during the taxable year generally will be required to file information reports with respect to such assets with their U.S. federal income tax returns. Depending on the holder's circumstances, higher threshold amounts may apply. "Specified foreign financial assets" include any financial accounts maintained by foreign financial institutions, as well as any of the following, but only if they are not held in accounts maintained by certain financial institutions: (i) stocks and securities issued by non-U.S. persons, (ii) financial instruments and contracts held for investment that have non-U.S. issuers or counterparties and (iii) interests in non-U.S. entities. The Notes may be treated as specified foreign financial assets and U.S. Holders may be subject to this information reporting regime. Failure to file information reports may subject U.S. Holders to penalties. U.S. Holders should consult their own tax advisors regarding their obligation to file information reports with respect to the Notes.

Non-U.S. Holders

Payments of Interest and Additional Amounts

Subject to the discussion below of backup withholding, payments of interest and any Additional Amounts on the Notes generally are not subject to U.S. federal income tax, including withholding tax, if paid to a "non-U.S. Holder," as defined above, unless the interest is effectively connected with such non-U.S. Holder's conduct of a trade or business within the United States (and, if an income tax treaty applies, the interest is attributable to a permanent establishment or fixed place of business maintained by such non-U.S. Holder within the United States). In that case, the non-U.S. Holder generally will be subject to U.S. federal income tax in respect of such interest in the same manner as a U.S. Holder, as described above. A non-U.S. Holder that is a corporation may, in certain circumstances, also be subject to an additional "branch profits tax" in respect of any such effectively connected interest income currently imposed at a 30% rate (or, if attributable to a permanent establishment maintained by such non-U.S. Holder within the United States, a lower rate under an applicable tax treaty).

Sale, Exchange, Retirement or Other Taxable Disposition of a Note

Subject to the discussion below of backup withholding, a non-U.S. Holder generally will not be subject to U.S. federal income or withholding tax on any gain realized on the sale, exchange, retirement or other taxable disposition of a Note unless: (1) the gain is effectively connected with the conduct by such non-U.S. Holder of a trade or business within the United States (or, if an income tax treaty applies, the gain is attributable to a permanent establishment or fixed base in the United States), or (2) such non-U.S. Holder is a nonresident alien individual, who is present in the United States for 183 or more days in the taxable year of the disposition and certain other conditions are met. Non-U.S. Holders who are described under (1) above generally will be subject to U.S. federal income tax on such gain in the same manner as a U.S. Holder and, if the non-U.S. Holder is a foreign corporation, such holder may also be subject to the branch profits tax as described above. Non-U.S. Holders described under (2) above generally will be subject to a flat 30% tax on the gain derived from the sale, exchange, retirement or other taxable disposition of Notes, which may be offset by certain U.S. capital losses (notwithstanding the fact that such holder is not considered a U.S. resident for U.S. federal income tax purposes). Any amount attributable to accrued but unpaid interest on the Notes generally will be treated in the same manner as payments of interest, as described above under "—Payments of Interest and Additional Amounts."

Backup Withholding and Information Reporting

In general, information reporting requirements will apply to payments of principal of and interest and any Additional Amounts on the Notes to non-corporate U.S. Holders if such payments are made within the United States or by or through a custodian or nominee that is a "U.S. Controlled Person," as defined below. Backup withholding will apply to such payments if a U.S. Holder fails to provide an accurate taxpayer identification number or, in the case of interest payments and the accrual of interest, fails to certify that it is not

subject to backup withholding or is notified by the IRS that it has failed to report all interest and dividends required to be shown on its U.S. federal income tax returns.

Non-U.S. Holders are generally exempt from these withholding and reporting requirements (assuming that the gain or income is otherwise exempt from U.S. federal income tax), but such non-U.S. Holders may be required to comply with certification and identification procedures in order to prove their exemption. If a non-U.S. Holder holds a Note through a foreign partnership, these certification procedures would generally be applied to such holder as a partner. The payment of proceeds of a sale or redemption of Notes effected at the U.S. office of a broker generally will be subject to the information reporting and backup withholding rules, unless such non-U.S. Holder establishes an exemption. In addition, the information reporting rules will apply to payments of proceeds of a sale or redemption effected at a non-U.S. office of a broker that is a U.S. Controlled Person, as defined below, unless the broker has documentary evidence that the holder or beneficial owner is not a U.S. Holder (and has no actual knowledge or reason to know to the contrary) or the holder or beneficial owner otherwise establishes an exemption.

As used herein, the term "U.S. Controlled Person" means:

- a "United States person;"
- a controlled foreign corporation for U.S. federal income tax purposes;
- a non-U.S. person 50% or more of whose gross income is derived for tax purposes from the conduct of a U.S. trade or business for a specified three-year period; or
- a non-U.S. partnership in which United States persons hold more than 50% of the income or capital interests or which is engaged in the conduct of a U.S. trade or business.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules from a payment to a holder of a Note generally will be allowed as a refund or a credit against the holder's U.S. federal income tax liability as long as the holder provides the required information to the IRS in a timely manner.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income (the "Savings Directive"), Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid (or deemed to be paid) by a person within its jurisdiction to an individual resident in that other Member State or to certain limited types of entity established in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise, which Luxembourg has done with effect from 1 January 2015) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

The European Commission has proposed certain amendments to the Directive, which may, if implemented, amend or broaden the scope of the requirement described above. Investors who are in any doubt as to their position should consult their professional advisors.

VALIDITY OF THE NOTES

The validity of the Notes will be passed upon on behalf of the Republic by the *Coordinador General Jurídico* of the Ministry of Finance of the Republic, Ecuadorian counsel to the Republic, and by Hogan Lovells US LLP, U.S. counsel to the Republic. The validity of the Notes will be passed upon on behalf of the Lead Manager by Pérez Bustamante & Ponce, Ecuadorian counsel to the Lead Manager, and by Clifford Chance US LLP, U.S. counsel to the Lead Manager. As to all matters of Ecuadorian law, Hogan Lovells US LLP will rely on the opinion of the *Coordinador General Jurídico* of the Ministry of Finance of the Republic, and Clifford Chance US LLP will rely upon the opinion of Pérez Bustamante & Ponce.

In connection with the issuance of the Notes, the Attorney General will issue a "Pronouncement" in relation to each of the Indenture, the Purchase Agreement and the Notes which will constitute the required authorizations for the Ministry of Finance to be able to agree to the laws of the State of New York as the governing law of the Indenture, the Purchase Agreement and the Notes, as well as the submission to arbitration provisions set out therein.

Local counsel to the Lead Manager has confirmed that the provision of the legal opinion from the *Coordinador General Jurídico* of the Ministry of Finance and the Pronouncement are fully compliant from an Ecuadorian law perspective.

GENERAL INFORMATION

1. The Regulation S Global Note and the Restricted Global Note have been accepted for clearance and settlement through Euroclear and Clearstream, Luxembourg. The common codes for the Regulation S Global Note and the Restricted Global Note are 119992982 and 119993032, respectively, and the International Securities Identification Numbers for the Regulation S Global Note and the Restricted Global Note are XS1199929826 and XS1199930329, respectively.

2. The Republic has obtained all necessary consents, approvals and authorizations in the Republic of Ecuador in connection with the issue and performance of the Notes. The issue of the Notes was authorized by the Republic's Debt and Finance Committee under Acta Resolutiva No.006 dated March 13, 2015 and Acta Resolutiva No.007 dated March 18, 2015.

3. The Republic is involved in certain litigation and administrative arbitration proceedings. See "Legal Proceedings."

4. On December 19, 2014, Moody's Investors Service upgraded the Republic's long-term Government bond ratings from "Caa1" to "B3" with a "stable outlook." On August 6, 2013, Standard & Poor's Ratings Services upgraded the Republic's foreign long-term issuer rating from "B-" to "B" with a "positive outlook" and on August 20, 2014 further upgraded the Republic's rating to "B+" with a "stable outlook." On October 18, 2013, the Republic's long-term issuer default rating by Fitch Ratings was upgraded from "B-" to "B," with "stable outlook".

Ratings are not a recommendation to purchase, hold or sell securities and may be changed, suspended or withdrawn at any time. The Republic's current ratings and the rating outlooks currently assigned to the Republic are dependent upon economic conditions and other factors affecting credit risk that are outside the control of the Republic. Any adverse change in the Republic's credit ratings could adversely affect the trading price for the Notes. Each rating should be evaluated independently of the others. Detailed explanations of the ratings may be obtained from the rating agencies.

5. Application has been made to list the Notes on the Official List of the Luxembourg Stock Exchange and to have the Notes admitted to trading on the Euro MTF Market. So long as any of the Notes are listed on the Luxembourg Stock Exchange, the Republic will maintain a paying agent and transfer agent in Luxembourg.

6. Copies of the following documents may be obtained, free of charge, on any business day (Saturdays, Sundays and public holidays excepted) at the office of the Paying Agent in Luxembourg so long as any of the Notes are listed on the Luxembourg Stock Exchange:

- (a) the Indenture incorporating the forms of Global Notes;
- (b) this Offering Circular;
- (c) copies of the 2008 Constitution, and the Legislative Decrees of the Republic referred to in paragraph 2 above (in Spanish); and
- (d) copies of the Republic's consolidated public sector fiscal accounts for the last calendar year (as and when available in English).

7. Other than as disclosed herein, (including information that has been updated as of December 31, 2014,) there has been no material adverse change in the financial condition of the Republic which is material in the context of the issue of the Notes since September 30, 2014.

8. Save as disclosed in "Legal Proceedings," the Republic is not involved in any litigation or arbitration proceeding relating to claims or amounts which are material in the context of the issue of the Notes nor, as far as the Republic is aware, is any litigation pending or threatened.

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ISSUER

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You should rely only on the information contained in this Offering Circular or to which Ecuador has referred you. Ecuador has not authorized anyone to provide you with information that is different. This Offering Circular may only be used where it is legal to sell these securities. The information in this Offering Circular may only be accurate on the date of this Offering Circular.



The Republic of Ecuador

U.S.\$750,000,000
10.500% Notes due 2020

Citigroup

Offering Circular

March 24, 2015

OFFERING CIRCULAR SUPPLEMENT



The Republic of Ecuador

U.S.\$750,000,000 10.500% Notes due 2020

On March 24, 2015, the Republic of Ecuador (the "Republic" or "Ecuador") executed an indenture (the "Indenture") pursuant to which it can issue 10.500% Notes due 2020 (the "Notes") from time to time. On March 24, 2015, the Republic issued Notes in the aggregate principal amount of U.S.\$750,000,000 (the "Original Notes"). The Republic is reopening the issuance of the Notes and is offering an additional U.S.\$750,000,000 aggregate principal amount of the Notes (the "Additional Notes"). The Additional Notes will be additional notes issued under the Indenture. The Additional Notes will have identical terms and conditions as the Original Notes, other than issue date and issue price, and will be consolidated and form a single series with the Original Notes. The Additional Notes will vote together as a single class with the Original Notes. Upon consummation of this offering, the aggregate principal amount of the Notes will be U.S.\$1,500,000,000. The Additional Notes will mature on March 24, 2020.

This Offering Circular supplement (the "Supplement") is supplemental to and should be read in conjunction with the Offering Circular dated March 24, 2015 (the "Offering Circular") which is attached as Appendix A to this Supplement. Terms defined in the Offering Circular shall have the same meaning in this Supplement. With effect from the date of this Supplement, the information appearing in the Offering Circular shall be amended and/or supplemented in the manner described in this Supplement.

There is currently no public market for the Additional Notes. Application has been made to list the Additional Notes on the Official List of the Luxembourg Stock Exchange and to have the Additional Notes admitted to trading on the Euro MTF Market. This Supplement, together with the Offering Circular, constitutes a prospectus for the purpose of the Luxembourg Law dated July 10, 2005 on prospectuses for securities, as amended. The Additional Notes are and will be issued in registered form and, in limited circumstances, definitive form in minimum denominations of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof.

See "Risk Factors" beginning on page 28 of the Offering Circular regarding certain risk factors you should consider before investing in the Additional Notes.

Price: 107.789%

plus accrued interest from March 24, 2015 to but excluding May 19, 2015

Delivery of the Additional Notes will be made on or about May 19, 2015.

The Additional Notes have not been and will not be registered under the Securities Act of 1933, as amended (the "Securities Act"). The Additional Notes may not be sold within the United States or to U.S. persons except to qualified institutional buyers in reliance on the exemption from registration provided by Rule 144A under the Securities Act and offered and sold to certain persons in offshore transactions in reliance on Regulation S under the Securities Act. You are hereby notified that sellers of the Additional Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A under the Securities Act.

The Additional Notes will be represented by one or more permanent global notes in fully registered form without interest coupons, deposited with a common depository for Euroclear Bank S.A./N.V. ("Euroclear") and Clearstream Banking, *société anonyme* ("Clearstream"). Beneficial interests of Euroclear participants in the global notes will be shown on, and transfers thereof between Euroclear participants will be effected only through, records maintained by Euroclear and its direct and indirect participants, including Clearstream Banking, *société anonyme*.

ANY OFFER OR SALE OF NOTES IN ANY MEMBER STATE OF THE EUROPEAN ECONOMIC AREA (THE "EEA") THAT HAS IMPLEMENTED DIRECTIVE 2003/71 EC (THE "PROSPECTUS DIRECTIVE") MUST BE ADDRESSED TO QUALIFIED INVESTORS (AS DEFINED IN THE PROSPECTUS DIRECTIVE).

Lead Manager and Global Coordinator

Citigroup

The date of this Supplement is May 14, 2015

IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE REPUBLIC AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND THE RISKS INVOLVED.

You should rely only on the information contained in the Offering Circular and this Supplement or to which the Republic of Ecuador has referred you. Ecuador has not, and the Lead Manager has not, authorized anyone to provide you with information that is different from the information contained in the Offering Circular and this Supplement. This Supplement and the Offering Circular may only be used where it is legal to sell these Additional Notes. The information in this Supplement may only be accurate on the date of this Supplement.

This Supplement may only be used for the purposes for which it has been published.

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NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF

THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A NOTE IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT THE EXEMPTION OR EXCEPTION IS AVAILABLE FOR A NOTE OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, NOTE OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT, ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

The Additional Notes will be general, direct, unsecured, unsubordinated and unconditional obligations of Ecuador, will be backed by the full faith and credit of Ecuador and will rank equally in terms of priority with Ecuador's External Indebtedness (other than Excluded Indebtedness), as defined in "Description of the Notes" beginning on page 115 of the Offering Circular, provided, that, such ranking is in terms of priority only and does not require that Ecuador make ratable payments on the Additional Notes with payments made on its other External Indebtedness.

The Additional Notes will be issued in registered form only. Additional Notes sold in offshore transactions in reliance on Regulation S under the Securities Act ("Regulation S") will be represented by one or more permanent global notes in fully registered form without interest coupons (the "Regulation S Global Note") and Additional Notes sold in the United States to qualified institutional buyers (each a "qualified institutional buyer") as defined in, and in reliance on, Rule 144A under the Securities Act ("Rule 144A") will be represented by one or more permanent global notes in fully registered form without interest coupons (the "Restricted Global Note" and, together with the Regulation S Global Note, the "Global Notes"), in each case deposited with a common depositary for, and registered in the nominee name of a common depositary for Euroclear Bank S.A./N.V. ("Euroclear") for the respective accounts at Euroclear as such subscribers may direct. Beneficial interests of Euroclear participants (as defined under "Book-Entry Settlement and Clearance" on page 137 of the Offering Circular) in the Global Notes will be shown on, and transfers thereof between Euroclear participants will be effected only through, records maintained by Euroclear and its direct and indirect participants, including Clearstream. Except as described herein, definitive Additional Notes will not be issued in exchange for beneficial interests in the Global Notes.

The Republic has taken reasonable care to ensure that the information contained in this Supplement is true and correct in all material respects and not misleading as of the date hereof, and that, to the best of the knowledge and belief of the Republic, there has been no omission of information which, in the context of the issue of the Additional Notes, would make this Supplement as a whole or any information included in this Supplement, misleading in any material respect. The Republic accepts responsibility accordingly.

This Supplement does not constitute an offer by, or an invitation by or on behalf of, the Republic or the Lead Manager to subscribe to or purchase any of the Additional Notes. Each recipient shall be deemed to have made its own investigation and appraisal of the financial condition of the Republic. The distribution of this Supplement or any part of it and the offering, possession, sale and delivery of the Additional Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Supplement comes are required by the Republic and the Lead Manager to inform themselves about and to observe any such restrictions. See "Subscription and Sale" on page 19 of this Supplement and "Transfer Restrictions" on page 140 of the Offering Circular for a description of further restrictions on the offer, sale and delivery of Additional Notes, the distribution of this Supplement, and other offering material relating to the Additional Notes.

Each purchaser of Additional Notes sold outside the United States in reliance on Regulation S will be deemed to have represented that it is not purchasing Additional Notes with a view to distribution thereof in the United States.

Each person purchasing Additional Notes pursuant to Rule 144A will be deemed to:

- represent that it is purchasing the Additional Notes for its own account or an account with respect to which it exercises sole investment discretion and that it or such account is a qualified institutional buyer (as defined in Rule 144A); and
- acknowledge that the Additional Notes have not been and will not be registered under the Securities Act or any State securities laws and may not be reoffered, resold, pledged or otherwise transferred except as described under "Transfer Restrictions" on page 140 of the Offering Circular.

Each person purchasing Additional Notes pursuant to Rule 144A also acknowledges that:

- it has been afforded an opportunity to request from the Republic and to review, and it has received, all additional information considered by it to be necessary to verify the accuracy of the information herein and acknowledges that the preliminary and final Supplements supersede any other information or presentation regarding the Republic;
- it has not relied on the Lead Manager or any person affiliated with the Lead Manager in connection with its investigation of the accuracy of the information contained in this Supplement or its investment decision; and
- no person has been authorized to give any information or to make any representation concerning the Republic or the Additional Notes other than those contained in this Supplement and, if given or made, such information or representation should not be relied upon as having been authorized by the Republic or the Lead Manager.

IN CONNECTION WITH THIS ISSUANCE OF ADDITIONAL NOTES, THE LEAD MANAGER MAY, ITSELF OR THROUGH ITS AFFILIATES, OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE ADDITIONAL NOTES AT A LEVEL WHICH MIGHT NOT OTHERWISE PREVAIL IN THE OPEN MARKET, TO THE EXTENT PERMITTED BY APPLICABLE LAWS. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

RECENT DEVELOPMENTS

The following description of "Recent Developments" sets forth material developments since the issuance of the Offering Circular (including information that was not available as of March 24, 2015). It does not purport to be a complete description of the Republic and should be read in conjunction with the relevant sections of the Offering Circular.

Certain 2013 year end data has been revised by the Republic and is different from the corresponding numbers contained in the Offering Circular. In addition, please note that this Recent Developments section does not update statistical information from prior non-year end interim periods included in the Offering Circular that may have been updated by the Republic.

The Ecuadorian Economy

In 2014, the Ecuadorian economy grew from a nominal gross domestic product of U.S.\$94,473 million in 2013 to U.S.\$100,543 million in 2014. During the same time period, GDP per capita, grew from U.S.\$5,989 in 2013 to U.S.\$6,273 in 2014. In 2014, the economy of Ecuador grew by 3.8%, in real terms, which was mainly driven by increases in exports of goods and services and public sector consumption, which increased by 6.2% and 3.6% respectively.

In 2014, manufacturing was the largest sector of the economy measured by percentage of GDP (12.42%), followed by petroleum (11.39%), construction (10.65%), trade (10.31%), community service (7.90%) and agriculture (7.74%). In 2013, petroleum was the largest sector of the economy measured by percentage of GDP (12.25%), followed by manufacturing (12.12%), construction (10.74%), trade (10.38%), community services (7.89%) and agriculture (7.78%).

The rate of unemployment decreased from 4.15% as of December 31, 2013 to 3.80% as of December 31, 2014 due to increased job creation in the services and commerce industries. As of March 31, 2015, the rate of unemployment had increased to 3.84%. Inflation increased from 2.70% as of December 2013 to 3.67% as of December 31, 2014 due to an increase in the prices of housing, water and electricity services during the time period. The rate of poverty slightly increased from 22.5% in December 31, 2014 to 24.1% as of March 31, 2015.

Enacted in April 2015, the *Ley Orgánica para la Justicia Laboral y Reconocimiento del trabajo en el Hogar* (the "Labor Justice and Home Maker Recognition Law") amends certain laws related to Ecuador's social security system. Under the Labor Justice and Home Maker Recognition Law, home makers previously ineligible to receive social security benefits can now enroll and receive benefits as a result of disability or old age. In addition, the law eliminates mandatory contributions to the social security system by the Government. Instead, the law establishes a Government guarantee to finance the social security system only when the contributions from employers and employees are insufficient to meet the resources required in a particular year.

On May 5, 2015, the *Ley Orgánica de Remisión de Intereses, Multas y Recargos* (the "Law for the Remission of Interest, Penalties and Surcharges") was published. This law provides a remission of 100% or 50% of the interest, penalties and any other charges applicable to outstanding tax-payer obligations, provided such obligations are paid by July 28, 2015 or September 9, 2015, respectively.

On May 12, 2015, the Civil Procedure Code defined on page 13 of the Offering Circular was approved by the National Assembly. The Civil Procedure Code is expected to come into force shortly, when published in the official gazette of Ecuador. The law will create a new homologation process, involving additional court procedures for the enforcement of foreign arbitration awards in Ecuador.

Page 62 of the Offering Circular stated that Phase 2 of the Quito airport, which includes the expansion of the passenger terminal, new jet bridges, and the expansion of the shopping areas, was expected to be completed by March 2015. The completion of this project is now expected by June 2015.

Legal Proceedings

As set forth on page 69 of the Offering Circular, hearings regarding supplemental briefs in connection with the alleged violations of the Ecuador-U.S. Bilateral Investment Treaty in Chevron's UNCITRAL arbitration case are currently taking place until May 8, 2015. The arbitral tribunal announced that once these hearings have been completed, it will establish a calendar for addressing additional issues.

Hearings regarding Burlington's arbitration claim before ICSID, seeking compensation for alleged modifications to its contracts for the development of Blocks 7 and 21 in Ecuador imposed by Ecuadorian law 42-2006, took place from March 2 to March 6, 2015. Both parties were instructed to present post-hearing briefs on May 29, 2015.

On May 4, 2015 the Republic submitted its response to Perenco's brief regarding damages in connection with their ICSID claim as set forth on page 69 Offering Circular.

Page 35 of the Offering Circular stated that, on January 30, 2015, Daniel Penades issued proceedings against the Republic in respect of an alleged U.S.\$455,000 holding of 2030 Bonds. Daniel Penades has not yet served the Republic with his summons and complaint, and therefore the Republic as yet has no obligation to make any response to the suit. The court has ordered Daniel Penades to serve the Republic with his summons and complaint by October 2015 or risk dismissal of the suit for failure to prosecute.

Balance of Payments and Foreign Trade

In 2014, Ecuador experienced a balance of payment deficit of U.S.\$424.5 million as a result of a decrease in the capital and financial account. The capital and financial account decreased from U.S.\$2,959.8 million in 2013 to U.S.\$394.3 million in 2014. However, the current account improved from a deficit of U.S.\$984.2 million in 2013 to a deficit of U.S.\$601.7 million in 2014. This improvement was due to the improvement in the trade balance from a deficit of U.S.\$492.5 million in 2013 to a deficit of U.S.\$67.2 million 2014.

Total direct foreign investment has increased over the period from 2009 through 2014, from U.S.\$307.9 million in 2009 to U.S.\$773.9 million in 2014. This increase was due to continuing investment in Ecuador's infrastructure, in particular, its electricity and water sectors. The increase from U.S.\$730.9 million in 2013 to U.S.\$773.9 million in 2014 is principally due to increases in petroleum, agriculture, commerce and manufacturing foreign investment.

As of March 31, 2015, Ecuador's International Reserves totaled U.S.\$3,667.7 million, a decrease from December 31, 2014 when International Reserves totaled U.S.\$3,949.1 million and September 30, 2014, when International Reserves totaled U.S.\$6,689.2 million. These decreases were due to transfers to the Liquidity Fund, decreases in the capital and financial account, and payments in connection with the Republic's debt obligations.

Monetary System

As of March 31, 2015, banking deposits, including guarantee deposits and restricted deposits, totaled U.S.\$26,783.0 million, a decrease from U.S.\$27,596.7 million as of December 31, 2014. However, total current loans to the private sector increased from U.S.\$19,086.9 million as of December 31, 2014 to U.S.\$19,563.2 million as of March 31, 2015.

As of December 31, 2014, the delinquency rate had increased to 2.9%, as a result of the increase in delinquency rates in consumer credits from 4.7% to 5.5%. As of March 31, 2015, the delinquency rate continued to increase to 3.5% as a result of increases in the delinquency rates of consumer credits and small business credits.

Total assets of the banking system decreased from U.S.\$33.6 billion in December 31, 2014 to U.S.\$33.1 billion as of March 31, 2015.

Public Sector Finances

Total revenues of the Central Government in 2014 totaled U.S.\$20,240 million, while total expenditures totaled U.S.\$26,793 million, resulting in a deficit of U.S.\$6,412 million, equivalent to 6.4% of GDP. In 2013, total revenues of the Central Government totaled U.S.\$20,400 million, while total expenditures totaled U.S.\$25,861 million, resulting in a deficit of U.S.\$5,461 million, equivalent to 5.8% of GDP. Ecuador's deficit in 2014 exceeded the deficit in the corresponding period in 2013 primarily due to an increase in wages and salaries paid to government employees as a result of minimum wage increases.

Total revenues of the non-financial public sector in 2014 totaled U.S.\$39,077 million, while total expenditures totaled U.S.\$44,359 million, resulting in a deficit of U.S.\$5,282 million, equivalent to 5.3% of GDP. This deficit was the result of increases in wages and salaries and current expenses. In 2013, total revenues of the non-financial public sector totaled U.S.\$37,260 million, while total expenditures totaled U.S.\$41,607 million, resulting in a deficit of U.S.\$4,348 million, equivalent to 4.6% of GDP.

Public Debt

The total external debt of the public sector as of March 31, 2015 was U.S.\$19.07 billion compared to U.S.\$17.58 billion as of December 31, 2014. This increase is primarily the result of the issuance of the Original Notes and an increase in loans from the Inter-American Development Bank.

As of December 31, 2014, the top three bilateral lenders to Ecuador were China, Brazil and Spain, with debt levels of U.S.\$5,074.4 million (63.7% of the total bilateral debt), U.S.\$302.8 million (3.8% of the total bilateral debt) and U.S.\$158.1 million (1.9% of the total bilateral debt) respectively. As of March 31, 2015, the top three bilateral lenders to Ecuador continued to be China, Brazil and Spain, with debt levels of U.S.\$5,145.2 million (64.5% of the total bilateral debt), U.S.\$315.6 million (4.0% of the total bilateral debt) and U.S.\$152.8 million (1.9% of the total bilateral debt) respectively.

The Government is current on all of its obligations to bilateral and multilateral lenders. As of March 31, 2015, total indebtedness owed to multilateral institutions was U.S.\$7,281.2 million and total indebtedness owed to bilateral entities was U.S.\$7,971.2 million.

The total internal debt of Ecuador as of March 31, 2015 was U.S.\$12.63 billion compared to U.S.\$12.56 billion as of December 31, 2014. This increase is primarily due to the continued issue of domestic long term and short term government notes.

In 2009 the Republic launched cash tender offers to the holders of the 2012 and 2030 Bonds and from 2009 through the date of this Supplement has repurchased additional 2012 and 2030 Bonds. As of the date hereof, the total aggregate amount of outstanding principal on the 2012 and 2030 Bonds is U.S.\$70.3 million, which represents 2.2% of the original aggregate principal amount of the 2012 and 2030 Bonds.

On March 24, 2015, the Republic successfully issued the Original Notes. The Republic is current on its financial obligations under the Original Notes and intends to make all payments as they become due and payable. The Republic is using the proceeds of the Original Notes to finance its various hydroelectric projects and other infrastructure projects contemplated in its National Development Plan. The Republic is also current on all of its obligations under the 2015 Bonds and the 2024 Bonds.

On March 31, 2015, Ecuador entered into a U.S.\$85.7 million facility agreement with the Bank of China Limited, Panama Branch (U.S.\$60.0 million commitment) and Deutsche Bank AG, Hong Kong Branch (U.S.\$25.7

million commitment). The loan is to be used towards payments due under certain commercial contracts for the expansion, restoration and improvement of highways.

Updated Economic Indicators¹

Real and Nominal GDP

(in millions of U.S. dollars, except for percentages)

	For the Year Ended December 31,	
	2013	2014
Nominal GDP.....	94,473	100,543
Real GDP ⁽¹⁾	67,081	69,632
Real GDP growth	4.6%	3.8%

(1) Real GDP measures the Gross Domestic Product of Ecuador minus the effect of inflation. The Central Bank of Ecuador uses 2007 as its base year for all real number calculations.

Nominal GDP by Economic Sector

(in millions of U.S. dollars, except for percentages)

	For the Year Ended December 31,			
	2013	% of GDP	2014	% of GDP
Manufacturing	11,454	12.12	12,484	12.42
Petroleum	11,577	12.25	11,450	11.39
Construction	10,143	10.74	10,705	10.65
Trade (commerce)	9,802	10.38	10,370	10.31
Agriculture	7,352	7.78	7,780	7.74
Community services.....	7,454	7.89	7,941	7.90
Government Services (Public Defense and Social Security Administration)	6,135	6.49	6,706	6.67
Professional and Technical Administration	6,604	6.99	7,531	7.49
Transportation	4,075	4.31	4,303	4.28
Finance and insurance	2,653	2.81	2,838	2.82
Telecommunications	2,006	2.12	2,044	2.03
Electricity and water	998	1.06	1,266	1.26
Shrimp	493	0.52	620	0.62
Mining.....	323	0.34	486	0.48
Others (2)	13,403	14.19	14,019	13.94
Total GDP	94,473	100	100,543	100

¹ The economic indicators in this Supplement only reflect data that has been released since the date of the Offering Circular, in particular annual 2014 data as well as certain indicators that have been updated since December 31, 2014. It does not reproduce all of the tables and data presented in the Offering Circular. Please see the relevant sections in the Offering Circular for the more detailed data (which includes data relating to years prior to 2013.)

Real GDP and Expenditure Growth

(Percentage change from previous comparable period based on 2007 prices)

	For the Year Ended December 31,	
	2013	2014
Real GDP Growth	4.6	3.8
Import of goods & services ⁽¹⁾	7.0	5.5
Total Supply of Goods & Services	5.2	4.2
Public Sector Consumption.....	7.7	3.6
Private Consumption.....	3.2	3.9
Gross Fixed Capital Formation	10.7	3.7
Exports of goods and services ⁽¹⁾	2.4	6.2
Total Final Demand	5.2	4.2

(1) Corresponds to figures from "Real GDP by Expenditure" table.

Per Capita GDP

	For the Year Ended December 31,	
	2013	2014
Per capita Nominal GDP (current U.S.\$).....	5,989	6,273
Per capita Real GDP.....	4,252	4,345
Population (in thousands).....	15,775	16,027

Real GDP by Expenditure

(in millions of dollars)

	For the Year Ended December 31,	
	2013	2014
Consumption		
Public Sector Consumption	9,385.3	9,719.9
Private Consumption	41,582.3	43,201.2
Total Consumption	50,967.5	52,921.2
Gross Investment		
Gross Fixed Capital Formation	18,260.6	18,943.6
Change in Inventory.....	506.2	449.9
Exports of goods and services ⁽¹⁾	18,042.0	19,153.8
Imports of goods and services ⁽¹⁾	20,695.3	21,836.9
Real GDP	67,081	69,632

(1) The exports and imports figures in this chart are adjusted for inflation and reflect the contribution of exports and imports to GDP. They differ from the nominal exports and imports in the "Balance of Payments" table and stand-alone exports and imports tables in the "Exports-(FOB)" and "Imports-(CIF)" tables in the Offering Circular.

Labor Force and Employment

	As of December 31, 2014	As of March 31, 2015
Total Population	16,027	16,279
Labor Force.....	11,159	11,202
Labor Force Participation	7,195	7,374
Labor Force Participation Rate	64.48%	65.83%
Employed Labor Force	6,921	7,091
Unemployed Labor Force	273	283
Unemployment Rate	3.80%	3.84%

Percentage of Households in Poverty

	As of December 31, 2014	As of March 31, 2015
Poverty Based on Income		
Urban.....	16.4	15.1
Rural.....	35.3	43.4
Total	22.5	24.1
Extreme Poverty Based on Income		
Urban.....	4.5	3.9
Rural.....	14.3	19.7
Total	7.7	9.0

Annual Balance of Payments

(in millions of U.S.\$)

	For the Year Ended December 31,	
	2013	2014
Current Account	-984.2	-601.7
Trade balance	-492.5	-67.2
Exports (FOB) ⁽¹⁾	25,685.7	26,604.5
Imports (FOB)	-26,178.2	-26,671.7
Services.....	-1,495.3	1,219.3
Rendered services (credit)	2,029.0	2,333.9
Transportation.....	423.5	424.7
Travel.....	1,246.2	1,482.1
Other	359.4	427.1
Rendered services (debit)	-3,524.3	-3,553.2
Transportation.....	-1,773.4	-1,782.7
Travel.....	-621.4	-632.4
Other	-1,129.5	-1,138.1
Investment income	-1,395.2	-1,579.3
Inflows (credit)	112.6	118.0
Outflows (debit)	-1,507.8	-1,697.3
Employees' remuneration	-9.8	-11.4
Direct investment income	-683.9	-665.9
Portfolio investment income	-63.7	-143.2
Other	-750.4	-876.7
Net transfers	2,398.8	2,264.1
Emigrant remittances	2,449.5	2,461.7
Capital and financial account	2,959.8	394.3
Capital account.....	66.1	66.8
Financial account	2,893.6	327.6
Direct Investment.....	730.9	773.9
Portfolio Investment	-909.8	1,500.4
Other Investment	3,072.6	-1,946.7

Errors and omissions	-129.6	-217.1
Total balance of payments	1,845.9	-424.5
Financing	-1,845.9	424.5
International Reserves ⁽²⁾	-1,878.0	411.5
IMF loans.....	-	-
Exceptional Financing, net ⁽³⁾	32.1	13.0

(1) Figures differ from "Exports-(FOB)" charts and "Real GDP by Expenditure" in the Offering Circular due to the inclusion of non-registered commerce and "other exports." "Non-registered commerce" includes goods, which for some reason are not registered by customs. Ecuadorian customs may not register commerce under various situations including, but not limited to, delays in the submission of export forms, false declarations, different statistical treatment in the country with which Ecuador has engaged in trade, sales of contraband, and arms trade. "Other exports" includes exports of goods for processing, repair of goods, goods acquired in ports through various transportation means and non-monetary gold.

(2) Data corresponds to changes in International Reserves. Negative numbers indicate an increase in International Reserves and positive numbers indicate a reduction.

(3) Data refers to the refinancing of existing debt, financing necessary for repayment of arrears, and loans procured for the purpose of financing the balance of payments.

Foreign Investment by Sector

(in millions of U.S\$, and as a % of total foreign investment)

	For the Year Ended December 31,			
	2013		2014	
	U.S.\$	%	U.S.\$	%
Agriculture, forestry, hunting and fishing	25.8	3.5	38.2	4.9
Commerce ⁽¹⁾	109.1	14.9	137.8	17.8
Construction	68.7	9.4	5.2	0.7
Electricity and water	29.2	4.0	-4.7	-0.6
Petroleum ⁽²⁾	252.9	34.6	490.3	63.4
Manufacturing	137.9	18.9	108.6	14.0
Social and personal services	-2.3	-0.3	14.1	1.8
Services rendered to businesses.....	118.1	16.2	36.1	4.7
Transportation, storage and telecommunications.....	-8.6	-1.2	-51.6	-6.7
Total.....	730.9	100	773.9	100

(1) Commerce includes investment in commercial infrastructure and real estate.

(2) Includes mining and natural gas.

Monetary System

(in millions, except percentages)

	As of December 31, 2014	As of March 31, 2015
Loans to Private Sector		
Commercial and consumer loans.....	16,100.9	16,207.4
Development and mortgage banks.....	1,574.3	1,619.8
Savings and loans associations	1,367.1	1,360.8
Education Loans	44.5	375.1
Total Current Loans.....	19,086.9	19,563.2
Past-Due Loans	565	704
Delinquency rate	2.9%	3.5%
Total Loan Portfolio	19,652	20,267

Deposits		
Demand Deposits	19,013.5	17,738.9
Time Deposits	7,861.0	7,948.8
Guarantee Deposits	1.2	1.1
Others	721.0	1,094.2
Total	27,596.7	26,783.0
International Reserves	3,949.1	3,667.7

Consolidated Non-financial Public Sector Revenues and Expenditures

(in millions of U.S.\$ and as a % of GDP)

	For the Year Ended December 31,			
	2013	% of GDP	2014	% of GDP
Revenue				
Petroleum Revenue				
Exports ⁽¹⁾	11,433	12.1	10,906	10.8
Domestic sales	-	-	-	-
Total Petroleum Revenue (a)	11,433	12.1	10,906	10.8
Non-petroleum revenue				
Income Tax.....	3,847	4.1	4,161	4.1
Value-added Tax	6,056	6.4	6,376	6.3
Specific consumption taxes	744	0.8	803	0.8
International trade taxes	1,352	1.4	1,357	1.3
Social Security Contributions.....	4,547	4.8	4,718	4.7
Other taxes	6,085	6.4	6,279	6.2
Total non-petroleum revenue (b).....	22,630	24.0	23,694	23.6
Operating Income of Public Companies (c).....	3,196	3.4	4,477	4.5
Total Revenue (a+b+c)	37,260	39.4	39,077	38.9
Expenses				
Current Expenditures				
Interest.....	971	1.0	1,024	1.0
Foreign	714	0.8	829	0.8
Domestic	257	0.3	195	0.2
Wages and salaries	8,896	9.4	9,478	9.4
Purchases of goods and services.....	4,435	4.7	5,328	5.3
Others	12,675	13.4	13,161	13.1
Total Current Expenditure	26,977	28.6	28,990	28.8
Capital Expenditure and net lending				
Gross capital formation	14,039	14.9	13,994	13.9
Central Government	8,506	9.0	8,304	8.3
Public Companies	3,988	4.2	4,218	4.2
Rest of General Government	1,529	1.6	1,439	1.4
Others	17	0.0	33	0.0
Other Capital Expenditure	592	0.6	1,375	1.4
Total Capital Expenditure	14,631	15.5	15,368	15.3
Total Expenditure	41,607	44.0	44,359	44.1
Surplus/Deficit	-4,348	-4.6	-5,282	-5.3

(1) This figure is different than the crude oil exports figure in the Exports FOB table in that it includes derivative revenues, as opposed to only crude oil, and measures revenues from petroleum exports for the non-financial public sector.

Summary of Consolidated Central Government Sector Revenues and Expenditures

(in millions of U.S.\$ and as a % of GDP)

	For the Year Ended December 31,			
	2013	% of GDP	2014	% of GDP
Revenue				
Petroleum revenue	4,677	5.0	3,624	3.6
Non-petroleum revenue.....	15,723	16.6	16,616	16.5
Tax revenue				
Taxes on goods and Services				
Value-added tax	6,056	6.4	6,376	6.3
Selected excise taxes.....	744	0.8	803	0.8
Total taxes on goods and services.....	6,800	7.2	7,179	7.1
Taxes on income and profits.....	3,847	4.1	4,161	4.1
Taxes on International Trade				
Import duties.....	1,352	1.4	1,357	1.3
Exit tax.....	1,322	1.4	1,406	1.4
Total taxes on international trade.....	2,675	2.8	2,763	2.7
Vehicle tax.....	214	0.2	228	0.2
Other taxes.....	132	0.1	129	0.1
Total tax revenue	13,668	14.5	14,460	14.4
Non-tax revenue.....	1,961	2.1	1,815	1.8
Transfers.....	95	0.1	341	0.3
Total revenues	20,400	21.6	20,240	20.1
Current expenditure				
Interest accrual:				
Foreign.....	652	0.7	714	0.7
Domestic.....	516	0.5	682	0.7
Total interest accrual.....	1,169	1.2	1,396	1.4
Wages and salaries.....	7,897	8.4	8,359	8.3
Purchase of goods and services	2,035	2.2	2,491	2.5
Other current expenditures.....	1,664	1.8	998	1.0
Transfers	1,511	1.6	1,737	1.7
Total current expenditure	14,276	15.1	14,981	14.9
Capital expenditure				
Fixed capital expenditure.....	8,538	9.0	8,309	8.3
Other	-	-	-	-
Capital Transfers.....	3,048	3.2	3,482	3.5
Total capital expenditure	11,586	12.3	11,812	11.7
Total Expenditure.....	25,861	27.4	26,793	26.6
Adjustment on treasury accounts	-	-	-	-
Overall surplus or deficit	-5,461	-5.8	-6,412	-6.4

Public Sector External Debt

(by debtor, in billions of U.S. dollars at the end of the year, except percentages)

	As of December 31, 2014	As of March 31, 2015
Central Government	15.43	17.00
Public financial and non-financial entities.....	2.15	2.07
Total.....	17.58	19.07
External public debt as a percentage of nominal GDP	17.4%	17.6% ⁽¹⁾

(1) Based on Ministry of finance estimate of GDP

Public Sector External Debt by Type of Creditor

(in millions of U.S. dollars)

	As of December 31, 2014	As of March 31, 2015
Multilateral Debt	6,560.0	7,281.2
Bilateral Debt	7,960.9	7,971.2
Other Debt ⁽¹⁾	3,061.0	3,814.2
Total External Debt	17,581.9	19,066.7

(1) "Other debt" includes amounts owed under the 2012 and 2030 Bonds, the 2015 Bonds, the 2024 Bonds and the Brady Bonds.

Public Sector Internal Debt

	As of December 31, 2014	As of March 31, 2015
Central Government Notes	11.78	11.85
Governmental Entities	0.78	0.78
Total Internal Debt	12.56	12.63
Internal public debt as a percentage of nominal GDP.....	12.4%	11.6% ⁽¹⁾

(1) Based on Ministry of finance estimate of GDP

USE OF PROCEEDS

The use of proceeds for public debt is limited by the Public Planning and Finance Code (defined in the Offering Circular). Under the Public Planning and Finance Code, proceeds of public debt transactions may only be used to: (1) finance Government programs, (2) finance infrastructure projects that have the capacity to repay the related debt obligations and (3) refinance an existing external debt obligation on more favorable terms. The Public Planning and Finance Code prohibits public transactions for the purpose of paying ongoing expenses, with the exception of expenses related to health, education, and justice, under exceptional circumstances as determined by the President of the Republic.

The Republic will use the proceeds of U.S.\$750,000,000 of the Additional Notes in accordance with the limitations of the Public Planning and Finance Code. The total expenses of this offering, including the underwriter's fee, will be approximately U.S.\$3,500,000.

THE ADDITIONAL NOTES OFFERING

The following summary does not purport to be complete and is qualified in its entirety by, and is subject to, the detailed information appearing elsewhere in this Supplement and in the attached Offering Circular, in particular in the sections entitled the "Offering" and "Description of the Notes" beginning on page 18 and 115 on the attached Offering Circular. The Additional Notes will have identical terms and conditions as the Original Notes, other than the issue date and issue price as described below.

Issuer:	The Republic of Ecuador.
Additional Notes Issue Amount:	U.S.\$750,000,000; upon consummation of this Additional Notes offering, the aggregate principal amount of the Notes will be U.S.\$1,500,000,000.
Securities Offered:	U.S.\$750,000,000 principal amount of 10.500% notes due 2020; consolidated with and forming a single series, from and including the Issue Date, with the Original Notes issued on March 24, 2015 in the aggregate principal amount of U.S.\$750,000,000.
Issue Format:	Rule 144A/Regulation S.
Issue Price:	107.789% plus accrued interest from March 24, 2015 to but excluding May 19, 2015.
Issue Date:	May 19, 2015.
Maturity Date:	March 24, 2020.
Interest:	10.500% per annum, computed on the basis of a 360-day year of twelve 30 day months.
Interest Payment Dates:	Each March 24 and September 24, commencing on September 24, 2015.
Form:	The Additional Notes will be represented in the form of global notes, without coupons, registered in the nominee name of the common depositary for Euroclear and Clearstream for the accounts of its participants. Additional Notes in definitive certificated form will not be issued in exchange for the global notes except under limited circumstances.
Denominations:	The Republic will issue the Additional Notes only in denominations of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof.
Ranking:	The Additional Notes will be general, direct, unsecured, unsubordinated and unconditional obligations of Ecuador, will be backed by the full faith and credit of Ecuador and will rank equally in terms of priority with

Ecuador's External Indebtedness (other than Excluded Indebtedness), provided, that, such ranking is in terms of priority only and does not require that Ecuador make ratable payments on the Additional Notes with payments made on its other External Indebtedness.

Use of Proceeds:

The Republic will use the proceeds of U.S.\$750,000,000 of the Additional Notes in accordance with the limitations of the Public Planning and Finance Code, as further described in "Use of Proceeds" on page 14 of this Supplement.

Trustee, Registrar and Transfer Agent:

The Bank of New York Mellon.

London Paying Agent:

The Bank of New York Mellon, London Branch.

Luxembourg Listing Agent, Transfer Agent and Luxembourg Paying Agent:

The Bank of New York Mellon (Luxembourg) S.A.

Governing Law:

The Additional Notes will be governed by the laws of the State of New York, except for the terms concerning submissions to arbitration which will be governed by English law.

Further Issues:

The Republic may, from time to time, without the consent of the holders of the Additional Notes, create and issue additional notes having the same terms and conditions as the Additional Notes in all respects (or in all respects except for the amount of the first interest payment and the issue price) provided that:

- (a) the notes are consolidated and form a single series with the outstanding Notes; and
- (b) such additional notes do not have, for purposes of U.S. federal income taxation, a greater amount of original issue discount than the outstanding Additional Notes have as of the date of the issue of such additional notes (regardless of whether any holders of such Notes are subject to U.S. federal income taxation).

VALIDITY OF THE NOTES

The validity of the Additional Notes will be passed upon on behalf of the Republic by the *Coordinador General Jurídico* of the Ministry of Finance of the Republic, Ecuadorian counsel to the Republic, and by Hogan Lovells US LLP, U.S. counsel to the Republic. The validity of the Additional Notes will be passed upon on behalf of the Lead Manager by Pérez Bustamante & Ponce, Ecuadorian counsel to the Lead Manager, and by Clifford Chance US LLP, U.S. counsel to the Lead Manager. As to all matters of Ecuadorian law, Hogan Lovells US LLP will rely on the opinion of the *Coordinador General Jurídico* of the Ministry of Finance of the Republic, and Clifford Chance US LLP will rely upon the opinion of Pérez Bustamante & Ponce.

In connection with the issuance of the Additional Notes, the Attorney General will issue a "Pronouncement" in relation to the Additional Notes Purchase Agreement and the Additional Notes, which will constitute the required authorizations for the Ministry of Finance to be able to agree to the laws of the State of New York as the governing law of the Additional Notes Purchase Agreement and the Additional Notes, as well as the submission to arbitration provisions set out therein.

SUBSCRIPTION AND SALE

Citigroup Global Markets Limited is acting as the Lead Manager (the "Lead Manager") of this offering. Subject to the terms and conditions in the purchase agreement dated the date of this Supplement (the "Additional Notes Purchase Agreement"), the Lead Manager will agree to purchase and the Republic will agree to sell to the Lead Manager, the total principal amount of the Additional Notes.

The Additional Notes Purchase Agreement provides that the obligations of the Lead Manager to purchase the Additional Notes are subject to approval of legal matters by counsel and to other conditions. The Lead Manager must purchase all the Additional Notes if it purchases any of the Additional Notes.

The Republic has been advised that the Lead Manager proposes to resell the Additional Notes at the offering price set forth on the cover page of this Supplement within the United States to qualified institutional buyers (as defined in Rule 144A) in reliance on Rule 144A and outside the United States in reliance on Regulation S. See "Transfer Restrictions" on page 140 of the Offering Circular. The price at which the Additional Notes are offered may be changed at any time without notice.

The Additional Notes have not been and will not be registered under the Securities Act or any state securities law and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except in transactions exempt from, or not subject to, the registration requirements of the Securities Act. See "Transfer Restrictions" on page 140 of the Offering Circular.

Accordingly, the Lead Manager has agreed that, except as permitted by the Additional Notes Purchase Agreement and set forth in "Transfer Restrictions" described on page 140 of the Offering Circular, it will not offer or sell the Additional Notes within the United States or to, or for the account or benefit of, U.S. persons as part of the distribution of the Additional Notes.

In addition, until 40 days after the commencement of this offering, an offer or sale of Additional Notes within the United States by a dealer that is not participating in this offering may violate the registration requirements of the Securities Act if that offer or sale is made otherwise than in accordance with Rule 144A.

Although application has been made to list the Additional Notes on the Official List of the Luxembourg Stock Exchange and to have the Additional Notes trade on the Euro MTF Market, the listing does not assure that a trading market for the Additional Notes will develop. The Lead Manager intends to make a secondary market for the Additional Notes. However, it is not obligated to do so and may discontinue making a secondary market for the Additional Notes at any time without notice. No assurance can be given as to how liquid the trading market for the Additional Notes will be. The Republic cannot provide any assurances that the prices at which the Additional Notes will trade in the market after this offering will not be lower than the initial offering price or that an active trading market for the Additional Notes will develop and continue after this offering.

The Republic estimates that its portion of the total expenses of this offering, including underwriter's fees, will be U.S.\$3,500,000.

In connection with the offering, the Lead Manager may purchase and sell Additional Notes in the open market. Purchases and sales in the open market may include short sales, purchases to cover short positions and stabilizing purchases.

- Short sales involve secondary market sales by the Lead Manager of a greater number of Additional Notes than it is required to purchase in the offering.
- Covering transactions involve purchases of Additional Notes in the open market after the distribution has been completed in order to cover short positions.
- Stabilizing transactions involve bids to purchase Additional Notes so long as the stabilizing bids do not exceed a specified maximum.

Purchases to cover short positions and stabilizing purchases, as well as other purchases by the Lead Manager for its own account, may have the effect of preventing or retarding a decline in the market price of the Additional Notes. They may also cause the price of the Additional Notes to be higher than the price that would otherwise exist in the open market in the absence of these transactions. The Lead Manager may conduct these transactions in the over-the-counter market or otherwise. If the Lead Manager commences any of these transactions, it may discontinue them at any time.

The Lead Manager is a full service financial institution engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. The Lead Manager and its respective affiliates have in the past performed commercial banking, investment banking and advisory services for the Republic from time to time for which they have received customary fees and reimbursement of expenses and may, from time to time, engage in transactions with and perform services for the Republic in the ordinary course of their business for which they may receive customary fees and reimbursement of expenses. In the ordinary course of its various business activities, the Lead Manager and its respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own accounts and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve the Republic's securities and instruments.

The Republic has agreed to indemnify the Lead Manager against certain liabilities, including liabilities under the Securities Act, or to contribute to payments that the Lead Manager may be required to make because of any of those liabilities.

Selling Restrictions

United States of America

No registration under Securities Act

The Additional Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and in compliance with any applicable state securities laws. Accordingly, the Additional Notes are being offered, sold or delivered only: (a) outside the United States in offshore transactions in reliance on Regulation S and (b) in the United States only to QIBs in connection with resales by the Lead Manager, in reliance on, and in compliance with, Rule 144A. In addition, until 40 days after the commencement of the offering, an offer or sale of any of the Additional Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if the offer or sale is made otherwise than in accordance with Rule 144A.

Canada

The distribution of the Additional Notes in Canada is being made only on a private placement basis exempt from the requirement that the Republic prepare and file a prospectus with the applicable securities regulatory authorities. The Republic is not a reporting issuer in any province or territory in Canada and its Additional Notes are not listed on any stock exchange in Canada and there is currently no public market for the Additional Notes in Canada. The Republic currently has no intention of becoming a reporting issuer in Canada, filing a prospectus with any securities regulatory authority in Canada to qualify the resale of the Additional Notes to the public, or listing its securities on any stock exchange in Canada. Accordingly, to be made in accordance with securities laws, any resale of the Additional Notes in Canada must be made under available statutory exemptions from registration and prospectus requirements or under a discretionary exemption granted by the applicable Canadian securities regulatory authority. Canadian purchasers are advised to seek legal advice prior to any resale of the Additional Notes.

Each Canadian purchaser who purchases Additional Notes on a private placement basis pursuant to this Canadian offering circular will be deemed to have represented to and agreed with the Republic and the Lead Manager that such purchaser: (i) is entitled under applicable securities laws to purchase such Additional Notes without the benefit of a prospectus qualified under such securities laws; (ii) is resident in Canada; (iii) is not a U.S. person as defined in Rule 902 of Regulation S under the U.S. Securities Act of 1933; (iv) is purchasing the Additional Notes with the benefit of the prospectus exemption provided by Section 2.3 of National Instrument 45-106 – Prospectus and Registration Exemptions ("NI 45-106") (that is, such purchaser is an "accredited investor" within the meaning of NI 45-106 and is either purchasing Additional Notes as principal for its own account, or is deemed to be purchasing the Additional Notes as principal for its own account in accordance with applicable securities laws); (v) if not an individual, the purchaser was not created or used solely to purchase or hold Additional Notes as an accredited investor under NI 45-106; (vi) is a permitted client within the meaning of National Instrument 31-103 – Registration Requirements, Exemptions and Ongoing Registrant Obligations; and (vii) if required by applicable securities laws or stock exchange rules, the purchaser will execute, deliver and file or assist the Republic in obtaining and filing such reports, undertakings and other documents relating to the purchase of the Additional Notes by the purchaser as may be required by any securities commission, stock exchange or other regulatory authority.

United Kingdom

The Lead Manager has represented, warranted and agreed that:

- (a) **Financial promotion:** it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the "FSMA") received by it in connection with the issue or sale of any Additional Notes in circumstances in which section 21(1) of the FSMA does not apply to the Republic; and
- (b) **General compliance:** it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Additional Notes in, from or otherwise involving the United Kingdom.

Republic of Italy

The offering of the Additional Notes has not been registered with the Commissione Nazionale per le Società e la Borsa ("CONSOB") pursuant to Italian securities legislation. The Lead Manager represents and agrees that any offer, sale or delivery of the Additional Notes or distribution of copies of this Supplement, the Offering Circular or any other document relating to the Additional Notes in the Republic of Italy will be effected in accordance with all Italian securities, tax and exchange control and other applicable laws and regulations.

Any such offer, sale or delivery of the Additional Notes or distribution of copies of this Supplement, the Offering Circular or any other document relating to the Additional Notes in the Republic of Italy must be:

- (a) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with Legislative Decree No. 58 of 24 February 1998, CONSOB Regulation No. 16190 of 29 October 2007 and Legislative Decree No. 385 of 1 September 1993 (in each case as amended from time to time); and
- (b) in compliance with any other applicable laws and regulations or requirement imposed by CONSOB or any other Italian authority.

Switzerland

The Additional Notes may not be publicly offered, sold or advertised, directly or indirectly, in, into or from Switzerland, as such term is used under the Swiss Code of Obligations, and will not be listed on the SIX Swiss

Exchange or on any other exchange or regulated trading facility in Switzerland. Neither this Supplement, the Offering Circular nor any other offering or marketing material relating to the Additional Notes constitutes an Offering Circular as such term is understood pursuant to article 652a or article 1156 of the Swiss Code of Obligations or a listing Offering Circular within the meaning of the listing rules of the SIX Swiss Exchange or any other regulated trading facility in Switzerland and neither this Supplement, the Offering Circular nor any other offering or marketing material relating to the Additional Notes may be publicly distributed or otherwise made publicly available in Switzerland, as such term is used under the Swiss Code of Obligations.

Singapore

This Supplement and the Offering Circular have not been registered as an Offering Circular with the Monetary Authority of Singapore under the Securities and Futures Act, Cap. 289 of Singapore (the "SFA") and accordingly, the Additional Notes may not be offered or sold, nor may the Additional Notes be the subject of an invitation for subscription or purchase, nor may this Supplement, the Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase of the Additional Notes be circulated or distributed, whether directly or indirectly, to any person in Singapore other than (a) to an institutional investor (as defined in Section 4A of the SFA) pursuant to Section 274 of the SFA, (b) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to an offer referred to in Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA or (c) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Additional Notes are acquired by persons who are relevant persons specified in Section 276 of the SFA, namely:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor; or
- (c) the shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within 6 months after that corporation or that trust has acquired the Additional Notes pursuant to an offer made under Section 275 of the SFA except:
 - (1) to an institutional investor (under Section 274 of the SFA) or to a relevant person as defined in Section 275(2) of the SFA, or any person pursuant to an offer that is made on terms that such shares, debentures and units of shares and debentures of that corporation or such rights or interest in that trust are acquired at a consideration of not less than \$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets and further for corporations, in accordance with the conditions specified in Section 275(1A) of the SFA;
 - (2) where no consideration is or will be given for the transfer;
 - (3) where the transfer is by operation of law; or
 - (4) as specified in Section 276(7) of the SFA.

Hong Kong

The Lead Manager has represented and agreed that:

- (1) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Additional Notes other than (a) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong ("SFO") and any rules made under the Ordinance; or (b) in other circumstances which do not result in the document being an "Offering Circular" as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and
- (2) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Additional Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Additional Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under that Ordinance.

Japan

The Additional Notes have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (Law No. 25 of 1948, as amended) and, accordingly, the Lead Manager has undertaken that it will not offer or sell any Additional Notes directly or indirectly, in Japan or to, or for the benefit of, any Japanese Person or to others for re-offering or resale, directly or indirectly, in Japan or to any Japanese Person except under circumstances which will result in compliance with all applicable laws, regulations and guidelines promulgated by the relevant Japanese governmental and regulatory authorities and in effect at the relevant time. For the purposes of this paragraph, "Japanese Person" shall mean any person resident in Japan, including any corporation or other entity organised under the laws of Japan.

United Arab Emirates (excluding the Dubai International Financial Centre)

The Lead Manager has represented and agreed that the Additional Notes have not been and will not be offered, sold or publicly promoted or advertised by it in the United Arab Emirates other than in compliance with any laws applicable in the United Arab Emirates governing the issue, offering and sale of securities.

The Lead Manager has acknowledged that the information contained in this Supplement and in the Offering Circular does not constitute a public offer of securities in the United Arab Emirates in accordance with the Commercial Companies Law (Federal Law 8 of 1984 (as amended)) or otherwise and is not intended to be a public offer and the information contained in this Supplement and in the Offering Circular is not intended to lead to the conclusion of any contract of whatsoever nature within the territory of the United Arab Emirates.

Dubai International Financial Centre

The Lead Manager has represented and agreed that it has not offered and will not offer the Additional Notes to any person in the Dubai International Financial Centre unless such offer is:

- (a) an "Exempt Offer" in accordance with the Offered Securities Rules of the Dubai Financial Services Authority (the "DFSA"); and
- (b) made only to persons who meet the Professional Client criteria set out in Rule 2.3.2 of the DFSA Conduct of Business Module.

Qatar

The Lead Manager has represented and agreed that it has not offered, sold or delivered and will not offer, sell, or deliver, directly or indirectly, any Additional Notes in Qatar, except: (a) in compliance with all applicable laws and regulations of Qatar; and (b) through persons or corporate entities authorized and licensed to provide investment advice and/or engage in brokerage activity and/or trade in respect of foreign securities in Qatar.

This Supplement and the Offering Circular have not been reviewed or approved by or registered with the Qatar Exchange, the Qatar Central Bank or the Qatar Financial Markets Authority. This Supplement and the Offering Circular are strictly private and confidential and may not be reproduced or used for any other purpose, nor provided to any person other than the recipient thereof.

Chile

Neither the Republic nor the Additional Notes are registered in the Securities Registry (*Registro de Valores*) or the Foreign Securities Registry (*Registro de Valores Extranjeros*) of the Chilean Securities and Insurance Commission (*Superintendencia de Valores y Seguros de Chile*), or SVS, or is subject to the control and supervision of the SVS. As unregistered securities, the Republic is not required to disclose public information about the Additional Notes in Chile. The Additional Notes may not be publicly offered in Chile unless they are registered in the corresponding securities registry.

This Supplement, the Offering Circular and other offering materials relating to the offer of the Additional Notes do not constitute a public offer of, or an invitation to subscribe for or purchase, the Additional Notes in the Republic of Chile, other than to individually identified purchasers pursuant to a private offering within the meaning of Article 4 of the Chilean Securities Market Act (*Ley de Mercado de Valores*) (an offer that is not addressed to the public at large or to a certain sector or specific group of the public).

General

No action has been taken by the Republic or by the Lead Manager that would, or is intended to, permit a public offer of the Additional Notes in any country or jurisdiction where any such action for that purpose is required.

Accordingly, the Lead Manager has undertaken that it will not, directly or indirectly offer or sell any Additional Notes or distribute or publish any offering circular, this Supplement and the Offering Circular, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of Additional Notes by it will be made on the same terms.

GENERAL INFORMATION

1. The Regulation S Global Note and the Restricted Global Note have been accepted for clearance and settlement through Euroclear and Clearstream, Luxembourg. The common codes for the Regulation S Global Note and the Restricted Global Note are 119992982 and 119993032, respectively, and the International Securities Identification Numbers for the Regulation S Global Note and the Restricted Global Note are XS1199929826 and XS1199930329, respectively.

2. The Republic has obtained all necessary consents, approvals and authorizations in the Republic of Ecuador in connection with the issue and performance of the Additional Notes. The issue of the Additional Notes was authorized by the Republic's Debt and Finance Committee under Acta Resolutiva No. 010 dated May 13, 2015.

3. The Republic is involved in certain litigation and administrative arbitration proceedings. See "Legal Proceedings" on page 67 of the Offering Circular and "Recent Developments – Legal Proceedings" in this Supplement.

4. On December 19, 2014, Moody's Investors Service upgraded the Republic's long-term Government bond ratings from "Caa1" to "B3" with a "stable outlook." On August 6, 2013, Standard & Poor's Ratings Services upgraded the Republic's foreign long-term issuer rating from "B-" to "B" with a "positive outlook" and on August 20, 2014 further upgraded the Republic's rating to "B+" with a "stable outlook." On October 18, 2013, the Republic's long-term issuer default rating by Fitch Ratings was upgraded from "B-" to "B," with "stable outlook".

Ratings are not a recommendation to purchase, hold or sell securities and may be changed, suspended or withdrawn at any time. The Republic's current ratings and the rating outlooks currently assigned to the Republic are dependent upon economic conditions and other factors affecting credit risk that are outside the control of the Republic. Any adverse change in the Republic's credit ratings could adversely affect the trading price for the Additional Notes. Each rating should be evaluated independently of the others. Detailed explanations of the ratings may be obtained from the rating agencies.

5. Application has been made to list the Additional Notes on the Official List of the Luxembourg Stock Exchange and to have the Additional Notes admitted to trading on the Euro MTF Market. So long as any of the Additional Notes are listed on the Luxembourg Stock Exchange, the Republic will maintain a paying agent and transfer agent in Luxembourg.

6. Copies of the following documents may be obtained, free of charge, on any business day (Saturdays, Sundays and public holidays excepted) at the office of the Paying Agent in Luxembourg so long as any of the Additional Notes are listed on the Luxembourg Stock Exchange:

- (a) the Indenture incorporating the forms of Global Notes;
- (b) this Supplement;
- (c) the Offering Circular;
- (d) copies of the 2008 Constitution, and the Legislative Decrees of the Republic referred to in paragraph 2 above (in Spanish); and
- (e) copies of the Republic's consolidated public sector fiscal accounts for the last calendar year (as and when available in English).

7. Other than as disclosed herein and in the Offering Circular, there has been no material adverse change in the financial condition of the Republic which is material in the context of the issue of the Additional Notes.

8. Save as disclosed in "Legal Proceedings," on page 67 of the Offering Circular and "Recent Developments – Legal Proceedings" in this Supplement, the Republic is not involved in any litigation or arbitration proceeding relating to claims or amounts which are material in the context of the issue of the Additional Notes nor, as far as the Republic is aware, is any litigation pending or threatened.

ISSUER

The Republic of Ecuador
Ministry of Finance
Ave. 10 de Agosto 1661 y Jorge Washington
Quito, Ecuador

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L-2453
Luxembourg

You should rely only on the information contained in the Offering Circular and this Supplement or to which Ecuador has referred you. Ecuador has not authorized anyone to provide you with information that is different. This Supplement may only be used where it is legal to sell these securities. The information in this Supplement may only be accurate on the date of this Supplement.



The Republic of Ecuador

U.S.\$750,000,000

10.500% Notes due 2020

Citigroup

Offering Circular Supplement

May 14, 2015

APPENDIX B:
Offering Circular dated July 28, 2016, and its supplement
dated September 30, 2016, with respect to the 2022 Notes

OFFERING CIRCULAR



The Republic of Ecuador

U.S.\$1,000,000,000

10.750% Notes due 2022

The Republic of Ecuador (the “Republic” or “Ecuador”) is offering U.S.\$1,000,000,000 aggregate principal amount of its 10.750% Notes due 2022 (the “Notes”). Interest on the Notes will be payable semi-annually in arrears on March 28 and September 28 of each year commencing March 28, 2017. The Notes will mature on March 28, 2022.

The Notes will contain provisions, commonly known as “collective action clauses,” regarding acceleration of the Notes and voting on future amendments, modifications and waivers to the terms and conditions of the Notes. These provisions, which are described in the sections entitled “Description of the Notes — Events of Default” and “Description of the Notes — Modifications – Collective Action,” differ from those applicable to certain of the Republic’s outstanding External Indebtedness (as defined herein). Under such provisions, the Republic may: (a) amend the payment provisions of the Notes and certain other reserved matters with the consent of the holders of 75% of the aggregate amount of the outstanding Notes and other non-reserved matters with the consent of the holders of 66⅔% of the aggregate amount of the outstanding Notes; (b) make reserved matter modifications affecting two or more series of debt securities with the consent of (x) holders of at least 66⅔% of the aggregate principal amount of the outstanding debt securities of all series that would be affected by that reserved matter modification (taken in aggregate) and (y) holders of more than 50% of the aggregate principal amount of the outstanding debt securities of each affected series (taken individually); or (c) make reserved matter modifications affecting two or more series of debt securities with the consent of holders of at least 75% of the aggregate principal amount of the outstanding debt securities of all affected series (taken in aggregate), provided that the Uniformly Applicable condition is satisfied, as more fully described in “Description of the Notes – Modifications – Collective Action.”

Except as described herein, payments on the Notes will be made without deduction for or on account of withholding taxes imposed by the Republic. There is currently no public market for the Notes. Application has been made to list the Notes on the Official List of the Luxembourg Stock Exchange and to have the Notes admitted to trading on the Euro MTF Market. This Offering Circular constitutes a prospectus for the purpose of the Luxembourg Law dated July 10, 2005 on prospectuses for securities, as amended. The Notes are and will be issued in registered form and, in limited circumstances, definitive form in minimum denominations of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof.

See “Risk Factors” beginning on page 20 regarding certain risk factors you should consider before investing in the Notes.

Price: 100.000%

plus accrued interest, if any, from July 28, 2016

Delivery of the Notes will be made on or about July 28, 2016.

The Notes have not been and will not be registered under the Securities Act of 1933, as amended (the “Securities Act”). The Notes may not be sold within the United States or to U.S. persons except to qualified institutional buyers in reliance on the exemption from registration provided by Rule 144A under the Securities Act and offered and sold to certain persons in offshore transactions in reliance on Regulation S under the Securities Act. You are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A under the Securities Act.

The Notes will be represented by one or more permanent global notes in fully registered form without interest coupons, deposited with a common depository for Euroclear Bank S.A./N.V. (“Euroclear”) and Clearstream Banking, *société anonyme* (“Clearstream”). Beneficial interests of Euroclear participants in the global notes will be shown on, and transfers thereof between Euroclear participants will be effected only through, records maintained by Euroclear and its direct and indirect participants, including Clearstream Banking, *société anonyme*. See “Book-Entry Settlement and Clearance.”

ANY OFFER OR SALE OF NOTES IN ANY MEMBER STATE OF THE EUROPEAN ECONOMIC AREA (THE “EEA”) THAT HAS IMPLEMENTED DIRECTIVE 2003/71 EC (THE “PROSPECTUS DIRECTIVE”) MUST BE ADDRESSED TO QUALIFIED INVESTORS (AS DEFINED IN THE PROSPECTUS DIRECTIVE).

Lead Manager and Global Coordinator

Citigroup

The date of this Offering Circular is July 28, 2016.



IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE REPUBLIC AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND THE RISKS INVOLVED.

You should rely only on the information contained in this Offering Circular or to which the Republic of Ecuador has referred you. Ecuador has not, and the Lead Manager has not, authorized anyone to provide you with information that is different from the information contained in this Offering Circular. This Offering Circular may only be used where it is legal to sell these Notes. The information in this Offering Circular may only be accurate on the date of this Offering Circular.

This Offering Circular may only be used for the purposes for which it has been published.

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The Notes will be general, direct, unsecured, unsubordinated and unconditional obligations of Ecuador, will be backed by the full faith and credit of Ecuador and will rank equally in terms of priority with Ecuador's External Indebtedness (other than Excluded Indebtedness), as defined in "Description of the Notes", provided, that, such ranking is in terms of priority only and does not require that Ecuador make ratable payments on the Notes with payments made on its other External Indebtedness.

The Notes will be issued in registered form only. Notes sold in offshore transactions in reliance on Regulation S under the Securities Act ("Regulation S") will be represented by one or more permanent global notes in fully registered form without interest coupons (the "Regulation S Global Note") and Notes sold in the United States to qualified institutional buyers (each a "qualified institutional buyer") as defined in, and in reliance on, Rule 144A under the Securities Act ("Rule 144A") will be represented by one or more permanent global notes in fully registered form without interest coupons (the "Restricted Global Note" and, together with the Regulation S Global Note, the "Global Notes"), in each case deposited with a common depositary for, and registered in the nominee name of a common depositary for Euroclear Bank S.A./N.V. ("Euroclear") for the respective accounts at Euroclear as such subscribers may direct. Beneficial interests of Euroclear participants (as defined under "Book-Entry Settlement and Clearance") in the Global Notes will be shown on, and transfers thereof between Euroclear participants will be effected only through, records maintained by Euroclear and its direct and indirect participants, including Clearstream. See "Book-Entry Settlement and Clearance." Except as described herein, definitive Notes will not be issued in exchange for beneficial interests in the Global Notes. See "Description of the Notes – Definitive Notes." For restrictions on transfer applicable to the Notes, see "Transfer Restrictions" and "Subscription and Sale."

The Republic has taken reasonable care to ensure that the information contained in this Offering Circular is true and correct in all material respects and not misleading as of the date hereof, and that, to the best of the knowledge and belief of the Republic, there has been no omission of information which, in the context of the issue of the Notes, would make this Offering Circular as a whole or any information included in this Offering Circular, misleading in any material respect. The Republic accepts responsibility accordingly.

This Offering Circular does not constitute an offer by, or an invitation by or on behalf of, the Republic or the Lead Manager to subscribe to or purchase any of the Notes. Each recipient shall be deemed to have made its own investigation and appraisal of the financial condition of the Republic. The distribution of this Offering Circular or any part of it and the offering, possession, sale and delivery of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Republic and the Lead Manager to inform themselves about and to observe any such restrictions. See "Subscription and Sale" and "Transfer Restrictions" for a description of further restrictions on the offer, sale and delivery of Notes, the distribution of this Offering Circular, and other offering material relating to the Notes.

Each purchaser of Notes sold outside the United States in reliance on Regulation S will be deemed to have represented that it is not purchasing Notes with a view to distribution thereof in the United States.

Each person purchasing Notes pursuant to Rule 144A will be deemed to:

- represent that it is purchasing the Notes for its own account or an account with respect to which it exercises sole investment discretion and that it or such account is a qualified institutional buyer (as defined in Rule 144A); and
- acknowledge that the Notes have not been and will not be registered under the Securities Act or any State securities laws and may not be reoffered, resold, pledged or otherwise transferred except as described under "Transfer Restrictions."

Each person purchasing Notes pursuant to Rule 144A also acknowledges that:

- it has been afforded an opportunity to request from the Republic and to review, and it has received, all additional information considered by it to be necessary to verify the accuracy of the information herein and acknowledges that the preliminary and final offering circulars supersede any other information or presentation regarding the Republic;
- it has not relied on the Lead Manager or any person affiliated with the Lead Manager in connection with its investigation of the accuracy of the information contained in this Offering Circular or its investment decision; and
- no person has been authorized to give any information or to make any representation concerning the Republic or the Notes other than those contained in this Offering Circular and, if given or made, such information or representation should not be relied upon as having been authorized by the Republic or the Lead Manager.

IN CONNECTION WITH THIS ISSUANCE OF NOTES, THE LEAD MANAGER MAY, ITSELF OR THROUGH ITS AFFILIATES, OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE NOTES AT A LEVEL WHICH MIGHT NOT OTHERWISE PREVAIL IN THE OPEN MARKET, TO THE EXTENT PERMITTED BY APPLICABLE LAWS. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

PRESENTATION OF INFORMATION

Unless otherwise specified or the context requires, references to “U.S. dollars,” “\$” and “U.S.\$” are to United States dollars.

References to the “Republic” and “Ecuador” are to the Republic of Ecuador, references to the “Government” are to the Government of the Republic of Ecuador and the use of the term “Governmental” shall be with regards to the Government of the Republic of Ecuador.

References to “FOB” are to exports free on board and to “CIF” are to imports including cost, insurance and freight charges.

References to laws that are “published” are to laws that have been approved by the National Assembly and confirmed by the President.

Certain figures included in this Offering Circular have been rounded for ease of presentation. Percentage figures included in this Offering Circular have not in all cases been calculated on the basis of such rounded figures but on the basis of such amounts prior to rounding.

Certain economic and financial data in this Offering Circular is derived from information previously published by *Banco Central del Ecuador* (the “Central Bank”) and other Governmental entities of Ecuador. This data is subject to correction and change in subsequent publications.

FORWARD-LOOKING STATEMENTS

This Offering Circular contains certain forward-looking statements (as such term is defined in the Securities Act) concerning the Republic. These statements are based upon beliefs of certain Government officials and others as well as a number of assumptions and estimates that are inherently subject to significant uncertainties, many of which are beyond the control of the Republic. Future events may differ materially from those expressed or implied by such forward-looking statements. Such forward-looking statements include information contained in the sections “Offering Circular Summary and Recent Developments,” “The Republic of Ecuador,” “The Ecuadorian Economy,” “Balance of Payments and Foreign Trade,” “Monetary System,” “Public Sector Finances” and “Public Debt” as well as:

External factors, such as:

- lower petroleum and mineral prices, which could adversely affect Ecuador's economy, fiscal accounts and International Reserves (defined herein);
- damage to and volatility in the international capital markets for emerging markets issuers caused by economic conditions in other emerging markets and the international capital markets generally, which could affect Ecuador's ability to engage in planned borrowing;
- changes in import tariffs and exchange rates of other countries, which could harm Ecuador's exports and, as a consequence, have a negative impact on the growth of Ecuador's economy;
- recession or low growth in the economies of Ecuador's trading partners, particularly of the United States and the European Union, which could lead to fewer exports and affect Ecuador's growth;
- a deterioration in relations between Ecuador and other countries in the region or other disruptions to Ecuador's international relations;
- changes in credit rating of the Republic;
- the impact of changes in the international price of commodities;
- higher international interest rates, which could increase Ecuador's debt service requirements and require a shift in budgetary expenditures toward additional debt service; and
- terrorist attacks in the United States or elsewhere, acts of war, or any general slowdown in the global economy.

Internal factors, such as:

- social and political unrest in Ecuador;
- Ecuador's ability to continue to attract foreign investment;
- continued public support for Ecuador's current economic policies;
- Ecuador's level of domestic debt;
- general economic and business conditions in Ecuador; and
- other factors identified or discussed under "Risk Factors."

In addition, in those and other portions of this Offering Circular, the words "anticipates," "believes," "contemplates," "estimates," "expects," "plans," "intends," "projections" and similar expressions, as they relate to the Republic, are intended to identify forward-looking statements.

Undue reliance should not be placed on forward-looking statements, which are based on current expectations. Forward-looking statements are not guarantees of future performance. They involve risks, uncertainties and assumptions. Future results may differ materially from those expressed in forward-looking statements. Many of the factors that will determine these results and values are beyond the Republic's ability to control or predict. Because of the risks and uncertainties involved, an investment decision based on the estimates and forward-looking statements should not be made. All forward-looking statements and risk factors included in this Offering Circular are made as of the date on the front cover of this Offering Circular, based on information available to the Republic as of such date, and Ecuador assumes no obligation to update any forward-looking statement or risk factor.

ARBITRATION AND ENFORCEABILITY

The Republic is a sovereign state. Consequently, it may be difficult for investors to obtain or realize upon judgments in the courts of the United States or otherwise to enforce the Republic's obligations under the Notes. Under its Constitution, the Republic recognizes arbitration, mediation and other alternative dispute resolution proceedings for the resolution of controversies. The Republic has not consented to the jurisdiction of any court in connection with actions arising out of relating to or having any connection with the Notes and has submitted itself to arbitration under the LCIA Rules (as defined below), which allow state courts to decide certain matters as described below. See "Description of the Notes – Sovereign Immunity." The Republic has agreed to the following arbitration provisions (which shall be governed by English law) as part of the terms and conditions of the Notes:

- (a) Any dispute, controversy or claim of any nature arising out of, relating to or having any connection with the Indenture, including any dispute as to the existence, validity, interpretation, performance, breach, termination or consequences of the nullity of the Indenture (a "Dispute") where the Republic is either a party, claimant, respondent or otherwise is necessary thereto, will not be referred to a court of any jurisdiction and will instead be referred to and finally resolved by arbitration under the Rules of the London Court of International Arbitration ("LCIA") ("LCIA Rules") as at present in force as modified by the Indenture, in which LCIA Rules are deemed to be incorporated by reference. In particular:
 - (i) There will be three arbitrators.
 - (ii) Each arbitrator will be an English or New York qualified lawyer of at least 15 years' standing with experience in relation to international banking or capital markets disputes. At least one of those arbitrators will be a lawyer qualified in New York.
 - (iii) If there are two parties to the Dispute, each party will be entitled to nominate one arbitrator. If there are multiple claimants and/or multiple respondents, all claimants and/or all respondents will attempt to agree upon their respective nomination(s) such that the claimants will together be entitled to nominate one arbitrator and the respondents will together be entitled to nominate one arbitrator. If any such party or multiple parties fail to nominate an arbitrator within thirty (30) days from and including the date of receipt of the relevant request for arbitration, an arbitrator will be appointed on their behalf by the LCIA Court in accordance with the LCIA Rules and applying the criteria at clause (ii) above. In such circumstances, any existing nomination or confirmation of the arbitrator chosen by the party or parties on the other side of the proposed arbitration will be unaffected, and the remaining arbitrator(s) will be appointed in accordance with the LCIA Rules.
- (b) The third arbitrator and chairman of the arbitral tribunal will be appointed by the LCIA Court in accordance with the LCIA Rules and applying the criteria at clause (ii) above.
- (c) The seat, or legal place, of arbitration will be London, England.
- (d) The language to be used in the arbitration will be English. The arbitration provisions contained in the Indenture will be governed by English law.
- (e) Without prejudice to any other mode of service allowed by law, the Republic hereby appoints Law Debenture Corporate Services Limited, with its registered office at 5/F, 100 Wood Street, EC2V 7EX, London, England (the "Process Agent") as its agent under the Indenture for service of process in relation to any proceedings before the English courts in relation to any arbitration contemplated by the Indenture or in relation to recognition or enforcement of any such arbitral award obtained in accordance with the Indenture.

If the Process Agent is unable to act as the Republic's agent under the Indenture for the service of process, the Republic must immediately (and in any event within ten (10) days of the event taking place) appoint another agent (a "Replacement Agent") on terms acceptable to the Trustee.

The Republic agrees that failure by the Process Agent or, as applicable, a Replacement Agent, to notify the Republic of the process will not invalidate the proceedings concerned.

Under the terms of the Notes, each holder of the Notes is deemed to have agreed to the use of arbitration under the Rules of the LCIA to resolve any dispute, controversy or claim of any nature arising out of, relating to or having any connection with the Notes. Accordingly, any court proceedings brought against the Republic by a holder of the Notes (other than to enforce an arbitration award) may be stayed in favor of arbitration.

The Republic has not waived sovereign immunity in relation to the Notes. The Republic has, however, undertaken not to invoke any defence on the basis of any kind of immunity, for itself and/or its assets, which do not constitute "Immune Property" in respect of legal actions or proceedings in connection with the Notes.

"Immune Property," in accordance with the provisions of the laws of the Republic, means:

- (a) any property which is used or designated for use in the performance of the functions of the diplomatic mission of Ecuador or its consular posts;
- (b) aircraft, naval vessels and other property of a military character or used or designated for use in the performance of military functions;
- (c) property forming part of the cultural heritage of Ecuador or part of its archives;
- (d) unexploited natural non-renewable resources in Ecuador;
- (e) funds managed in the national Treasury Account (defined herein);
- (f) assets and resources comprising available monetary reserves of Ecuador;
- (g) public domain assets used for providing public services in Ecuador;
- (h) national assets located in the territory of Ecuador and belonging to the Republic, such as streets, bridges, roads, squares, beaches, sea and land located over 4,500 meters above sea level;
- (i) accounts of the Central Bank, whether they are held abroad or locally; and
- (j) public entities' deposits with the Central Bank, whether they are maintained abroad or locally.

The decision of any arbitral tribunal shall be final to the fullest extent permitted by law. The Republic submits to the jurisdiction of any Ecuadorian court or of any court outside the Republic in connection with a properly obtained arbitral award, and such an arbitral award may be enforced in any jurisdiction in accordance with the New York Convention on the Recognition and Enforcement of Arbitral Awards 1958. The Republic also submits to the jurisdiction of the English courts in connection with any proceedings invoking the supervisory jurisdiction of those courts in relation to an arbitration conducted pursuant to the Indenture.

Any award rendered by an arbitral tribunal properly constituted under the Purchase Agreement, the Indenture or the Notes (as the case may be), would be enforceable against the Republic after an homologation process before a Provincial Civil Court of Justice, without re-examination of the issues, provided that it complies with the requirements established in the treaty between Ecuador and the country in which such award has been rendered, or in the absence of such treaty, when the formalities set forth in Articles 104, 105 and 106 and other relevant provisions of the General Code of Procedure are met.

The Indenture contains a further provision which provides that any dispute between the Trustee and the holders of the Notes only, will be subject to the non-exclusive jurisdiction of the courts of New York. This provision is as follows:

Any Dispute between the Trustee and any holders or holders only and where the Republic is not a party, claimant, respondent or otherwise is necessary thereto, will be subject to the non-exclusive jurisdiction of any New York state or United States federal court sitting in the Borough of Manhattan, the City of New York, and any appellate court from any thereof, in any action or proceeding arising out of or relating to the Indenture (except actions or proceedings arising under or in connection with U.S. federal and state securities laws), and the Trustee and the holders hereby irrevocably submit to such jurisdiction and agree that all claims in respect of such Dispute may be heard and determined in such New York state or United States federal court.

EXCHANGE RATE INFORMATION

In January of 2000, following several weeks of severe exchange-rate depreciation of the sucre, the Republic announced that it would dollarize the economy. On March 1, 2000, the Ecuadorian Congress approved the *Ley para la Transformación Económica del Ecuador* (“Ecuadorian Economic Transformation Law”, or the “Dollarization Program”), which made the U.S. dollar the legal tender in Ecuador. The Ecuadorian Economic Transformation Law provided for the Central Bank to exchange, on demand, sucres at a rate of 25,000 sucres per U.S.\$1.00. In addition to providing an official basis to dollarize the economy, the law contained reforms aimed at strengthening fiscal stability, improving banking supervision and establishing rules to encourage direct investment. Since the passage of the Ecuadorian Economic Transformation Law, the U.S. dollar has been the legal tender in Ecuador. Due to the Dollarization Program, the ability of the Republic, and/or the Central Bank to adjust monetary policy and interest rates in order to influence macroeconomic trends in the economy is limited.

OFFERING CIRCULAR SUMMARY AND RECENT DEVELOPMENTS

The following summary does not purport to be complete and is qualified in its entirety by, and is subject to, the detailed information appearing elsewhere in this Offering Circular.

The Republic of Ecuador

Ecuador is one of the smallest countries in South America, covering an area of approximately 99,054 square miles (256,549 square kilometers). Located on the north-western coast of the continent, it shares a 950-mile border with Peru to the south and the east, a 373-mile border with Colombia to the north, and a 1,452-mile coastline to the Pacific Ocean to the west. The country encompasses a wide range of geographic areas and climates, including the Pacific coastal plains, the Sierra (consisting of the Andean highland region), the Oriente (characterized by the Amazonian tropical rain forest) and the Galapagos Islands region located in the Pacific Ocean approximately 600 miles from the coast.

In 2006, current president Rafael Correa was elected with 56.67% of the vote. Prior to President Correa taking office, protests in Quito contributed to the mid-term ouster of three of Ecuador's last four democratically elected Presidents. President Correa was re-elected in general elections held in February 2013 with 57.17% of the vote. Ecuador is scheduled to have presidential elections in February 2017 (the "2017 Election").

On June 26, 2014, the President of the National Assembly submitted a request to the Constitutional Court soliciting their opinion as to whether certain proposals, including one that would allow for re-election of the President of Ecuador for an indefinite number of terms, were constitutional amendments or constitutional reforms. Constitutional amendments require only the approval of two-thirds of the National Assembly while constitutional reforms require both the approval of a two-thirds vote in the National Assembly and a majority of the population eligible to vote in a popular referendum. On November 1, 2014, the Constitutional Court ruled that the proposals were constitutional amendments and therefore did not require a popular referendum. In December 2015, the National Assembly approved the proposals, including an amendment allowing for the indefinite re-election of the president. However, a transitional provision was included stating that the amendment will not be effective before May 24, 2017, and thus it will not apply to President Correa, whose term finishes on May 23, 2017.

On April 13, 2016, a request soliciting the Constitutional Court's opinion on the feasibility of a referendum to eliminate such a transitional provision was accepted. The Constitutional Court held that pursuant to Article 441 of the 2008 Constitution, in order for the referendum to take place, certain formal requirements must be met including a petition signed by at least 8% of the citizens registered in the electoral roll. The April 13, 2016 decision of the Constitutional Court did not specify a time limit for the referendum to be held.

Upon taking office, President Correa believed that significant reforms were necessary to rectify years of corruption, especially in regards to economic and financial matters. To do so, President Correa called for a referendum to write a new constitution, which was approved by the electorate and the National Assembly (the "2008 Constitution"). The 2008 Constitution provided the foundation for the economic and financial reform initiatives of the Correa administration. These reforms were consistent with the Correa administration's objective to promote economic growth, while reducing poverty and inequality and fostering social progress.

On April 16, 2016, a 7.8 magnitude earthquake struck the northern coast of Ecuador, (the "Pedernales Earthquake"). The Pedernales Earthquake and its aftershocks, caused severe damage to Ecuador's infrastructure in that region, including its roads and ports. An evaluation conducted by SENPLADES, INEC and various ministries estimates that the cost of reconstructing the infrastructure damaged by the Pedernales Earthquake is approximately U.S.\$3.3 billion (approximately 2-3% of Ecuador's GDP), and that, without taking into account the cost of reconstruction, damage from the earthquake will have an impact of -0.7% on the growth of Ecuador's GDP in 2016, and an impact of -9.8% on the growth of GDP in Manabí, the province in which 95% of the damages caused by the earthquake are concentrated. In response to the earthquake, President Correa empowered the Ministry of Finance to reallocate public funds, other than those allocated toward health and education, toward reconstruction efforts through Article 3 of Executive Decree No. 1001 and proposed a series of measures to help finance reconstruction pursuant to his authority under Articles 120 and 140 of the 2008 Constitution.

On May 20, 2016, the *Ley Orgánica de Solidaridad y de Corresponsabilidad Ciudadana para la Reconstrucción de las Zonas Afectadas por el Terremoto de 16 de Abril de 2016* (the “Law of Solidarity”) was published and became effective. The Law of Solidarity includes the following measures:

- increasing the value added tax by 2 percentage points (from 12% to 14%) for one year, of which an additional 2% may be refunded if payments are made with electronic money (i.e. a 4% VAT reimbursement applies in payments made with electronic money);
- a one-time contribution by natural persons equal to 0.9% of an individual’s total assets for individuals whose total assets exceed U.S.\$1 million;
- a one-time contribution by corporations equal to 3% of their 2015 taxable income; and
- a one-time contribution of a day’s salary for one month for those earning more than U.S.\$1,000 a month; a one-time contribution of a day’s salary for two months for those earning more than U.S.\$2,000 a month, and similarly until a limit of a one-time contribution of one day’s salary for 5 months for those earning more than U.S.\$5,000 a month.

President Correa also indicated that Ecuador would draw from existing contingent credit lines, including a U.S.\$150 million credit line with the World Bank, a U.S.\$300 million credit line with Inter-American Development Bank (“IDB”), and a U.S.\$66 million with CAF, and would explore the possibility of selling certain assets of the Republic, including the Sopladora 487 MW hydroelectric plant, Banco del Pacífico S.A., the *Corporación Nacional de Telecomunicaciones*, and other state owned utilities. Additionally, on July 8, 2016, the International Monetary Fund (the “IMF”) approved a U.S.\$364 million facility to help Ecuador meet costs related to damages to infrastructure, housing, and agriculture caused by the Pedernales Earthquake.

In 2006, Chevron brought arbitration proceedings against the Republic under the arbitration rules of the UNCITRAL alleging the Republic’s breach of certain “denial of justice” provisions under the U.S.-Ecuador Bilateral Investment Treaty. In August 2011, the arbitral tribunal established that Ecuador had breached that treaty and should pay Chevron U.S.\$96 million plus compound interest calculated from September 1, 2011 until the date of payment. The District Court of the District of Columbia (Washington, DC) confirmed the award in favor of Chevron, and the United States Court of Appeals for the District of Columbia Circuit affirmed the District Court’s decision. Accordingly, the arbitral award granted to Chevron was due and payable in the United States with the same force and effect as a judgment in a judicial action. The total amount due under the award, (U.S.\$96.4 million plus U.S.\$16.4 million in interest) was paid by Ecuador to Chevron in satisfaction of the arbitral award.

The Ecuadorian Economy

The U.S. dollar is the legal tender in Ecuador. In each of the five years from 2011 through 2015 the Ecuadorian economy registered positive rates of growth, in real terms. In 2015 the economy of Ecuador grew by 0.3% in real terms, compared to 7.9%, 5.6%, 4.6%, 3.7% for 2011, 2012, 2013, and 2014, respectively. This decreased level of growth when compared with prior years was mainly due to decreased revenues resulting from the decline in the price of oil. In the first quarter of 2016, GDP decreased by 3.0% in real terms, when compared to the first quarter of 2015. This decrease is mainly due to decreased revenues resulting from the decline in the price of oil. From 2011 to 2015, the Ecuadorian economy grew from a nominal gross domestic product (“GDP”) of U.S.\$79,277 million in 2011 to U.S.\$100,872 million in 2015. During the same five-year period, GDP per capita grew from U.S.\$5,193 in 2011 to U.S.\$6,196 in 2015.

Inflation declined from 5.4% in 2011 to 3.4% in 2015. For the twelve-month period ended June 30, 2016, the inflation rate was 1.6%, compared to 4.9% for the twelve-month period ended June 30, 2015. The rate of unemployment decreased from 4.2% in 2011 to 3.8% in 2014 due to increased job creation in the services and commerce industries. The rate of unemployment increased from 3.8% in 2014 to 4.8% in 2015 due to a general slowdown of the economy in 2015 that led to job losses in both the private and public sectors. The rate of unemployment increased to 5.7% as of March 31, 2016 due to a continued slowdown of the economy.

In 2015, manufacturing was the largest sector of the economy measured by percentage of GDP (13.55%), followed by construction (11.38%), trade (9.92%), community services (8.30%) and agriculture (7.57%). In the first quarter of each of 2015 and 2016, manufacturing, construction, trade, community services and agriculture were also the largest sectors of the economy measured by percentage of GDP, respectively accounting for 13.73%, 11.46%, 10.28%, 8.24% and 7.67% of GDP for the first quarter of 2015 and 13.92%, 11.30%, 9.62%, 8.24% and 8.11% of GDP for the first quarter of 2016.

Oil field crude production, including that of private and state-owned companies, reached 198.2 million barrels in 2015, an amount that represented a 2.4% decrease from the 203.1 million barrels produced in 2014 (and a decrease of 2.4% in barrels per day (“bpd”)). This decrease was principally due to the Government’s decision to decrease production activity in 2015 in order to reduce investment costs and reduce the overall budget for the year. Despite the decrease in production in 2015, the Republic expects production to increase significantly through the development and inauguration of new fields, particularly the Ishpingo-Tambococha-Tiputini (“ITT”) field in Yasuni National Park, which began extraction in March 2016.

Crude oil exports as measured in U.S. dollars steadily increased from 2011 to 2013. Ecuador’s crude oil exports totaled U.S.\$13,016 million in 2014, a 3.0% decrease from U.S.\$13,412 million in 2013. Crude oil exports in 2015 totaled U.S.\$6,355 million, a 51.2% decrease from U.S.\$13,016 million in 2014. Both decreases were due to the decline in the price of oil beginning in late 2014 and continuing through 2015.

The Republic considers the following four sectors to be the most important strategic sectors of the economy: water, telecommunications, natural resources, and electricity. During the period from 2011 through 2014, the total Government investment in these four strategic sectors has increased from U.S.\$3,617 million in 2011 to U.S.\$7,034 million in 2014. The U.S.\$5,621 million investment in 2015 is a decrease from the U.S.\$7,034 million investment in 2014 resulting from the Government’s decision to reduce investment in the oil sector in 2015 as a result of expected lower revenues from oil sales.

The Government has targeted the electricity sector for significant capital investment. In 2015, the Government invested U.S.\$1,566 million in the electricity sector, a 43% increase from 2011, when the Government invested U.S.\$1,094 million in the sector. As of 2014, hydroelectric plants supplied 46% of the power in Ecuador. By year-end 2016, the Government predicts that hydroelectric plants will generate 93% of the power in Ecuador. Ecuador’s objective in developing hydroelectric power is to reduce its consumption of oil through oil-based generators, thereby decreasing oil imports and electric energy imports and improving energy independence.

On May 5, 2015, the *Ley Orgánica de Remisión de Intereses, Multas y Recargos* (the “Law for the Remission of Interest, Penalties and Surcharges”) was published. This law provides a rebate of 100% or 50% of the interest, penalties and any other charges applicable to outstanding tax-payer obligations, provided that such obligations are paid by July 28, 2015 or September 9, 2015, respectively. Further, the Law for the Remission of Interest, Penalties and Surcharges provided new exemptions to the 5% Currency Outflow Tax including credits granted to Ecuadorian financial institutions by qualifying international financial institutions or specialized non-financial institutions, intended for the purposes of financing housing, microcredits or productive investments.

In June 2015, President Correa proposed the *Ley de Herencia y Ganancia Extraordinaria*. The law, as proposed, imposed certain taxes on inheritance and capital gains on real estate. After a series of peaceful protests in Ecuador’s major cities, the Government decided to re-evaluate the proposed law. The revised proposal, the *Ley Orgánica para Evitar la Elusión del Impuesto a la Renta sobre Ingresos Provenientes de Herencias, Legados y Donaciones* (the “Law to Prohibit Tax Evasion Related to Inheritance, Legacies, and Donations”), was initially approved by the National Assembly on June 16, 2016. A revised version of the law, which incorporated changes based on President Correa’s partial veto of the law, added an exception from taxation for amounts received by individuals from life insurance benefits. The law, as revised, was approved by the National Assembly and became effective on July 21, 2016. Additionally, the law reaffirms tax obligations relating to inheritance, legacies and donations, and establishes tax collection mechanisms, particularly with regards to high-net worth Ecuadorian nationals that have established foundations, trusts and other similar legal structures. Funds collected by virtue of this law are intended to finance scholarships for low income Ecuadorians, giving preference to members of indigenous communities, Afro-Ecuadorian nationals, and women heads of households, among others.

On December 18, 2015, the National Assembly enacted the *Ley Orgánica de Incentivos para Asociaciones Público-Privadas y la Inversión Extranjera* (“Law on Incentives for Public-Private Joint Ventures and Foreign Investment”) with the purpose of establishing incentives for the development of public projects by public-private joint ventures. According to the law, joint ventures that provide non-existent goods to the country are entitled to benefits such as a 10-year-long income tax exemption. The law also aims to encourage productive financing as well as promote foreign investment.

Balance of Payments and Foreign Trade

Between 2011 and 2015, Ecuador experienced fluctuations between balance of payment deficits and surpluses. While there were surpluses in 2011 and 2013, there were deficits in 2012, 2014 and 2015. The increasing price of petroleum contributed to the U.S.\$272 million surplus in the balance of payments in 2011. In 2012, an increase in Government investment contributed to a deficit of U.S.\$581.9 million. In 2013, an improvement in the financial account that was the result of an increase in bilateral debt and corresponding loan disbursements contributed to a balance of payments surplus of U.S.\$1,845.9 million. However, the current account deficit of U.S.\$930.5 million registered in 2013 represents a decrease compared to the U.S.\$165.3 million current account deficit registered in 2012. This deficit is the result of an increase in imports, particularly with respect to imported capital goods and raw materials.

In 2014, Ecuador experienced a balance of payment deficit of U.S.\$424.5 million as a result of a decrease in the capital and financial account, which decreased from U.S.\$2,921.7 million in 2013 to U.S.\$326.8 million in 2014 as a result of a decrease in investment for the year. However, the current account improved from a deficit of U.S.\$930.5 million in 2013 to a deficit of U.S.\$526.7 million in 2014. This improvement was due to the improvement in the trade balance from a deficit of U.S.\$528.6 million in 2013 to a deficit of U.S.\$63.5 million in 2014. This improvement resulted from an increase in non-petroleum exports in 2014, particularly banana and shrimp exports.

In 2015, Ecuador’s balance of payment deficit grew to U.S.\$1,488.4 million as a result of a decrease in the current account. The current account decreased from a deficit of U.S.\$526.7 million in 2014 to a deficit of U.S.\$2,092.1 million in 2015. The expansion of the deficit in the current account was due to an increase in the deficit in the balance of trade from U.S.\$63.5 million in 2014 to a deficit of U.S.\$1,649.8 in 2015, which resulted mainly from a decline in the price of oil. In the first quarter of 2016, there was a balance of payment deficit of U.S.\$90.7 million, an increase of U.S.\$202 million compared to the U.S.\$292.7 million balance of payment deficit for the first quarter of 2015.

In Ecuador, total direct foreign investment has increased over the five-year period from 2011 through 2015, from U.S.\$643.7 million in 2011 to U.S.\$1,298.7 million in 2015. This increase was due to continuing investment in Ecuador’s infrastructure, in particular, its electricity and water sectors. In the first quarter of 2016, direct investment totaled U.S.\$153.8 million, a decrease compared to the U.S.\$183.2 million total for the first quarter of 2015.

In 2015, overall exports decreased to U.S.\$18,331 million, a decrease of 29% compared to 2014. This decrease was primarily due to a decrease in crude oil exports (51%), though there were also decreases in shrimp exports (9.3%) and exports of tuna and other fish (17.8%). The decrease in crude oil exports reflected the decrease in the price of crude oil in 2015. Overall exports for the first quarter of 2016 totaled U.S. \$3,627 million, a decrease of 25.5% from the U.S. \$4,870 million for the first quarter of 2015 due to the decline in the price of oil.

Although the levels of imports increased from 2011 to 2015, the rate of increase has declined over this five-year period due to the Republic’s promotion of domestic production. In 2011, imports increased by 19.1% compared to the previous year, while the rate of increase declined to 4.8% in 2012, increased slightly to 6.5% in 2013 and declined to 2.1% in 2014. In 2015, imports totaled U.S.\$20,698.5 million, compared to U.S.\$26,660 million for 2014 registering the first decrease in the levels of imports in the past five years. This decrease in the level of imports was due to budget adjustments that limited the amount of investment to be used in the purchase of imports. In the first quarter of 2016, imports totaled U.S.\$3,880 million, as compared to the U.S.\$6,103 million for the first quarter of 2015, a 36.4% decrease mainly as a result of a decrease in demand.

Monetary System

Since taking office the Government of President Correa has prioritized the stabilization of the monetary system and promoted the safety of the financial system. As of December 31, 2015, the Ecuadorian banking system had a total of 22 banking institutions, of which one was a foreign-owned bank and one was a state-owned bank.

Banking deposits, primarily composed of demand deposits and time deposits, constitute the principal source of financing for the banking system. From December 31, 2011 through December 31, 2014, total time and demand deposits increased 44.8%, from U.S.\$18,557.9 million to U.S.\$26,874.5 million. As of December 31, 2015, time and demand deposits totaled U.S.\$23,291.1 million, a decrease of 13.3% compared to December 31, 2014. This decrease is due to a decrease in the availability of credit for the year. As of June 30, 2016, total time and demand deposits increased to U.S.\$24,595.3 million, an increase of 5.6% compared to December 31, 2015. This increase was due to the increase of non-interest generating demand deposits in the first half of 2016.

Total assets of the banking system increased from U.S.\$23.9 billion in 2011 to U.S.\$33.6 billion in 2014. As of December 31, 2015, total assets for the banking system totaled U.S.\$30.9 billion, a decrease of 8.2% since December 31, 2014. This decrease in total assets is due to the decrease in time and demand deposits in 2015. As of June 30, 2016, the total assets of the banking system increased to U.S.\$32.4 billion, an increase of 4.8% compared to December 31, 2015. This increase was due to the increase in time and demand deposits for the first half of 2016.

With respect to the various sectors, most loan interest rates remained stable during the period from 2011 through 2014 with the corporate lending interest rate remaining at 8.2%, and consumer lending rates remaining at approximately 15.9% from 2011 to 2013 and increasing slightly to 16.0% in 2014. In 2015, the Committee of Monetary and Financial Policy Regulation established new categories of credits in the financial sector and fixed the maximum interest rates for these categories. Following this change in categorization, in 2015 the key corporate lending interest rates increased above the corporate lending interest rate in 2014, from 9.1% to 9.2%. In 2015, the priority consumer lending interest rate remained in line with the general consumer lending interest rate available in 2014 at 16.0%, and the ordinary consumer lending interest rate increased above this rate to 16.2%. For more information regarding changes to categories of interest rates, see “Monetary System – Interest Rates and Money Supply.”

Average loan interest rates on short-term and long-term loans increased from 8.2% in 2011 to 9.1% in 2015 primarily due to the effect of the rise in interest rates by the United States Federal Reserve. During the same period, the average interest rates on deposits increased from 4.5% in 2011 to 5.1% in 2015 due to the increase in demand deposits with high interest rates.

From 2011 to 2015, the banking system’s delinquency rate varied and past-due loans represented 2.2%, 2.8%, 2.6%, 2.9%, and 3.7% of the total loan portfolio, respectively. The delinquency rate increased to 2.8% in 2012 as a result of an increase in consumer past-due loans which increased from U.S.\$175 million in 2011 to U.S.\$293 million in 2012. However, the rate decreased to 2.6% in 2013 due to a reduction in past-due loans of the commercial sector, which decreased to U.S.\$284 million. In 2014, the delinquency rate increased to 2.9%, as a result of the increase in delinquency rates in consumer credits from 4.7% to 5.5%. In 2015, the delinquency rate increased to 3.7% due to the increase in delinquency rates in commercial credits from 12.7% to 14.3% as well as the decrease in the total loan portfolio. As of June 30, 2016, the delinquency rate continued to increase to 4.3% due to an increase in delinquency rates in commercial and consumer loans.

In September 2014, the National Assembly enacted the *Código Orgánico Monetario y Financiero* (the “Monetary and Financial Law”) in order to address weaknesses of the Republic’s financial system stemming from the banking crisis in 2000. To achieve its objectives, the Monetary and Financial Law creates a new regulatory body, the *Junta de Política y Regulación Monetaria y Financiera* (the “Committee of Monetary and Financial Policy Regulation”) to oversee and regulate the execution of monetary, foreign exchange, financial, insurance, and securities policies of the country. The committee is comprised of delegates from Ecuador’s Ministry of Finance, *Ministerio de Industrias y Productividad* (the “Ministry of Production and Industrialization”), *Ministerio Coordinador de Política Económica* (the “Ministry of Economic Policy”), office of the National Secretary of Planning and Development, and a delegate appointed by the President. The principal function of the committee is to oversee and monitor the liquidity requirements of Ecuador’s financial system, ensuring that liquidity remains above

certain levels (to be determined by the Committee of Monetary and Financial Policy Regulation). The law also creates a separate internal auditor for the Government's financial entities, establishes certain norms for the Central Bank and the Superintendent of Banks (defined herein) regarding their budget, purpose, and supervision, and sets forth reporting requirements to the Committee of Monetary and Financial Policy Regulation. The law also explicitly establishes that certain accounts in the Central Bank, including the accounts used for the deposits of the COSEDE and the Liquidity Fund, are subject to sovereign immunity and cannot be subject to attachment of any kind.

The law further establishes that all transactions, monetary operations and accounts in the Republic of Ecuador will be expressed in U.S. dollars. Other sections of the law make reference to an electronic payment system to facilitate payments to vendors. Through this voluntary electronic payment system, Ecuadorians will be allowed to make online payments to participating vendors through a payment system managed by the Government. Payments made through the system will be deducted or credited directly from accounts that vendors can establish with the Central Bank and will be backed by liquid assets in the Central Bank. On August 7, 2014, mobile phone carrier Movistar signed an agreement with the Central Bank to establish accounts to use the electronic payment system. In December 2014, the electronic payment system began operations. According to the Central Bank, as of May 2016, approximately U.S.\$1 million was in circulation in Ecuador in electronic currency. The law further establishes that further details regarding this payment system may be set forth by the Committee of Monetary and Financial Policy Regulation in regulations and laws. The Committee of Monetary and Financial Policy Regulation issued various laws, including the Law to Balance Public Finances and the Law of Solidarity, both of which are described herein, incentivizing and further regulating the use of electronic money. For more information regarding the Monetary and Financial Law, see "Monetary System – Supervision of the Financial System."

On September 25, 2015, the Executive Board of the IMF concluded its annual Article IV consultation with Ecuador. The consultation took place in Washington D.C. through discussions with officials, and via video and telephone conferences with individuals in the public and private sector in Ecuador. In its published report, the IMF noted the significant improvements in Ecuador's social and economic indicators over the past decade, but also noted that since the fourth quarter of 2014, the economy of Ecuador has been hit by external shocks, including the international decline in oil prices and real exchange rate appreciation. The IMF commended Ecuadorian authorities for adjustment efforts to contain the fiscal debt. The results of the consultation were announced in an October 21, 2015 press release by the IMF which is available on the IMF website.

On April 29, 2016, the *Ley Orgánica para el Equilibrio de las Finanzas Públicas* ("Law to Balance Public Finances") was published with the purpose of strengthening dollarization, correcting abuses in tax benefits and redistributions and generating a change in Ecuadorian eating habits. According to a March 19, 2016 announcement by President Correa, the law would also generate additional revenue needed to offset the decline in oil prices. In order to achieve its goals, the law regulates and discourages excessive consumption of cigarettes, alcoholic beverages and sweetened beverages through a special consumption tax. Additionally, the law promotes the use of electronic money and credit cards issued by entities that are part of the national financial system by refunding 2% and 1% of payments made with electronic money or credit card, respectively, directly to consumers. The law also seeks to halt currency outflows by discouraging the transfer of large amounts of cash and encouraging instead the use of electronic means of payment.

Public Sector Finances

For the five-year period from 2011 to 2015, the amount of total revenues totaled approximately 89% of the budgeted targeted amount. During the five-year period from 2011 through 2015, the Central Government budget deficit as a percentage of GDP increased from 1.6% in 2011 to 3.8% in 2015. During the same five-year period, the budget deficit for the non-financial public sector increased from 0.1% in 2011 to 5.1% in 2015. The increases in the deficit from 2011 to 2013 were due to increased infrastructure spending. The increases in the deficit in 2014 and 2015 were due to an increase in wages and salaries and lower petroleum revenues for both years. However, the decrease in the deficit from 2014 to 2015 was the result of budget adjustments undertaken by Ecuador's Ministry of Finance (outlined below). Total expenditures for the non-financial public sector totaled U.S.\$38,676 million (equivalent to 39.0% of GDP) and total revenues totaled U.S.\$33,586 million (equivalent to 33.9% of GDP).

Total Revenues of the Central Government in the first quarter of 2016 were U.S.\$4,480 million, while total expenditures were U.S.\$4,837 million, resulting in a deficit of U.S.\$358 million. Ecuador's deficit in the first quarter

of 2016 exceeded the deficit of U.S.\$297 million in the corresponding period in 2015. In the first quarter of 2016, the non-financial public sector registered a deficit of U.S.\$428 million compared to a deficit of U.S.\$131 million for the first quarter of 2015. This increase in the deficit was the result of decreased petroleum revenue. Total expenditures totaled U.S.\$7,759 million for the first quarter of 2016, a decrease from U.S.\$8,444 million for the first quarter of 2015. Total revenues totaled U.S.\$7,331 million for the first quarter of 2016, a decrease from U.S.\$8,313 million for the first quarter of 2015.

On October 31, 2014, the executive branch presented the 2015 draft budget to the National Assembly, which proposed a budget of U.S.\$36.3 billion for the year, a 5.8% increase from the U.S.\$34.3 billion budget for 2014. The draft budget, as presented, was approved by the National Assembly on November 20, 2014 and became effective on January 1, 2015.

In January 2015, in response to the decline of oil prices in the last quarter of 2014, Ecuador reduced its 2015 budget by U.S.\$1.4 billion, resulting in a modified budget of U.S.\$34.9 billion for 2015. The 2015 budget, as modified in January 2015, assumed an average crude oil price of U.S.\$60 per barrel. The adjustments included a reduction of U.S.\$839.8 million in investment expenditures and U.S.\$580 million in current expenditures. The reductions were made primarily in the following sectors: national treasury (U.S.\$276 million), education (U.S.\$255 million), communications (U.S.\$229 million), health (U.S.\$169 million), agriculture and fishing (U.S.\$100 million).

In August 2015, in response to the continuing decline of oil prices, Ecuador further reduced its 2015 budget by U.S.\$800 million, resulting in a modified budget of U.S.\$34.1 billion. The adjustments reduced current expenses by U.S.\$100 million and investment costs by U.S.\$700 million. According to a statement by the Minister of Finance on August 19, 2015, the reduction in investment costs were for projects that could be deferred for later years and whose deferment will not affect the growth of the economy.

On October 31, 2015, the executive branch presented the 2016 draft budget to the National Assembly which proposed a budget of U.S.\$29.8 billion for the year, a 17.9% decrease from the U.S.\$36.3 billion originally proposed for the 2015 budget and a 12.4% decrease from the U.S.\$34.1 billion adjusted budget for 2015. It assumes an average crude oil price of U.S.\$35.00 per barrel, which represents a 56% decrease from the U.S.\$79.70 per barrel assumption of the original 2015 budget. The draft budget also estimates that there will be a budget deficit equivalent to 2.4% of GDP and a GDP growth of 1%. Excluding financing, the initial draft budget provides for U.S.\$25.7 billion in expenses, comprised of U.S.\$8.8 billion in salaries and wages, U.S.\$4.7 billion in consumer goods and services, U.S.\$3.4 billion in capital transfers and donations, U.S.\$4.4 billion in other investment expenses and U.S.\$4.5 billion in other expenses. Total revenues under the draft budget are U.S.\$23.2 billion, including U.S.\$17.3 billion in taxes, rates and contributions, U.S.\$4.8 billion in current transfers and donations and U.S.\$1.2 billion in other revenues. The draft budget, as presented, was approved by the National Assembly on November 24, 2015 and became effective on January 1, 2016.

From time to time, the Ministry of Finance revises and adjusts the sources and uses of funds initially provided for in the draft budget. On March 3, 2016, the Minister of Finance announced that the 2016 Budget would be adjusted by approximately U.S.\$800 million. The Minister specified that approximately U.S.\$400 million would be reduced from investment and current expenses and that there would also be reductions to the budgets of the Autonomous Decentralized Governments. As of the date of this Offering Circular, the Ministry of Finance has made reductions in their estimates of revenue forecasts for non-petroleum revenue by U.S.\$780 million, income tax by U.S.\$507 million, value added tax by U.S.\$818 million, and the Currency Outflow Tax by U.S.\$209 million as compared to the original 2016 Budget revenue forecasts. In addition, while making reductions to permanent expenses by U.S.\$203 million and wages and salaries by U.S.\$284 million, the Ministry of Finance has increased its projected expenses for the provision of goods and services by U.S.\$137 million and other non-permanent costs by U.S.\$965 million, both as compared to the original 2016 Budget revenue forecasts. The Ministry of Finance has also increased its estimated projection for financing needs from U.S.\$6,602 million to approximately U.S.\$10,985 million. These adjustments are expected to increase the deficit by approximately U.S.\$1.5 billion.

Public Debt

Total public external debt increased from U.S.\$10.06 billion in 2011, which represented 12.7% of GDP, to U.S.\$20.23 billion in 2015, which represented 20.1% of GDP. This increase in debt was primarily due to increased debt from bilateral lenders. The total external debt of the public sector in Ecuador as of June 30, 2016 was U.S.\$22.6 billion. Compared with 2015, this increase is primarily due to a credit line facility with a consortium of banks led by Industrial and Commercial Bank of China Limited, the Export-Import Bank of China ("China Exim Bank"), and China Minsheng Banking Corp, described below.

As of December 31, 2014, the top three bilateral lenders to Ecuador were China, Brazil and Spain, with debt levels of U.S.\$5,074.4 million (63.7% of the total bilateral debt), U.S.\$302.8 million (3.8% of the total bilateral debt) and U.S.\$158.1 million (1.9% of the total bilateral debt) respectively. As of December 31, 2015, the top three bilateral lenders to Ecuador continued to be China, Brazil and Spain, with debt levels of U.S.\$5,295.4 million (85.4% of the total bilateral debt), U.S.\$295.5 million (4.5% of the total bilateral debt) and U.S.\$140.6 million (2.2% of the total bilateral debt) respectively. As of June 30, 2016, the top three bilateral lenders to Ecuador were China, Brazil and Spain, with debt levels of U.S.\$6,743.0 million (86.2% of the total bilateral debt), U.S.\$257.2 million (3.3% of the total bilateral debt) and U.S.\$139.9 million (1.8% of the total bilateral debt), respectively. The Government is current on all of its obligations to bilateral lenders.

In 2008, Ecuador defaulted on its interest payments for the 2012 and 2030 Bonds (as defined in "Public Debt – Debt Obligations" herein) in the aggregate amount of approximately U.S.\$157 million and principal payments of approximately U.S.\$3,200 million. In 2009 the Republic launched cash tender offers to the holders of the 2012 and 2030 Bonds and from 2009 through the date of this Offering Circular has repurchased additional 2012 and 2030 Bonds. As of the date hereof, the total aggregate amount of outstanding principal on the 2012 and 2030 Bonds is U.S.\$70.3 million, which represents 2.2% of the original aggregate principal amount of the 2012 and 2030 Bonds.

In December 2005, the Republic successfully launched an issuance of the 2015 Bonds (the "2015 Bonds"). The use of the proceeds of the 2015 Bonds was to buy back certain of the 2012 Bonds in accordance with their terms. The Republic successfully repaid all principal and interest on the 2015 Bonds on December 15, 2015.

On June 17, 2014, the Republic successfully issued U.S.\$2 billion of Bonds due June 2024 (the "2024 Bonds") with a coupon of 7.95% at 100% of the purchase price. The most recent interest payment on the 2024 Bonds, which was due on June 20, 2016, was paid by the Republic in accordance with the relevant indenture. The Republic is current on its financial obligations under the 2024 Bonds and intends to make all payments as they become due and payable. The Republic used the proceeds of the 2024 Bonds to finance its various hydroelectric projects and other infrastructure projects contemplated in its National Development Plan.

On March 24, 2015, the Republic successfully issued U.S.\$750 million of Bonds due March 2020 with a coupon of 10.50% (the "Original 2020 Issuance") at 100% of the purchase price. The Republic re-opened the Original 2020 Issuance on May 19, 2015 and successfully issued an additional U.S.\$750 million of Bonds at a price of 107.789%, also due 2020 (together with the Original 2020 Issuance, the "2020 Bonds"). The most recent interest payment on the 2020 Bonds, which was due on March 24, 2016, was paid by the Republic in accordance with the relevant indenture. The Republic is current on its financial obligations under the 2020 Bonds and intends to make all payments as they become due and payable. The Republic used the proceeds of the 2020 Bonds to finance its various hydroelectric projects and other infrastructure projects contemplated in its National Development Plan.

Ecuador's other significant external debt transactions in 2015 include a January 7, 2015 memorandum of understanding with China Development Bank in connection with a loan of up to U.S.\$1.5 billion. The proceeds of the loan are to be used for eligible infrastructure and development projects in Ecuador. On the same date, Ecuador entered into a framework agreement for future cooperation with China Exim Bank. This agreement allows the Ministry of Finance to regularly submit priority lists of projects which it proposes to be financed by China Exim Bank, within three years of the date of the agreement. The initial priority list includes six projects to be financed at a total cost of U.S.\$5.3 billion. The rights and obligations of the parties will be stipulated in relevant loan agreements to finance specific projects.

Additionally, on February 26, 2015, Ecuador entered into a Foreign Purchase Credit Agreement with Deutsche Bank Sociedad Anónima Española. The loan is to be used to purchase radar equipment and other equipment for the air defense of Ecuador. This agreement provides for a U.S.\$88 million facility to be repaid in a term of nine years.

On March 31, 2015, Ecuador entered into a thirteen year, U.S.\$85.7 million facility agreement with the Bank of China Limited, Panama Branch (U.S.\$60.0 million commitment) and Deutsche Bank AG, Hong Kong Branch (U.S.\$25.7 million commitment). The proceeds of this facility are to be used for the restoration and improvement of the Sigchos-Chugchilán and Buena Vista-Vega Rivera-Paccha-Zaruma Highways.

In January 2016, Petroecuador entered into a credit agreement for a facility of up to U.S.\$970 million from a consortium of banks led by Industrial and Commercial Bank of China Limited, China Exim Bank, and China Minsheng Banking Corp., Ltd. The first tranche of U.S.\$820 million was disbursed in February 2016. The facility relates to a multi-party contractual structure involving a crude oil delivery contract entered into with PetroChina. The credit has an interest rate of three-month Libor plus 6.2% and has a term of five years.

In February 2016, the Republic entered into a U.S.\$198 million preferential buyer credit loan agreement with China Exim Bank to finance the first phase of Yachay. The loan agreement has a 3% interest rate and a term of 20 years.

On April 29, 2016, Ecuador entered into an eight year loan agreement with China Development Bank for U.S.\$2 billion. The agreement relates to a multi-party contractual structure involving a crude oil delivery contract entered into with PetroChina.

On July 15, 2008, Petroecuador and Petróleos de Venezuela Ecuador, S.A. (“PDVSA Ecuador”) formed a new entity called RDP (defined herein) in which Petroecuador is currently the majority shareholder (51%) and PDVSA Ecuador is the minority shareholder (49%). RDP will develop a refinery project with the same name to be built in the municipality of Manta, Manabí Province, with a total nameplate capacity of 300,000 bpd. The land rights and environmental licenses necessary to develop RDP have already been obtained, and a preliminary detailed feasibility study of the project is complete. The total estimated investment for RDP is approximately U.S.\$15 billion. Negotiations are ongoing to provide financing for the project. In the event RDP is able to obtain financing through debt for this project, it is not clear whether it would be able to do so while remaining within the 40% public debt to GDP limit as further described in “Public Sector Finances – Fiscal Policy.” For a description of the risks of any action by the Government to increase the current 40% public debt to GDP limit, see *“Risk Factors – Risk Factors relating to Ecuador –The Republic may seek to increase the total public debt to GDP ratio beyond the current 40% limit, which could materially adversely affect the interests of Noteholders.”* Construction has commenced and the project is scheduled to be completed by year-end 2021.

Selected Economic Indicators ⁽¹⁾

	For the Year Ended December 31,					For the Quarter Ended March 31, ⁽⁷⁾	
	2011	2012	2013	2014	2015	2015	2016
(in millions of U.S. dollars, except percentages)							
The Economy							
Nominal GDP	79,277	87,925	94,776	100,917	100,872	24,968	24,428
Real GDP ⁽¹⁾	60,925	64,362	67,293	69,766	69,969	17,639	17,113
Real GDP growth	7.9%	5.6%	4.6%	3.7%	0.3%	3.2%	-3.0%
Unemployment ⁽²⁾	4.2%	4.1%	4.2%	3.8%	4.8%	3.8%	5.7%
Non-Financial Public Sector							
Total revenues.....	31,190	34,570	37,260	39,032	33,586	8,313	7,331
Total expenditures	31,290	35,394	41,607	44,346	38,676	8,444	7,759
Surplus/Deficit.....	-100	-824	-4,348	-5,314	-5,091	-131	-428
As % of GDP ⁽¹⁾	-0.1	-0.9	-4.6	-5.3	-5.1	-0.5	-1.8
Central Government							
Total revenues.....	17,198	19,523	20,400	20,381	20,344	5,060	4,480
Total expenditures	18,435	21,240	25,861	26,794	24,149	5,357	4,837
Surplus/Deficit.....	-1,236	-1,717	-5,461	-6,413	-3,805	-297	-358
As % of GDP ⁽¹⁾	-1.6	-2.0	-5.8	-6.4	-3.8	-1.2	-1.5
Balance of Payments ^{(3) (6)}							
Exports ⁽³⁾	23,082	24,569	25,587	26,597	19,049	5,064	3,786
Imports ⁽³⁾	-23,385	-24,519	-26,115	-26,660	-20,699	-5,839	-3,766
Trade balance ⁽³⁾	-303	50	-529	-63.5	-1,650	-775	20
Services balance ⁽³⁾	-1,563	-1,391	-1,423	-1,171	-774	-240	-146
Current account surplus/deficit of the balance of payments ⁽³⁾	-402	-165	-931	-527	-2,092	-892	-33
Annual Inflation							
	2011	2012	2013	2014	2015	2015	2016
(in millions of U.S. dollars, except percentages)							
Annual inflation.....	5.4%	4.2%	2.7%	3.7%	3.4%	4.9%	1.6%
Public Debt ⁽⁵⁾							
Total External Debt	10,055	10,872	12,920	17,582	20,225	20,038	22,572
Total External Debt (as % of GDP) ..	12.7	12.4	13.6	17.4	20.1	19.9	22.0
Total Internal Debt	4,507	7,781	9,927	12,558	12,546	12,304	12,906
Total Internal Debt (as % of GDP)....	5.7	8.8	10.5	12.4	12.4	12.2	12.6
Total Public Debt	14,562	18,652	22,847	30,140	32,771	32,341	35,478
Total Public Debt (as % of GDP)	18.4	21.2	24.1	29.9	32.5	32.1	34.6
International reserves ⁽⁴⁾	2,958	2,483	4,361	3,949	2,496	4,739	3,573

Source: Unless indicated below, information is from the Central Bank June 2016 Monthly Bulletin

- (1) Real GDP measures the Gross Domestic Product of Ecuador minus the effect of inflation. The Central Bank of Ecuador uses 2007 as its base year for all real number calculations. GDP Information is from the Central Bank Quarterly Bulletin for the First Quarter of 2016. Percentages of GDP are calculated on the basis of nominal GDP.
- (2) Unemployment figures based on figures from *Instituto Nacional de Estadística y Censos* ("National Institute of Statistics" or "INEC").
- (3) Figures reflect figures from "Balance of Payments" table on page 71.
- (4) Data corresponds to freely disposable international reserves. Before dollarization, Ecuador kept international monetary reserves with the aim of supporting the exchange rate of the sucre. Currently, Ecuador keeps freely disposable international reserves ("International Reserves"), whose variations are explained by the change in the deposits from Ecuador's financial institutions and non-financial public sector institutions held in the Central Bank.
- (5) Debt figures in this Offering Circular are based on information from the Ministry of Finance's June 2016 Debt Bulletin and reflect data for December 2015 unless otherwise indicated.
- (6) Balance of payments data is published by the Central Bank on an annual and quarterly basis. Numbers reflect fourth quarter 2015 information.
- (7) Unemployment figures for these periods are as of March 31, 2015 and 2016, respectively.
- (8) Debt to GDP percentages for June 2016 are calculated using estimates from the Ministry of Finance and the Central Bank.

THE OFFERING

The following summary does not purport to be complete and is qualified in its entirety by, and is subject to, the detailed information appearing elsewhere in this Offering Circular.

Issuer:	The Republic of Ecuador.
Issue Amount:	U.S.\$1,000,000,000.
Securities Offered:	U.S.\$1,000,000,000 principal amount of 10.750% notes due 2022.
Issue Format:	Rule 144A/Regulation S.
Issue Price:	100.000% plus accrued interest, if any, from July 28, 2016.
Issue Date:	July 28, 2016.
Maturity Date:	March 28, 2022.
Interest:	10.750% per annum, computed on the basis of a 360-day year of twelve 30 day months.
Interest Payment Dates:	Each March 28 and September 28, commencing on March 28, 2017.
Form:	The Notes will be represented in the form of global notes, without coupons, registered in the nominee name of the common depositary for Euroclear and Clearstream for the accounts of its participants. Notes in definitive certificated form will not be issued in exchange for the global notes except under limited circumstances.
Denominations:	The Republic will issue the Notes only in denominations of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof.
Ranking:	The Notes will be general, direct, unsecured, unsubordinated and unconditional obligations of Ecuador, will be backed by the full faith and credit of Ecuador and will rank equally in terms of priority with Ecuador's External Indebtedness (other than Excluded Indebtedness), provided, that, such ranking is in terms of priority only and does not require that Ecuador make ratable payments on the Notes with payments made on its other External Indebtedness.
Withholding Tax and Additional Amounts:	Unless otherwise required by law, Ecuador will make all principal and interest payments on the Notes without withholding or deducting any present or future taxes imposed by Ecuador or any of its political subdivisions or taxing authorities. If Ecuador is required by law to deduct

or withhold taxes, except to the extent provided for in “Description of the Notes – Additional Amounts,” Ecuador will pay the holders of the Notes such additional amounts as may be necessary to ensure that they receive the same amount as they would have received without any withholding or deduction.

Representations and Covenants: The Republic will agree to comply with, among others, the following covenants:

- a) The Republic will obtain and maintain in full force and effect all Ecuadorian Authorizations necessary under the laws of Ecuador for the execution and delivery of, and performance by the Republic under, the Notes and the Indenture or for their validity or enforceability, and take all necessary and appropriate Governmental and administrative actions in Ecuador in order to be able to make all payments to be made by it under the Notes and the Indenture.
- b) The Republic will ensure that at all times its obligations under the Notes are general, direct, unsecured, unsubordinated and unconditional obligations of Ecuador and will be backed by the full faith and credit of Ecuador and ensure that the Notes will rank equally in terms of priority with Ecuador’s External Indebtedness (other than Excluded Indebtedness), provided, that, such ranking is in terms of priority only and does not require that the Republic make ratable payments on the Notes with payments made on its other External Indebtedness.
- c) The Republic will use its reasonable best efforts to list and thereafter to maintain the listing of the Notes on the Luxembourg Stock Exchange.
- d) The Republic will not create or suffer to exist, or permit the Central Bank to create or suffer to exist, any Lien upon any of its present or future assets or revenues to secure or otherwise provide for the payment of any External Indebtedness of Ecuador or the Central Bank unless, on or prior to the date such Lien is created or comes into existence, the obligations of the Republic under the Notes and the Indenture are secured equally and ratably with such External Indebtedness, subject to certain exceptions.

Events of Default: The Notes will contain, among others, the following events of default, the occurrence of which may result in the acceleration of the Republic’s obligations under the Notes prior to maturity:

- a) The Republic fails, on the applicable payment date, to (i) make any payment of principal or Make-Whole Amount on the Notes (unless such non-payment is due to an administrative or technical error and is remedied within five Business Days of the date when such payment is

due) or (ii) make any payment of an interest amount or Additional Amount on the Notes within 30 days of the date when such payment is due.

- b) The Republic fails to perform or comply with any other obligation under the Notes or under the Indenture and Ecuador does not or cannot cure that failure within 30 days after it receives written notice from the Trustee or holders of at least 25% of the aggregate principal amount of the Notes then outstanding regarding that default.
- c) The Republic, or a court of proper jurisdiction, declares a moratorium with respect to the payment of principal of, or interest on, Ecuador's External Indebtedness (other than Excluded Indebtedness).
- d) The Republic fails to make any payment in respect of any External Indebtedness (other than Excluded Indebtedness) in an aggregate principal amount in excess of U.S.\$50,000,000 (or its equivalent in any other currency) when due (as such date may be extended by virtue of any applicable grace period or waiver).
- e) The holders of at least 25% of the aggregate outstanding principal amount of any External Indebtedness (other than Excluded Indebtedness) having an aggregate principal amount in excess of U.S.\$50,000,000 (or its equivalent in any other currency), accelerate or declare such External Indebtedness to be due and payable, or required to be prepaid (other than by a regularly scheduled prepayment), prior to its stated maturity, as a result of Ecuador's failure to pay the principal or interest on such External Indebtedness, and such acceleration, declaration or prepayment is not annulled or rescinded within 30 days.
- f) The Republic denies, repudiates or contests any of its payment obligations under the Notes or the Indenture in a formal administrative, legislative, judicial or arbitral proceeding or any constitutional provision, treaty, law, regulation, decree, or other official pronouncement of the Republic, or any final decision by any court in the Republic having jurisdiction, renders it unlawful for the Republic to pay any amount due on the Notes or to perform any of its obligations under the Notes or the Indenture.
- g) The Republic fails to maintain its membership in the IMF or ceases to be eligible to use the resources of the IMF.
- h) The Republic fails to maintain its membership in, or its eligibility to use the general resources or equivalent of, any of CAF, FLAR and IDB.
- i) There shall have been entered against the Republic or the Central Bank in a matter related to External Indebtedness (other than Excluded Indebtedness) a final judgment, decree or order by a court

of competent jurisdiction from which no appeal may be made, or is made within the time limit for doing so, for the payment of money in excess of U.S.\$50,000,000 (or its equivalent in another currency) and 120 days shall have passed since the entry of any such order without Ecuador having satisfied such judgment.

- j) There shall be made against the Republic or the Central Bank in a matter related to External Indebtedness (other than Excluded Indebtedness) an arbitral award by a tribunal of competent jurisdiction from which no appeal or application to a tribunal or court of competent jurisdiction to set aside may be made, or is made within the time limit for doing so, for the payment of money in excess of U.S.\$50,000,000 (or its equivalent in another currency) and 120 days shall have passed since the making of any such award without the Republic having satisfied the award.

Use of Proceeds:

The Republic will use the proceeds of U.S.\$1,000,000,000 of the Notes in accordance with the limitations of the Public Planning and Finance Code (defined herein), as further described in “Use of Proceeds.”

Collective Action Clauses:

The Notes will contain provisions, commonly known as “collective action clauses,” regarding acceleration of the Notes and voting on future amendments, modifications and waivers to the terms and conditions of the Notes. These provisions, which are described in the sections entitled “Description of the Notes — Events of Default” and “Description of the Notes — Modifications – Collective Action,” differ from those applicable to certain of the Republic’s outstanding External Indebtedness (as defined herein). Under such provisions, the Republic may: (a) amend the payment provisions of the Notes and certain other reserved matters with the consent of the holders of 75% of the aggregate amount of the outstanding Notes and other non-reserved matters with the consent of the holders of 66 ²/₃% of the aggregate amount of the outstanding Notes; (b) make reserved matter modifications affecting two or more series of debt securities with the consent of (x) holders of at least 66 ²/₃% of the aggregate principal amount of the outstanding debt securities of all series that would be affected by that reserved matter modification (taken in aggregate) and (y) holders of more than 50% of the aggregate principal amount of the outstanding debt securities of each affected series (taken individually); or (c) make reserved matter modifications affecting two or more series of debt securities with the consent of holders of at least 75% of the aggregate principal amount of the outstanding debt securities of all affected series (taken in aggregate), provided that the Uniformly Applicable condition is satisfied, as more fully described in “Description of the Notes – Modifications – Collective Action.”

Transfer Restrictions:

The Notes have not been and will not be registered under the Securities

Act, and will be subject to restrictions on transferability and resale. See “Transfer Restrictions.”

Listing:

Application has been made to list the Notes on the Luxembourg Stock Exchange and to have the Notes admitted to trading on the Euro MTF Market.

Absence of a Public Market for the Notes:

The Notes will be a new issue of securities, and there is currently no established market for the Notes. The Republic and the Lead Manager cannot provide any assurances that a liquid market for the Notes will develop. The Lead Manager has advised the Republic that it currently intends to make a market in the Notes. However, it is not obligated to do so, and any market-making with respect to the Notes may be discontinued without notice.

Trustee, Registrar and Transfer Agent:

The Bank of New York Mellon.

London Paying Agent:

The Bank of New York Mellon, London Branch.

Luxembourg Listing Agent, Transfer Agent and Luxembourg Paying Agent:

The Bank of New York Mellon (Luxembourg) S.A.

Governing Law:

The Notes will be governed by the laws of the State of New York, except for the terms concerning submissions to arbitration which will be governed by English law.

Submission to Arbitration:

(a) Any dispute, controversy or claim of any nature arising out of, relating to or having any connection with the Indenture, including any dispute as to the existence, validity, interpretation, performance, breach, termination or consequences of the nullity of the Indenture (a “Dispute”) where the Republic is either a party, claimant, respondent or otherwise is necessary thereto, will not be referred to a court of any jurisdiction and will instead be referred to and finally resolved by arbitration under the Rules of the LCIA (“LCIA Rules”) as at present in force as modified by the Indenture which LCIA Rules are deemed to be incorporated by reference. In particular:

(i) There will be three arbitrators.

(ii) Each arbitrator will be an English or New York qualified lawyer of at least 15 years’ standing

with experience in relation to international banking or capital markets disputes. At least one of those arbitrators will be a lawyer qualified in New York.

- (iii) If there are two parties to the Dispute, each party will be entitled to nominate one arbitrator. If there are multiple claimants and/or multiple respondents, all claimants and/or all respondents will attempt to agree upon their respective nomination(s) such that the claimants will together be entitled to nominate one arbitrator and the respondents will together be entitled to nominate one arbitrator. If any such party or multiple parties fail to nominate an arbitrator within thirty (30) days from and including the date of receipt of the relevant request for arbitration, an arbitrator will be appointed on their behalf by the LCIA Court in accordance with the LCIA Rules and applying the criteria at clause (ii) above. In such circumstances, any existing nomination or confirmation of the arbitrator chosen by the party or parties on the other side of the proposed arbitration will be unaffected, and the remaining arbitrator(s) will be appointed in accordance with the LCIA Rules.

- (b) The third arbitrator and chairman of the arbitral tribunal will be appointed by the LCIA Court in accordance with the LCIA Rules and applying the criteria at clause (ii) above.

- (c) The seat, or legal place, of arbitration will be London, England.

- (d) The language to be used in the arbitration will be English. The arbitration provisions of the Indenture will be governed by English law.

- (e) Without prejudice to any other mode of service allowed by law, the Republic hereby appoints Law Debenture Corporate Services Limited, with its registered office at 5/F, 100 Wood

Street, EC2V 7EX, London, England (the “Process Agent”) as its agent under the Indenture for service of process in relation to any proceedings before the English courts in relation to any arbitration contemplated by the Indenture or in relation to recognition or enforcement of any such arbitral award obtained in accordance with the Indenture.

If the Process Agent is unable to act as the Republic's agent under the Indenture for the service of process, the Republic must immediately (and in any event within ten (10) days of the event taking place) appoint another agent (a “Replacement Agent”) on terms acceptable to the Trustee.

The Republic agrees that failure by the Process Agent or, as applicable, a Replacement Agent, to notify the Republic of the process will not invalidate the proceedings concerned.

Any Dispute between the Trustee and any holders or holders only and where the Republic is not a party, claimant, respondent or otherwise is necessary thereto, will be subject to the non-exclusive jurisdiction of any New York state or United States federal court sitting in the Borough of Manhattan, the City of New York, and any appellate court from any thereof, in any action or proceeding arising out of or relating to the Indenture (except actions or proceedings arising under or in connection with U.S. federal and state securities laws), and the Trustee and the holders will irrevocably submit to such jurisdiction and agree that all claims in respect of such Dispute may be heard and determined in such New York state or United States federal court.

Scope of Sovereign Immunity:

The execution and delivery of the Indenture by the Republic constitutes, and the Republic's performance of and compliance with its obligations will constitute, an act of commercial public credit as provided under the laws of the Republic. To the extent permitted by law, the Republic will irrevocably and unconditionally agree that:

- (a) the Republic submits to the jurisdiction of any Ecuadorian court and to any legal process in the Republic's courts (other than attachment proceedings prior to recognition or enforcement of an arbitral award), in connection with the enforcement of an arbitral award obtained in accordance with the Indenture, except with respect to the Immune Property, which shall be entitled to immunity from enforcement in accordance with mandatory provisions of the laws of Ecuador;
- (b) the Republic submits to the jurisdiction of any court outside the Republic and to any legal process, orders or

other measures in courts outside the Republic, whether through service or notice, attachment in aid of execution, execution against property of any sort, actions in rem or the grant of injunctions or specific performance, in connection with the enforcement of an arbitral award obtained in accordance with the Indenture, except with respect to the Immune Property, which shall be immune to the fullest extent;

- (c) the Republic undertakes not to invoke any defense on the basis of any kind of immunity, for itself and/or its assets which do not constitute Immune Property in respect of any of the foregoing legal actions or proceedings; and
- (d) the Republic submits to the jurisdiction of the English courts in connection with any proceeding invoking the supervisory jurisdiction of those courts in relation to an arbitration conducted pursuant to the Indenture.

The levy of execution on assets of the Republic within the territory of the Republic will be carried out in accordance with and under the laws of the Republic.

The Republic irrevocably waives, to the fullest extent permitted by law, any requirement or provision of law that requires the posting of a bond or other security as a condition to the institution, prosecution or completion of any action or proceeding.

An arbitral award obtained in accordance with the Indenture will be conclusive and may be enforced in any jurisdiction in accordance with the New York Convention or in any other manner provided for by law.

“Immune Property,” in accordance with the provisions of the law of Ecuador, means:

- (a) any property which is used or designated for use in the performance of the functions of the diplomatic mission of Ecuador or its consular posts;
- (b) aircraft, naval vessels and other property of a military character or used or designated for use in the performance of military functions;
- (c) property forming part of the cultural heritage of Ecuador or part of its archives;
- (d) unexploited natural non-renewable resources in Ecuador;
- (e) funds managed in the national Treasury Account;

- (f) assets and resources comprising available monetary reserves of Ecuador;
- (g) public domain assets used for providing public services in Ecuador;
- (h) national assets located in the territory of Ecuador and belonging to the Republic, such as streets, bridges, roads, squares, beaches, sea and land located over 4,500 meters above sea level;
- (i) accounts of the Central Bank, whether they are held abroad or locally; and
- (j) public entities' deposits with the Central Bank, whether they are maintained abroad or locally.

“New York Convention” means the New York Convention on the Recognition and Enforcement of Arbitral Awards 1958.

Further Issues:

The Republic may, from time to time, without the consent of the holders of the Notes, create and issue additional notes having the same terms and conditions as the Notes in all respects (or in all respects except for the amount of the first interest payment and the issue price) provided that:

- (a) the notes are consolidated and form a single series with the outstanding Notes; and
- (b) such additional notes do not have, for purposes of U.S. federal income taxation, a greater amount of original issue discount than the outstanding Notes have as of the date of the issue of such additional notes (regardless of whether any holders of such Notes are subject to U.S. federal income taxation).

RISK FACTORS

This section describes certain risks associated with investing in the Notes. You should consult your financial and legal advisors about the risk of investing in the Notes. Ecuador disclaims any responsibility for advising you on these matters.

Risk Factors Relating to the Notes

There may be no active trading market for the Notes, or the trading market for the Notes may be volatile and may be adversely affected by many factors.

The Notes will not have any established trading market when issued, and there can be no assurance that an active trading market for the Notes will develop, or, if one does develop, that it will be maintained. If an active trading market for the Notes does not develop or is not maintained, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market, and the market or trading price and liquidity of the Notes may be adversely affected. Even if a trading market for the Notes develops, the Notes may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions, and the financial condition of Ecuador. Although application has been made to list the Notes on the Official List of the Luxembourg Stock Exchange, and to have the Notes admitted to trading on the Euro MTF Market, there can be no assurance that such application will be accepted or that an active trading market will develop. Illiquidity may have a material adverse effect on the market value of the Notes.

The price at which the Notes will trade in the secondary market is uncertain.

Ecuador has been advised by the Lead Manager that it intends to make a market in the Notes but is not obligated to do so, and in the event that it does so, it may discontinue market making at any time without notice. Application has been made to list the Notes on the Official List of the Luxembourg Stock Exchange and to have the Notes admitted to trading on the Euro MTF Market. No assurance can be given as to the liquidity of the trading market for the Notes. The price at which the Notes will trade in the secondary market is uncertain.

The Notes will contain provisions that allow the payment terms to be amended without the consent of all holders.

The Notes will contain provisions, commonly known as “collective action clauses,” regarding acceleration of the Notes and voting on future amendments, modifications and waivers to the terms and conditions of the Notes. Under these provisions, which are described in the sections entitled “Description of the Notes — Events of Default” and “Description of the Notes — Modifications – Collective Action” Ecuador may: (a) amend the payment provisions of the Notes and certain other reserved matters with the consent of the holders of 75% of the aggregate amount of the outstanding Notes and other non-reserved matters with the consent of the holders of 66 ⅔% of the aggregate amount of the outstanding Notes; (b) make reserved matter modifications affecting two or more series of debt securities with the consent of (x) holders of at least 66⅔% of the aggregate principal amount of the outstanding debt securities of all series that would be affected by that reserved matter modification (taken in aggregate) and (y) holders of more than 50% of the aggregate principal amount of the outstanding debt securities of each affected series (taken individually); or (c) make reserved matter modifications affecting two or more series of debt securities with the consent of holders of at least 75% of the aggregate principal amount of the outstanding debt securities of all affected series (taken in aggregate), provided that the Uniformly Applicable condition is satisfied.

Recent federal court decisions in the United States create uncertainty regarding the meaning of ranking provisions and could potentially reduce or hinder the ability of sovereign issuers to restructure their public sector debt.

In litigation in federal courts in New York captioned NML Capital, Ltd. v. Republic of Argentina, the U.S. Court of Appeals for the Second Circuit ruled on August 23, 2013 that the ranking clause (which included ratable

payment language) in certain defaulted notes issued by Argentina, prevents Argentina from making payments in respect of new performing notes that it issued in exchange for the defaulted notes in a restructuring in which a certain minority of holders elected not to participate, unless it makes *pro rata* payments in respect of the defaulted notes that rank *pari passu* with new notes. The defaulted notes in this case did not contain the “collective action clauses” referred to in the preceding risk factor. While the U.S. Court of Appeals for the Second Circuit’s decision was narrowly tailored to the facts of the case, including the conduct of Argentina and the specific wording of the *pari passu* clause in the defaulted notes, the implication from this case is that it may be more difficult for sovereign debtors to restructure their debts.

On February 18, 2014, the Republic of Argentina filed a petition in the U.S. Supreme Court seeking review of the Second Circuit’s August 2013 ruling. On June 16, 2014, the U.S. Supreme Court denied the Republic of Argentina’s petition for review, thereby letting stand the Second Circuit’s August 2013 ruling. On July 22, 2014, the U.S. District Court for the Southern District of New York enforced the ruling and barred the international trustee from making a U.S.\$539 million payment to bondholders of the new performing notes that Argentina issued in exchange for the defaulted notes. On the same date, the U.S. District Court ordered Argentina to undergo continuous mediation and settlement talks with holders of the defaulted notes.

On June 16, 2014, the U.S. Supreme Court issued an opinion in a related case, ruling that the Republic of Argentina is not immune from complying with a judgment creditor’s discovery demands seeking information about its assets outside the United States. On August 11, 2014, the U.S. District Court for Nevada granted NML Capital, Ltd.’s motion to compel discovery of information regarding Argentine assets in the United States.

On February 25, 2015, the U.S. District Court for the Southern District of New York ordered Deutsche Bank and JPMorgan Chase and Co. to deliver the documents relevant to Argentina’s planned new issuance of dollar-denominated debt to the court and NML Capital, Ltd.

On December 10, 2015, Mauricio Macri became the new president of Argentina. Under his administration, Argentina negotiated and reached settlements with a group of holdout creditors for U.S.\$1.35 billion on February 2, 2016, and a group of six other holdout creditors for U.S.\$1.1 billion on February 18, 2016. On February 19, 2016, the U.S. District Court lifted its ban on payments to creditors on the condition that Argentina repeal two laws enacted for the purpose of blocking agreements with holdout creditors and agree to pay remaining holdouts by a certain date. Argentina’s congress repealed the two laws on March 31, 2016. The U.S. Court of Appeals for the Second Circuit voted to confirm the lifting of the ban on April 13, 2016. Argentina proceeded with a sale of U.S.\$16.5 billion in sovereign bonds on April 19, 2016.

Despite the above recent developments and settlement agreements between the Republic of Argentina and its creditors, Ecuador cannot predict what impact, if any, the above U.S. court rulings will have on sovereign issuers such as Ecuador.

The ability of holders to transfer Notes in the United States and certain other jurisdictions will be limited.

The Notes issued pursuant to this offer will not be registered under the Securities Act and, therefore, may not be offered or sold in the United States except pursuant to an exemption from the registration requirements of the Securities Act and applicable U.S. state securities laws. Offers and sales of the Notes may also be subject to transfer restrictions in other jurisdictions. You should consult your financial or legal advisors for advice concerning applicable transfer restrictions with respect to the Notes.

Credit ratings may not reflect all risks of investment in the Notes.

Credit ratings are an assessment by rating agencies of Ecuador’s ability to pay its debts when due. Consequently, real or anticipated changes in Ecuador’s credit ratings will generally affect the market value of the Notes. These credit ratings may not reflect the potential impact of risks relating to structure or marketing of the Notes. Credit ratings are not a recommendation to buy, sell or hold any security, and may be revised or withdrawn at any time by the issuing organization. Each agency’s rating should be evaluated independently of any other agency’s rating.

The effects of the United Kingdom's vote to exit from the European Union and its impact on the economy and fiscal conditions of Ecuador and the trading market of the Notes are uncertain.

On June 23, 2016, the United Kingdom voted by a majority in favor of the United Kingdom leaving the European Union at a referendum on the United Kingdom's membership of the European Union. As of the date of this Offering Circular, the actions that the United Kingdom will take to effectively exit from the European Union or the length of such process are uncertain. The results of the United Kingdom's referendum have caused, and are anticipated to continue causing, significant new uncertainties and volatility in the global financial markets, which may affect Ecuador and the trading market of the Notes, though exports to the United Kingdom only represented 0.9% of Ecuador's exports for 2015. These uncertainties could have a material adverse effect on the global economy and Ecuador's economy, fiscal condition or prospects. It is unclear at this stage what the impact of the United Kingdom's departure from the European Union will ultimately be on the global economy, including Ecuador, or the trading market of the Notes.

Risk Factors Relating to Ecuador

Ecuador has defaulted on its sovereign debt obligations in the past, in particular its obligations under the 2012 and 2030 Bonds.

In 2009, Ecuador defaulted on its interest payments for the 2012 and 2030 Bonds (as defined in "Public Debt – Debt Obligations" herein) in the aggregate amount of approximately U.S.\$157 million and principal payments of approximately U.S.\$3,200 million. The 2012 and 2030 Bonds were originally issued in exchange for prior debt offerings of the Republic in order to extend the maturity dates of those prior obligations. These defaults followed the publication of a report in 2008 by the Commission of Integral Audit of Public Credit ("CAIC"), a committee composed of representatives from both the Ecuadorian Government and private sector organizations and members of civil society. CAIC reviewed Ecuador's debt obligations from 1976 to 2006 and in its report made a number of findings regarding the legitimacy of Ecuador's debt obligations (including the 2012 and 2030 Bonds), in particular relating to concerns involving the public assumption of private debt, appropriate authorizations, sovereign immunity, and the relevant economic terms of the debt obligations incurred. After the default, which occurred during the first term of President Correa's administration, Ecuador offered to repurchase the 2012 and 2030 Bonds at a discount to their par value. Holders responded to this offer by tendering substantially all of the 2012 and 2030 Bonds. Although some holders continue to hold the defaulted 2012 and 2030 Bonds, Ecuador has successfully repurchased additional 2012 and 2030 Bonds from remaining holders from 2009 onwards. For more information, see "Public Debt – Debt Obligations – 2012 and 2030 Bonds and tender offer." Ecuador has remained current on its obligation to its other series of sovereign bonds including the 2020 Bonds and 2024 Bonds (as defined in "Public Debt – Debt Obligations" herein), as well as on its other debt obligations as further described in "Public Debt – External Debt." To date, no judgments have been issued against the Republic with respect to the 2012 and 2030 Bonds and none are pending. Proceedings have been issued against the Republic in two cases. See "Risk Factors – Risks Factors Relating to Ecuador - *Ecuador is involved in a number of legal proceedings and disputes that could result in losses to Ecuador as well as a decrease in foreign investment.*" There is a risk that other holders, other than the holders described in "Public Debt – Debt Obligations – 2012 and 2030 Bonds and tender offer," of these defaulted bonds may institute proceedings against the Republic and may seek to enforce any judgments obtained by seeking to attach assets of the Republic. Any action by the holders of the 2012 and 2030 Bonds, or any further defaults by Ecuador on its sovereign debt obligations, could materially adversely affect the market value of the Notes and the ability of the Republic to make principal and interest payments free of the risk of attachment. Any action by the holders of the 2012 and 2030 Bonds making similar *pari passu* arguments as the holders in *NML Capital, Ltd. v. Republic of Argentina* (see "Risk Factors – Risk Factors Relating to the Notes – *Recent federal court decisions in New York create uncertainty regarding the meaning of ranking provisions and could potentially reduce or hinder the ability of sovereign issuers to restructure their public sector debt*") or any further defaults by Ecuador of its sovereign debt obligations, could materially adversely affect the market value of the Notes and the ability of the Republic to make principal and interest payments free of the risk of attachment.

Ecuador's past history has been characterized by institutional instability.

Between 1997 and 2007, Ecuador has had eight presidents, and three of them were overthrown during periods of political unrest: Abdala Bucaram in 1997, Jamil Mahuad in 2000, and Lucio Gutiérrez in 2005. Since

2007, Ecuador has experienced political stability with President Correa's Alianza PAIS party having won five consecutive National Assembly elections, and President Correa having won re-election in 2013. Ecuador is scheduled to have presidential elections in February 2017 (the "2017 Election"). For more information on presidential term limits, see "The Republic of Ecuador – Form of Government." A return to an unstable political environment could significantly affect Ecuador's economy and Ecuador's ability to perform its obligations under the Notes.

Certain economic risks are inherent in any investment in an emerging market country such as Ecuador.

Investing in an emerging market country such as Ecuador carries economic risks. These risks include many different factors that may affect Ecuador's economic results, including the following:

- interest rates in the United States and financial markets outside Ecuador;
- changes in economic or tax policies in Ecuador;
- the imposition of trade barriers by Ecuador's trade partners;
- general economic, political, and business conditions in Ecuador, Ecuador's major trading partners, and the global economy;
- the ability of Ecuador to effect key economic reforms, including its economic strategy to re-balance the economy by increasing the percentage of GDP represented by the non-petroleum economy. For more information, see "The Ecuadorian Economy – Strategic Sectors of the Economy – Oil Sector";
- political and social tensions in Ecuador;
- the prices of commodities, including oil;
- the impact of hostilities or political unrest in other countries that may affect international trade, commodity prices and the global economy; and
- the decisions of international financial institutions regarding the terms of their financial assistance to Ecuador.

Any of these factors, as well as volatility in the markets for securities similar to the Notes, may adversely affect the liquidity of, and trading markets for, the Notes. See "Forward-Looking Statements" for further information on factors that may affect the Notes.

Ecuador's economy remains vulnerable to external shocks, including the negative global economic consequences that occurred as a result of the global economic recession that took place in 2008 and 2009, the economic impact of the decrease in international oil prices that took place between the fourth quarter of 2014 and into 2016 and the negative economic consequences that can arise as a result of future significant economic difficulties of its major regional trading partners or by more general "contagion" effects, which could have a material adverse effect on Ecuador's economic growth and its ability to service its public debt.

Emerging-market investment generally poses a greater degree of risk than investment in more mature market economies because the economies in the developing world are more susceptible to destabilization resulting from domestic and international developments. Generally, investment in emerging markets is only suitable for sophisticated investors who appreciate the significance of the risks involved in, and are familiar with, investing in emerging markets.

A significant decline in the economic growth of any of Ecuador's major trading partners could adversely affect Ecuador's economic growth. In addition, because international investors' reactions to the events occurring in one emerging market country sometimes appear to demonstrate a "contagion" effect, in which an entire region or

class of investment is disfavored by international investors, Ecuador could be adversely affected by negative economic or financial developments in other emerging market countries or in Latin America generally.

There can be no assurance that any crises such as those described above or similar events will not negatively affect investor confidence in emerging markets or the economies of the principal countries in Latin America, including Ecuador. In addition, there can be no assurance that these events will not adversely affect Ecuador's economy, its ability to raise capital in the external debt markets in the future or its ability to service its public debt.

A significant increase in interest rates in the international financial markets could have a material adverse effect on the economies of Ecuador's trading partners and adversely affect Ecuador's economic growth and Ecuador's ability to make payments on its outstanding public debt, including the Notes.

If interest rates outside Ecuador increase significantly, Ecuador's trading partners, in particular, could find it more difficult and expensive to borrow capital and refinance their existing debt. These increased costs could in turn adversely affect economic growth in those countries. Decreased growth on the part of Ecuador's trading partners could have a material adverse effect on the markets for Ecuador's exports and, in turn, adversely affect Ecuador's economy. An increase in interest rates would also increase Ecuador's debt service requirements with respect to Ecuador's debt obligations that accrue interest at floating rates. As a result, Ecuador's ability to make payments on its outstanding public debt generally, including the Notes, would be adversely affected.

A number of factors have impacted on and may continue to impact on revenues and the performance of the economy of Ecuador.

The economy of Ecuador and the Government's budget are highly dependent on petroleum revenues. For example, in 2015, 18.9% of Ecuador's non-financial public sector revenues were derived from petroleum and petroleum-related taxes and royalties. In response to the decline in revenue attributable to the fall in the price of oil in 2015, Ecuador reduced its original 2015 budget of U.S.\$36.3 billion to U.S.\$34.1 billion, a decrease of 6%. For more information, see "Public Sector Finances – Non-Financial Public Sector Revenues and Expenditures." In the event the price of oil was to decrease from its current levels of approximately U.S.\$50 per barrel, Ecuador's revenues from oil could significantly decline. There can be no assurance that Government revenues from petroleum exports will not experience significant fluctuations as a result of changes in the international petroleum market. Concerns with respect to the current global recession, weakness of the world economy, terrorism, market volatility and certain geopolitical developments, such as political instability in the Middle East and Venezuela, may have a potentially adverse effect on the petroleum market as a whole.

In addition, in 2015, 81.4% of Ecuador's petroleum exports by destination were to three countries - the United States (62.4%), Chile (13.0%), and Peru (6.0%). Worsening economic conditions in any of these countries could have a significant impact on Ecuador's revenues from oil and overall economic activity.

Further, operating difficulties in certain oil fields, lower production budgets, and the outages and the overhaul of Ecuador's largest refinery, the Esmeraldas Refinery (see "The Ecuadorian Economy – Strategic Sectors of the Economy – Oil Sector"), have led to uneven crude oil and petroleum derivatives production over the last few years. While Ecuador expects to increase production through the development of new fields, in particular the ITT fields (see "The Ecuadorian Economy – Strategic Sectors of the Economy – Oil Sector") and has completed the overhaul of the Esmeraldas Refinery, future political opposition, budget adjustments that affect investments in oil exploration, natural disasters such as earthquakes, or further outages could result in a decline of overall production. Accordingly, any sustained period of decline in capacity, if exacerbated by a decline in oil production, could adversely affect the Government's fiscal accounts and International Reserves.

In addition to the effects of the volatility of the oil market, the National Assembly has passed several laws that have altered the Government's budget and the established budgetary agenda and resulted in higher deficits. Certain assumptions regarding the levels of future oil prices are contained in the budgetary process and in the *Plan Nacional para el Buen Vivir* (the "National Development Plan"). Anticipated revenues contained in the budget could be lower if these assumptions about oil prices are not accurate. In January 2015, in response to the decline of oil prices in the last quarter of 2014, Ecuador reduced its 2015 budget by U.S.\$1.4 billion and again by U.S.\$800

million in August 2015, resulting in a modified budget of U.S.\$34.1 billion for 2015. On March 3, 2016, the Minister of Finance announced that the 2016 Budget would be reduced by U.S.\$800 million. For more information see “Public Sector Finances-2015 and 2016 Budget.” President Correa has stated, in light of the global economic climate, that Ecuador’s priority will be to meet the Government’s employment and social goals. Ecuador may need to balance these social and employment goals given its budgetary constraints.

Petroamazonas’ failure to make timely payments to contractors could have an adverse effect on Petroamazonas and on revenues that the Government Receives from Petroamazonas.

As oil prices have decreased, Petroamazonas has failed to pay on a timely basis certain amounts owed to contractors. Petroamazonas is engaged in discussions with certain of its contractors with respect to some of its outstanding accounts payable. Nonetheless, we cannot provide any assurance as to whether or when Petroamazonas will become current on the rest of its outstanding supplier payment obligations. Delays in payments to contractors could have an adverse effect on Petroamazonas’ operations and the revenues that the Government receives from Petroamazonas.

Commodity prices are volatile, and a significant decline in commodity prices could adversely affect Ecuador’s economy and affect its ability to perform its obligations under the Notes.

In addition to petroleum prices, see “Risk Factors – Risk Factors Relating to Ecuador - A number of factors have impacted on and may continue to impact on revenues and the performance of the economy,” Ecuador’s economy is exposed to other commodity price volatility, especially with regard to bananas and shrimp, which in 2015 made up approximately 15.3% and 12.4% of Ecuador’s total exports, respectively. A significant drop in the price of certain commodities, such as bananas or shrimp, would adversely affect Ecuador’s economy and could affect Ecuador’s ability to perform its obligations under the Notes.

Damage caused by the April 2016 earthquake may impede Ecuador’s ability to export goods and the associated reconstruction costs may affect its ability to perform its obligations under the Notes.

On April 16, 2016, a 7.8 magnitude earthquake struck the northern coast of Ecuador, (the “Pedernales Earthquake”). The Pedernales Earthquake and its aftershocks, caused severe damage to Ecuador’s infrastructure in the region, including its roads and ports. A study conducted by SENPLADES, INEC and various ministries estimates that the cost of reconstructing the infrastructure damaged by the Pedernales Earthquake is approximately U.S.\$3.3 billion (approximately 3% of Ecuador’s GDP). The damage to Ecuador’s infrastructure may have an adverse impact on the Ecuadorian economy and, in particular, on export businesses that operate in the affected areas. The study estimates that the Pedernales Earthquake will have an impact of -0.7% on the growth of GDP in 2016. In addition, the increased need for funds to finance reconstruction of infrastructure damaged in the Pedernales Earthquake may have an adverse impact on Ecuador’s ability to perform its obligations under the Notes.

Ecuador is a sovereign state and has not waived its sovereign immunity to the fullest extent permitted under the United States Foreign Sovereign Immunities Act of 1976; accordingly it may be difficult to obtain or enforce judgments against it.

Ecuador is a sovereign state. Consequently, it may be difficult for investors to obtain or realize judgments against Ecuador in the United States or elsewhere. For example, Argentina defaulted on part of its external debt beginning in 2002. Holders of those bonds issued by Argentina had difficulty in obtaining payment from the defaulted issuer, as described further in the risk factor entitled “Recent federal court decisions in New York create uncertainty regarding the meaning of ranking provisions and could potentially reduce or hinder the ability of sovereign issuers to restructure their public sector debt.” In the event holders of the Notes were to attempt to enforce a court judgment or arbitral award against Ecuador, they may experience similar difficulty.

Furthermore, the dispute resolution provisions of the Notes require submission to arbitration at the London Court of International Arbitration while the contractual provisions of the Notes are governed by New York law. In order to obtain an enforceable judgment any disputes will have to be submitted first to the decision of an arbitral panel prior to being subject to enforcement by an applicable court.

To the extent holders of Notes were to bring suit in Ecuador or attempt to enforce a foreign judgment or arbitral award in Ecuador, under the laws of Ecuador certain property of Ecuador is exempt from attachment. In addition, pursuant to the terms of the Notes and the Indenture, Ecuador has limited its sovereign immunity (other than with respect to the laws of Ecuador) with respect to actions brought against it under the Notes or the Indenture. This limitation of immunity, however, may be more limited in scope than those under certain other sovereign issuances in which issuers may waive immunity to the full extent under the U.S. Foreign Sovereign Immunities Act of 1976. Given this limitation on the scope of immunity, as well as the limitations of the U.S. Foreign Sovereign Immunities Act of 1976 and the immunity granted to Ecuador under Ecuadorian law, or which may in the future be granted under Ecuadorian law, holders seeking to attach assets of Ecuador may not be able to do so within Ecuador and may face difficulties doing so outside of Ecuador.

Ecuador is involved in a number of legal proceedings and disputes that could result in losses to Ecuador as well as a decrease in foreign investment.

Ecuador is currently involved in several legal proceedings, mainly related to contracts in the oil and electricity sectors. For a description of these legal proceedings and other proceedings against Ecuador, see “Legal Proceedings.” If the foreign companies were to succeed, the awards could adversely impact the finances of Ecuador. Ecuador can offer no assurances as to whether or not such proceedings will be resolved in its favor.

Burlington

Burlington Resources, Inc. (“Burlington”) filed an arbitration claim before ICSID on April 2008 against Ecuador, seeking compensation for alleged modifications to its contracts for the development of Blocks 7 and 21 in Ecuador imposed by Ecuadorian law 42-2006. Burlington argued that such unilateral modification resulted in an expropriation of the blocks that Burlington was operating, although, subsequent to the commencement of the proceedings, Burlington withdrew the contractual claims and based all claims solely on violations of the U.S.-Ecuador Bilateral Investment Treaty. On December 14, 2012, the tribunal decided the liability issue in favor of Burlington and consequently, on January 28, 2013, Ecuador submitted a petition for reconsideration

On September 30, 2011, Ecuador filed two counterclaims against Burlington for environmental damage and failure to maintain the facilities of Blocks 7 and 21, in an approximate amount of U.S.\$2 billion. The arbitral tribunal was scheduled to meet for a hearing on damages (in respect to Burlington’s claims) and Ecuador’s counterclaims in August 2013, but the hearings were suspended due to the request by Ecuador that one of the arbitrators recuse himself from the proceeding because of a conflict of interest.

Burlington presented its assessment of damages memorandum on June 24, 2013, to which Ecuador responded on May 23, 2014. The tribunal held a hearing regarding damages from March 2 to March 6, 2015 in Paris, after which both parties presented their post-hearing briefs on May 29, 2015. The result of the hearing is pending.

Hearings for the counterclaims took place from June 1 to June 7, 2014 in Paris. The parties presented their post-hearing briefs on October 3, 2014 and, in an effort to assess the validity of the counterclaims, the tribunal visited Blocks 7 and 21 in April 2015. The parties presented their post-visit briefs on July 15, 2015. The result of the hearing regarding the counterclaim is pending.

Claims under the 2030 Bonds

On December 12, 2014, GMO Trust issued proceedings against the Republic in respect of an alleged U.S.\$15,876,000 holding of 2030 Bonds. GMO voluntarily withdrew its complaint pursuant to a settlement agreement between the parties. A stipulation dismissing the complaint was filed on March 16, 2015; under that stipulation, the case cannot be re-filed.

On January 30, 2015, Daniel Penades issued proceedings against the Republic in respect of an alleged U.S.\$455,000 holding of 2030 Bonds. Ecuador was served with a notification of the claim on September 16, 2015. On January 15, 2016, Ecuador filed a motion to dismiss, the result of which is still pending.

Part of the offering proceeds could be attached by creditors to satisfy outstanding arbitral awards and judgments (if applicable) against Ecuador.

Creditors holding outstanding arbitral awards or court judgments present a risk of disruption to the offering. This could involve any type of creditor, including trade, supply, investor and finance creditors who obtain arbitral awards and possibly seek to enforce these awards or judgments. The risk with respect to the offering includes that the Lead Manager in the offering could be said to have an obligation to pay the offering proceeds to Ecuador, and that Ecuador's creditors may attempt to enforce their rights against Ecuador's interest in any such obligation. Further, Ecuador's creditors could attempt to attach the proceeds of the offering or the payment of principal and/or interest on the Notes.

Payments to holders of the Notes could be attached by creditors, including holders of other debt instruments of Ecuador, to satisfy awards against Ecuador. As a result, Ecuador may not be able to make payments to holders of the Notes.

There is a risk that creditors could attach payments of interest and principal by Ecuador to holders of the Notes outside of Ecuador because, until payments reach holders of the Notes, they could possibly be deemed to be the assets of Ecuador. For more information on these pending awards, see "Legal Proceedings" and "Risk Factors – Risk Factors Relating to Ecuador – Ecuador is involved in a number of legal proceedings and disputes that could result in losses to Ecuador as well as a decrease in foreign investment."

There is a risk that creditors could seek to attach part of the offering proceeds to satisfy pending awards against Ecuador. If creditors are successful in attaching payments to holders of the Notes, Ecuador may not be able to make payments to holders of the Notes. For further information about the attempts of creditors of Argentina to enforce payment obligations on defaulted sovereign debt, see "Risk Factors – Risk Factors Relating to the Notes – Recent federal court decisions in New York create uncertainty regarding the meaning of ranking provisions and could potentially reduce or hinder the ability of sovereign issuers to restructure their public sector debt."

Specifically, payments of principal and/or interest on the Notes may be attached, enjoined or otherwise challenged by holders of other debt instruments of Ecuador, including outstanding holders of the 2012 and 2030 Bonds. Some creditors have, in recent years, used litigation tactics against several sovereign debtors that have defaulted on their sovereign bonds including Peru, Nicaragua and Argentina, to attach or interrupt payments made by these sovereign debtors to, among others, holders of the relevant defaulted bonds who agreed to a debt restructuring and accepted new securities in an exchange offer. Ecuador may also become subject to suits to collect on defaulted indebtedness. Ecuador cannot guarantee that a creditor will not be able to interfere, through an attachment of assets, injunction, temporary restraining order or otherwise, with payments made under the Notes. As of the date of this Offering Circular, the Republic is aware of one claim that has been made by a holder of the 2030 Bonds. For more information, see "Public Debt – Debt Obligations – 2012 and 2030 Bonds and tender offer."

The Republic may seek to increase the total public debt to GDP ratio beyond the current 40% limit, which could materially adversely affect the interests of Noteholders.

The Republic is subject to a limitation on borrowing due to the Public Planning and Financing Code, which limits total public debt to 40% of GDP unless, in the case of public investment programs and projects of national interest, a majority of the National Assembly approves an exception to this limit on a project by project basis. Accordingly, in order to exceed the 40% limit of total public debt to GDP the Republic must either amend the Public Planning and Financing Code or seek an exception from the National Assembly on a case by case basis. See "Public Sector Finances Overview – Fiscal Policy." Each time the Republic wishes to issue additional debt, such as the Notes, it must ensure it is within those limits.

Following the issuance of the Notes and the application of proceeds, it is estimated that the Republic's total public debt to GDP will be approximately 35.6%. Taking into account the amounts of financing estimated by the Republic necessary to complete its current infrastructure projects and programs, such as RDP, which is further described in "The Ecuadorian Economy—Strategic Sectors of the Economy—Oil Sector—Refining," the Republic will be in excess of 40% limit of total public debt to GDP. No lender or lenders have contractually agreed to provide financing for RDP. Accordingly, the Republic is currently considering requesting approval from the

National Assembly to exceed the 40% limit of total public debt to GDP in order fund the RDP project (whether through an amendment or on a case by case exception basis). Any action taken by the National Assembly to increase the 40% limit of total public debt to GDP could materially adversely affect the interests of the Noteholders.

Ecuador faces challenges in its ability to access external financing.

Ecuador may have to rely in part on additional financing from the domestic and international capital markets in order to meet its future expenses. Given the fluctuations in Ecuador's level of International Reserves in the last few years, as of December 31, 2015, International Reserves (defined herein) covered 9.5% of current account payments. Ecuador's ability to obtain diverse sources of international funding has become increasingly important. See "Public Sector Finances – Overview – Fiscal Policy." Since the U.S. dollar is legal tender of Ecuador, the level of International Reserves may not be an indicator of its ability to meet current account payments as would be the case in an economy where the dollar is not legal tender.

In 2008, CAIC issued a report that made a number of findings regarding the legitimacy of Ecuador's debt obligations (including the 2012 and 2030 Bonds), in particular relating to concerns involving the public assumption of private debt, appropriate authorizations, sovereign immunity, and the relevant economic terms of the debt obligations incurred. See also "Risk Factors – Risk Factors Relating to Ecuador – *Ecuador has defaulted on its sovereign debt obligations in the past, in particular its obligations under the 2012 and 2030 Bonds.*" Following the report in 2008, Ecuador defaulted on its payments for the 2012 and 2030 Bonds in the aggregate amount, as of February 2009, of approximately U.S.\$157 million in interest and U.S.\$3,200 million in principal. Ecuador invited holders of the 2012 and 2030 Bonds to participate in two tender offers in April 2009 and November 2009 which resulted in the tender of 93.22% of the 2012 and 2030 Bonds. Although some holders continue to hold the defaulted 2012 and 2030 Bonds, Ecuador has successfully repurchased additional 2012 and 2030 Bonds from remaining holders from 2009 onwards. As of the date hereof, the total aggregate amount of outstanding principal on the 2012 and 2030 Bonds is U.S.\$70.3 million, which represents 2.2% of the original aggregate principal amount of the 2012 and 2030 Bonds. For more information, see "Public Debt – Debt Obligations – 2012 and 2030 Bonds and tender offer." Given the history of defaults, and more recently, defaults with respect to the 2012 and 2030 Bonds as a result of CAIC determining that the bonds were issued illegally, Ecuador may not be able access external financing on favorable terms. For further information regarding the external debt payment record of Ecuador and the history of defaults, see "Public Debt – Debt Obligations."

The ability of Ecuador to counter external shocks through economic policy is limited.

Ecuador instituted the Dollarization Program in 2000, replacing the Ecuadorian sucre with the U.S. dollar. Due to the current market conditions, Ecuador may be at risk if it cannot export sufficient goods to receive additional U.S. dollars, as it has no ability to mint currency. In addition, due to the Dollarization Program, the ability of Ecuador and/or the Central Bank to adjust monetary policy and interest rates in order to influence macroeconomic trends in the economy is limited. The total income from its exports and remittances needs to outweigh the total cost of its imports. The disruptions currently experienced in the financial markets have led to reduced liquidity and increased credit risk premiums for certain market participants and have resulted in a reduction in available financing. Furthermore, by law, Ecuador's oil revenues can only be used to finance infrastructure projects and its ability to use these revenues to address other sectors or fiscal policy in general is limited. Accordingly, Ecuador's ability to use the tools of monetary policy to correct external shocks to the economy may be limited. See "Exchange Rate Information."

USE OF PROCEEDS

The use of proceeds for public debt is limited by the Public Planning and Finance Code (defined herein). Under the Public Planning and Finance Code, proceeds of public debt transactions may only be used to: (1) finance Government programs, (2) finance infrastructure projects that have the capacity to repay the related debt obligations and (3) refinance an existing external debt obligation on more favorable terms. The Public Planning and Finance Code prohibits public transactions for the purpose of paying ongoing expenses, with the exception of expenses related to health, education, and justice, under exceptional circumstances as determined by the President of the Republic.

The Republic will use the proceeds of U.S.\$1,000,000,000 of the Notes in accordance with the limitations of the Public Planning and Finance Code. The total expenses of this offering, including the underwriter's fee, will be approximately U.S.\$5,100,000.

THE REPUBLIC OF ECUADOR

Territory, Population and Society

Ecuador is one of the smallest countries in South America, covering an area of approximately 99,054 square miles (256,549 square kilometers). Located on the north-western coast of the continent, it shares a 950-mile border with Peru to the south and the east, a 373-mile border with Colombia to the north, and a 1,452-mile coastline to the Pacific Ocean to the west.

Ecuador encompasses a wide range of geographic areas and climates, including the Pacific coastal plains, the Sierra (consisting of the Andean highland region), the Oriente (characterized by the Amazonian tropical rain forest) and the Galapagos Islands region located in the Pacific Ocean approximately 600 miles from the coast. The Republic is traversed by the equator and lies entirely in the north and south tropical zones. The country's regional climates vary depending on altitude. The climate is tropical in the Pacific coastal plains and the Oriente, predominantly temperate in the Sierra, and maritime in the Galapagos Islands.

Ecuador has several active volcanoes, some of which have shown increased activity in the past several years. When it occurs, the irregular 'El Niño' climatic phenomenon has caused heavy rains, landslides, widespread flooding and hotter temperatures across Ecuador. In 2012, forest fires occurred in many areas of Ecuador. The Pichincha province on the outskirts of Quito was particularly affected.

On October 26, 1998, Ecuador and Peru signed a comprehensive peace agreement that ended a long-standing territorial dispute concerning territory in the Oriente region. Although the territorial conflict spanned more than a century, the treaty ended multiple hostile encounters between the two governments over the course of the previous four years. As a result of this treaty, the two countries presented joint plans for the development of infrastructure and commerce in the border region.

On March 1, 2008, Colombian forces raided a camp of the *Fuerzas Armadas Revolucionarias de Colombia* ("Revolutionary Armed Forces of Colombia" or "FARC"), which was located in Ecuadorian territory. This led to the death of FARC's leader, Raúl Reyes. Despite some brief tensions that resulted in the end of diplomatic relations with Colombia, the restoration of diplomatic relations between both countries was announced in November of 2010 by the presidents of Ecuador and Colombia, Rafael Correa and Juan Manuel Santos, respectively, during the UNASUR summit in Guyana.

According to projections based on the 2010 census conducted by the *Instituto Nacional de Estadística y Censos* ("National Institute of Statistics" or "INEC"), in 2016, the total population of Ecuador is approximately 16.5 million. Approximately 50.2% of the population live in the Pacific coastal plains, 44.5% live in the Andean highlands, 5.1% in the Oriente and 0.2% in the Galapagos Islands. From 2001 to 2010, the population grew at an average annual rate of 1.9%, down from 2.05% between 1990 and 2001. Approximately 63.6% of the population is urban. Guayaquil, which is located on the coast, is the largest city with 2.6 million inhabitants. Quito, the country's capital, has a population of just under 2.6 million and is located in the highlands at 2,850 meters above sea level. Cuenca is the third largest city with 591,996 inhabitants, and is also located in the Andean highlands. Spanish is the official language, while Quechua and Shuar are considered official languages for intercultural relations.

Historically, Ecuador has been a Catholic country and while the country remains predominantly Catholic, evangelical Christianity has become increasingly popular.

The following chart sets forth certain demographic characteristics for Ecuador in the time period specified:

Demographic Characteristics

	2011	2012	2013	2014	2015
Total population (million)	15.3	15.5	15.8	16.0	16.3
Female (%).....	50.4	50.4	50.5	50.5	50.5
Male (%)	49.6	49.6	49.5	49.5	49.5
Urban (%)	62.9	63.0	63.2	63.3	63.4
Rural (%).....	37.1	37.0	36.8	36.7	36.6
Functional age groups (%)					
Child (0–14).....	32.1	31.8	31.5	31.1	30.7
Adult (15–64).....	61.3	61.6	61.9	62.2	62.5
Elderly (65+).....	6.6	6.6	6.7	6.7	6.8
Demographic Indicators					
Average Annual Growth (%)	1.7	1.7	1.6	1.6	1.6
Birth Rate (per thousand)	19.7	4.1	4.0	n/a	n/a
Infant Mortality Rate (per 1,000 live births)	8.9	8.8	8.6	8.4	n/a
Fertility Rate (per woman).....	2.7	2.7	2.6	2.6	2.5
Average Life Expectancy (age)					
Female.....	78.1	77.8	78.6	78.8	79.1
Male.....	75.3	72.7	72.9	73.2	72.2
Overall.....	75.8	75.5	75.8	76.0	76.2

Source: Based on data from INEC.

The following table sets forth certain comparative information for Ecuador in 2015 relative to certain countries:

Selected Comparative Social Statistics ⁽¹⁾ As of December 31, 2015

	Ecuador	Bolivia	Paraguay	Honduras	Guatemala	Costa Rica	United States
Average life expectancy.....	75.8	68	73	73	71	79	79
Adult literacy rate.....	94%	94%	95%	87%	77%	97%	n/a
Expected years of schooling.....	9.8	13.9	12.3	11.2	10.7	15.1	16.5
Population below poverty line.....	23.3%	39.1%	22.6%	49.3%	53.7%	21.7%	n/a

Source: Ecuador data based on INEC projections as of December 31, 2015, remaining country data based on World Bank data available as of December 31, 2015.

(1) In Ecuador, as of December 2015, the poverty line was U.S.\$83.79/month, per household.

Pedernales Earthquake

Ecuador is located in an active seismic area where the risk of an earthquake or tremors is high. On April 16, 2016, a 7.8 magnitude earthquake (the “Pedernales Earthquake”) struck the northern coast of Ecuador above the convergent boundary where the Nazca tectonic plate subducts beneath the South American tectonic plate. Ecuador has a history of serious earthquakes relating to this convergent boundary, with seven earthquakes with a magnitude of seven or higher occurring in this zone since 1900.

The epicenter of the Pedernales Earthquake was located between the provinces of Esmeraldas and Manabí and approximately 110 miles from Quito. According to situation bulletin Number 65 published by the Secretary of Risk Management, as of May 16, 2016, the number of fatalities from the Pedernales Earthquake had risen to 661, while 6,274 people sustained injuries, 28,678 people and 7,356 families remained in shelters, 18,663 buildings sustained damage and 808 schools sustained damage or remained under investigation. On April 17, 2016, President Correa issued Executive Decree No. 1001, declaring a state of emergency in the provinces of Esmeraldas, Manabí, Santa Elena, Santo Domingo de los Tsáchilas, Los Rios and Guayas due to the negative impact of the natural disaster.

Significant aftershocks followed the initial earthquake, including eight aftershocks with a magnitude above 6 on the Richter scale as of the date of this Offering Circular. While the damage from aftershocks occurring in the

five week period following the earthquake was minimal, aftershocks of 6.8 and, 6.7 magnitudes which occurred on May 18, 2016 led to one fatality and left an additional 85 people injured.

An evaluation conducted by SENPLADES, INEC and various ministries estimates that the cost of reconstructing the infrastructure damaged by the Pedernales Earthquake is approximately U.S.\$3.3 billion (approximately 2-3% of Ecuador's GDP), and that, without taking into account the cost of reconstruction, damage from the earthquake will have an impact of -0.7% on the growth of Ecuador's GDP in 2016, and an impact of -9.8% on the growth of GDP in Manabí, the province in which 95% of the damages caused by the earthquake are concentrated. In response to the earthquake, President Correa empowered the Ministry of Finance to reallocate public funds, other than those allocated toward health and education, toward reconstruction efforts through Article 3 of Executive Decree No. 1001 and proposed a series of measures to help finance reconstruction pursuant to his authority under Articles 120 and 140 of the 2008 Constitution.

On May 20, 2016, the Law of Solidarity was published and became effective. The Law of Solidarity includes the following measures:

- increasing the value added tax by 2 percentage points (from 12% to 14%) for one year, of which an additional 2% may be refunded if payments are made with electronic money (i.e. a 4% VAT reimbursement applies in payments made with electronic money);
- a one-time contribution by natural persons equal to 0.9% of an individual's total assets for individuals whose total assets exceed U.S.\$1 million;
- a one-time contribution by corporations equal to 3% of their 2015 taxable income; and
- a one-time contribution of a day's salary for one month for those earning more than U.S.\$1,000 a month; a one-time contribution of a day's salary for two months for those earning more than U.S.\$2,000 a month, and similarly until a limit of a one-time contribution of one day's salary for 5 months for those earning more than U.S.\$5,000 a month.

President Correa also indicated that Ecuador would draw from existing contingent credit lines, including a U.S.\$ 150 million credit line with the World Bank, a U.S.\$300 million credit line with IDB, and a U.S.\$66 million with CAF (defined herein), and would explore the possibility of selling certain assets of the Republic, including the Sopladora 487 MW hydroelectric plant, Banco del Pacífico S.A., the *Corporación Nacional de Telecomunicaciones*, and other state owned utilities. Additionally, on July 8, 2016, the IMF approved a U.S.\$364 million facility to help Ecuador meet costs related to damages to infrastructure, housing, and agriculture caused by the Pedernales Earthquake.

Historical Background

Until 1553, what is now Ecuador formed part of the northern Inca Empire. Under Spanish rule, Ecuador became a seat of the Spanish colonial government in 1563 and part of the Viceroyalty of New Granada in 1717. The territories of the Viceroyalty (New Granada (Colombia), Venezuela and Quito) gained their independence between 1819 and 1822 and formed a federation known as Gran Colombia. Quito withdrew from the Gran Colombia federation in 1830, and formed what was then known as the "Republic of the Equator."

The next 150 years were marked by domestic political instability and international border conflicts. Particularly, after the withdrawal from Gran Colombia, Ecuador saw a power struggle between conservatives from Quito and liberals from Guayaquil. Internationally, between 1904 and 1942, Ecuador lost territories in a series of conflicts with its neighbors, including a war with Peru in 1941.

After World War II, Ecuador saw periods of democratic rule juxtaposed with military dictatorships. Despite this instability, Ecuador's banana industry boomed in the 1950s as it became one of the largest exporters of the fruit in the world. In the 1970s, the discovery of new petroleum fields in the eastern provinces transformed

Ecuador into a producer of oil and made oil the Republic's most important export commodity. The rise in oil exports fuelled economic growth and brought sharp increases to spending and employment, financed mainly by external borrowing and oil revenues.

Although Ecuador marked 25 years of civilian governance in 2004, the period was marked by political instability. Protests in Quito contributed to the mid-term ouster of three of Ecuador's last four democratically elected Presidents. In 2006, current president Rafael Correa was elected with 56.67% of the vote. Under his administration, which began in January 2007, voters approved a new constitution (the "2008 Constitution"), Ecuador's 20th constitution since gaining independence. President Correa was reelected in general elections held in February 2013 with 57.17% of the vote and his term will end in May 2017.

Form of Government

Ecuador is a republic, with powers divided among five branches of government: executive, legislative, judicial, transparency and social control, and electoral branches. The 2008 Constitution provides for concurrent four-year terms of office for the President, Vice President, and members of the National Assembly. Presidents and legislators may be re-elected immediately. Citizens must be at least 16 years of age to vote.

The President is the head of Government and head of state, and is elected by direct popular vote for a four-year term. The President's duties include the enforcement of the Constitution, the establishment of economic, trade and foreign policy, and the enforcement of domestic law and order. The President is also commander-in-chief of the armed forces and appoints ministers and heads the Government's cabinet. President Correa came into office in January 2007 under the previous Constitution, and is currently serving his second term under the 2008 Constitution, after being re-elected in general elections held in February 2013. The next presidential election will take place in February 2017.

The 2008 Constitution establishes a single chamber national assembly elected through direct popular vote for a four-year period (the "National Assembly"). The National Assembly has 137 representatives, of which 15 are elected at the national level, two are elected per province, one additional provincial representative for every 200,000 inhabitants above 150,000 per province threshold, and six for Ecuadorians living abroad.

In the most recent legislative elections held in February 2013, Alianza PAIS, President Correa's party, increased its control over the National Assembly with a total of 99 seats. The newly founded right wing party, *Creando Oportunidades*, won 11 seats and became the National Assembly's largest minority party. Several parties, such as PSC-Madera de Guerrero and MPD-Pachakutik formed alliances to gain 7 and 5 seats in the National Assembly, respectively.

The following table shows the current composition of the National Assembly:

**Legislative Assembly
Composition by Political Party**

<u>Political Party</u>	<u>Number of Members</u>
Alianza PAIS	82
PAIS-PACHAKUTIK	2
PAIS-Unidad Primero	8
PAIS-Mov. Aut. Reg.	4
PAIS-Partido Social Frente Amplio	4
Avanza	5
CREO	9
PSP	5
PSC-Madera de Guerrero	4
PSC	2
Alianza UP IZQ	4
Others	8
Total	137

Source: National Assembly of the Republic of Ecuador.

Ecuador is administratively divided into 24 provinces and 221 municipalities. Each province is governed by a prefect who is popularly elected. The Government also designates a governor for each province that coordinates and administers the initiatives of the Government; while mayors, who are elected by popular vote, govern municipalities. Each of the 24 provinces has a popularly elected provincial council headed by a prefect. A municipal council is responsible for the government of each municipality. All provincial and municipal officials are popularly elected to four-year terms. In the most recent municipal elections, held in February 2014, candidates from Alianza PAIS lost mayoral elections in Ecuador's three major cities of Quito, Cuenca, and Guayaquil.

The judicial system consists of the *Corte Nacional de Justicia* ("National Court of Justice"); *Cortes Provinciales de Justicia* ("Provincial Courts of Justice"); and *Tribunales Unidades Judiciales* ("First Instance Courts"). The National Court of Justice is composed of 21 judges appointed by the *Consejo de la Judicatura* ("Judiciary Council"), which is in charge of regulating, administering and auditing the judicial branch. The Judiciary Council is comprised of nine standing members with their respective alternates, who perform their duties for a six-year term of office and cannot be reelected. The designation of the standing members of the Judiciary Council and their alternates takes place by a competitive merit-based examination process, subject to citizen oversight. Issues relating to the 2008 Constitution, including the modification or amendment thereof, are reserved to the *Corte Constitucional* (the "Constitutional Court"). The Constitutional Court is composed of nine members who are selected by a commission composed of eight members appointed from the various branches of government. Each member of the Constitutional Court is appointed to a nine-year term and may be re-elected at the end of their term.

In addition, the 2008 Constitution recognizes the possibility for indigenous communities to exercise their judicial authority in accordance with their traditions and their own sets of rules. The exercise of this authority must comply, and must not conflict with, the rights set forth by the 2008 Constitution and by international treaties ratified by the Republic.

The 2008 Constitution also creates two additional branches of government. *La Función de Transparencia y Control Social* (the "Transparency and Social Control Branch") is intended to serve as the auditor of the Government and of private entities that contribute to the Republic's general welfare. It is comprised of the *Contraloría General del Estado* (the "Office of the Comptroller General"), the *Consejo de Participación Ciudadana y Control Social* (the "Counsel of Citizen Participation and Social Control"), various superintendent organizations including the *Superintendencia de Bancos* ("Superintendent of Banks"), and the *Defensoría del Pueblo* (the "Public Defender"). The Counsel of Citizen Participation and Social Control appoints the chief executive of each superintendent organization, Office of the Comptroller General, the Public Defender and the Attorney General. It is also the entity principally responsible for corruption investigations and establishing citizens' committees for public consultation prior to the enactment of laws according to the 2008 Constitution. The purpose of these citizens' committees is to increase citizen participation and involvement in the democratic process and create an informed population who perform an active role in the enactment of laws.

The purpose of the *Función Electoral* (the “Electoral Branch”) is to provide oversight for the Republic’s political parties and elections. The Electoral Branch is comprised of the *Consejo Nacional Electoral* (“National Electoral Council”) and the *Tribunal Contencioso Electoral* (the “Electoral Dispute Settlement Court”). The National Electoral Council organizes and oversees elections to ensure transparency and compliance with election law, supervises the activities of political parties, and establishes a civil registry. The Electoral Dispute Settlement Court hears and resolves, among others things, disputes regarding campaign finance violations and settles election results appeals.

Memberships in International Organizations and International Relations

International Organizations

Ecuador has diplomatic relations with approximately 78 countries, and is a member of a number of international organizations, some of which include the United Nations, Organization of the Petroleum Exporting Countries (“OPEC”), the Organization of American States (“OAS”), the World Health Organization (“WHO”), and the Union of South American Nations (“UNASUR”).

In 2007, Ecuador rejoined OPEC as a full member after fifteen years of absence, having left due to OPEC’s membership fee and its increase in production quotas. Ecuador decided to rejoin OPEC due to benefits of the global producer network and the access to information that OPEC provides to its members. In September 2014, Ecuador joined OPEC’s Fund for International Development (“OFID”), a development fund to stimulate economic growth and alleviate poverty in disadvantaged regions of the world.

On July 2, 2009, President Correa issued a decree declaring that Ecuador was terminating its agreement as a member of the International Centre for Settlement of Investment Disputes (“ICSID”). The decree stated that the ICSID convention violated principles of sovereignty enshrined in Article 422 of Ecuador’s 2008 Constitution, which provides the rules for submission to arbitration proceedings by Ecuador as a sovereign. Notwithstanding the foregoing, Ecuador is a member of UNCITRAL and is still a party to the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards of 1958.

Ecuador continues to be a member of both the IMF and the World Bank. On July 8, 2016, the IMF approved a U.S.\$364 facility to help Ecuador meet costs related to damages to infrastructure, housing, and agriculture caused by the Pedernales Earthquake. The World Bank has provided several recent project level financing for projects in infrastructure, irrigation, transport and sanitation. These projects include the Chimborazo Development Investment project in 2007 and the Quito Metro line project in 2012. See “The Ecuadorian Economy—Strategic Sectors – Transportation.” On September 25, 2015, the Executive Board of the IMF concluded its annual Article IV consultation with Ecuador. For more information, see “Monetary System – the Central Bank.”

Treaties and Other Bilateral Relationships

Ecuador is party to bilateral investment treaties with Argentina, Bolivia, Canada, Chile, China, Costa Rica, France, Germany, Spain, Italy, the Netherlands, Peru, Russia, Spain, Sweden, Switzerland, the United Kingdom, the United States, and Venezuela. Bilateral investment treaties with the following countries have either been terminated or expired: Cuba, the Dominican Republic, El Salvador, Finland, Guatemala, Honduras, Nicaragua, Paraguay, Romania, and Uruguay.

In addition, on December 12, 2014, representatives from Ecuador’s Ministry of Foreign Commerce signed a trade agreement with the European Union. For more information see “Balance of Payments and Foreign Trade – Foreign Trade – Trade Policy.”

Regional Organizations

Ecuador also maintains close ties with most of its neighboring countries and participates in several regional arrangements to promote trade, investment and services. As a member of the Latin American Integration Association (“ALADI”), a regional external trade association, Ecuador and the other signatories (Argentina, Bolivia,

Brazil, Chile, Colombia, Cuba, Ecuador, Mexico, Panama, Paraguay, Peru, Uruguay and Venezuela) have worked to remove regional trade restrictions among member nations. Ecuador also forms part of the *Comunidad Andina de Naciones* (“Community of Andean Nations”) along with Colombia, Peru and Bolivia. Among the organization’s greatest achievements is the free flow of merchandise of Andean origin and the free mobility of member state citizens. Ecuador is also a member of the *Alianza Bolivariana para los Pueblos de nuestra América Latina* (“ALBA”) along with Venezuela, Bolivia, Cuba, and other Caribbean nations. In February 2012, ALBA members signed an agreement to create an *espacio de interdependencia*, a shared economic development zone between all members. Ecuador is also linked to Mercosur (comprised of Argentina, Brazil, Paraguay, Uruguay and Venezuela), as an associate member and has been invited to participate as a full member and is a member of *Corporación Andina de Fomento* (“CAF”), who has helped Ecuador finance several transportation and infrastructure projects.

In 2008, Ecuador, along with eleven other nations (Argentina, Bolivia, Brazil, Colombia, Chile, Guyana, Paraguay, Peru, Uruguay, Venezuela and Suriname) signed a treaty establishing the *Unión de Naciones Suramericanas* (“Union of South American Nations” or “UNASUR”). The organization’s General Secretariat has its permanent headquarters in the city of Quito, while its Parliament will be located in the Bolivian city of Cochabamba. In 2010, Ecuador formed part of the *Comunidad de Estados Latinoamericanos y Caribeños* (“Community of Latin American and Caribbean States” or “CELAC”). CELAC promotes the integration and development of Latin American nations.

Ecuador is a party to the United Nations Convention on Narcotic Drugs. Since 1990 the *Consejo Nacional de Control de Sustancias Estupefacientes y Psicotrópicas* (the “National Counsel for the Control of Narcotics and Psychotropic Drugs” or “CONSEP”) has dictated policy against drug trafficking. In July 2013, pursuant to CONSEP’s recommendation to decrease the illicit market for narcotics, the Ecuadorian penal code was reformed to decriminalize certain amounts of narcotics, including marijuana and cocaine. In the same month, Ecuador unilaterally rejected further benefits from preferential tariff program provided by the United States government under the Andean Trade Promotion and Drug Eradication Act (the “ATP-DEA”). These benefits bestowed preferential treatment to certain Ecuadorian products in exchange for the Republic’s efforts in combating drug trafficking in Ecuador. The rejection of the tariff program ends tax-free treatment of approximately U.S.\$223 million worth of goods exported by Ecuador into the U.S. per year. The rejection of the ATP-DEA benefits, as well as the penal code reforms, reflect a change in Ecuador’s approach towards narcotics. According to CONSEP, this change is a policy that “criminalizes the drug, but protects the rights of the addict.” The policy reflects the guideline set by Article 364 of the 2008 Constitution, which defines addiction as a public health problem and states that addicts must not be criminalized nor suffer an infringement of their rights due to their addictions.

THE ECUADORIAN ECONOMY

Gross Domestic Product

In 2011, the economy grew by 7.9% in real terms, the highest growth rate in the last decade. Foreign debt reached U.S.\$10.06 billion, primarily due to a loan with the China Development Bank in the amount of U.S.\$2 billion. This total external debt amount represented 12.7% of GDP, while annual year-end inflation for the year was 5.4%.

In 2012, the economy of Ecuador grew by 5.6% in real terms, which was mainly driven by an increase in fixed capital formation and public sector consumption, 10.6% and 11.4%, respectively. Gross fixed capital formation in 2012 increased, in real terms, by U.S.\$1.58 billion due to the various infrastructure projects and public sector investments undertaken by Ecuador that year. For more information, see “The Ecuadorian Economy – Strategic Sectors of the Economy – Electricity and Water.” Foreign debt reached U.S.\$10.87 billion, which represented 12.4% of GDP, while the annual year-end inflation for the year was 4.2%.

In 2013, the economy of Ecuador grew by 4.6% in real terms, which was mainly driven by continued increases in fixed capital formation and public sector consumption, which increased by 10.7% and 7.7%, respectively. Foreign debt reached U.S.\$12.92 billion, which represented 13.6% of GDP, while the annual year-end inflation for the year was 2.7%.

In 2014, the economy of Ecuador grew by 3.7% in real terms, which increase was mainly due to the continuing growth of the construction and manufacturing sectors of the economy. Year-end external debt for 2014 reached U.S.\$17.58 billion, which represents 17.4% of GDP, while the annual year-end inflation for the year was 3.7%.

In 2015, the economy of Ecuador grew by 0.3% in real terms. This decreased level of growth when compared with prior years was mainly due to decreased revenues resulting from the decline in the price of oil. See “Public Sector Finances – 2015 and 2016 Budget.” Year-end external debt for 2015 reached U.S.\$20.23 billion, which represents 20.1% of GDP, an increase of 15.0% compared to 2014. This increase was primarily due to the issuance of the 2020 Bonds. The rate of unemployment increased from 3.8% in 2014 to 4.8% in 2015 due to a general slowdown of the economy in 2015 that led to job losses in both the private and public sectors. Inflation for the twelve-month period ending in December decreased from 3.7% in 2014 to 3.4% in 2015 due to a decrease in the price of certain foods, primarily shrimp and chicken. For the twelve-month period ended June 30, 2016, the inflation rate was 1.6%, compared to 4.9% for the twelve-month period ended June 30, 2015.

Real GDP for the first quarter of 2016 was U.S.\$17,113 million, compared to U.S.\$17,639 million in the first quarter of 2015, representing a decrease of 3.0% in real terms. This decrease is mainly due to decreased revenues resulting from the decline in the price of oil.

Real and Nominal GDP

(in millions of U.S. dollars, except percentages)

	For the Year Ended December 31,					For the Quarter Ended March 31,	
	2011	2012	2013	2014	2015	2015 ⁽¹⁾	2016 ⁽¹⁾
Real GDP (in millions of U.S.\$)	60,925	64,362	67,293	69,766	69,969	17,639	17,113
Real GDP growth	7.9%	5.6%	4.6%	3.7%	0.3%	3.2%	-3.0%
Nominal GDP	79,277	87,925	94,776	100,917	100,872	24,968	24,428

Source: Based on figures from the Central Bank Quarterly National Accounts for the First Quarter of 2016.

(1) Percentages reflect growth compared to comparable quarter from previous year.

Nominal GDP by Economic Sector ⁽¹⁾
(in millions of U.S. dollars, except for percentages)

	For the Year Ended December 31,										For the Quarter Ended March 31,			
	2011	% of GDP	2012	% of GDP	2013	% of GDP	2014	% of GDP	2015	% of GDP	2015	% of GDP	2016	% of GDP
Manufacturing ⁽²⁾	9,670	12.20	10,740	12.21	11,797	12.45	13,504	13.38	13,668	13.55	3,428	13.73	3,399	13.92
Construction	8,106	10.23	9,379	10.67	10,096	10.65	11,229	11.13	11,477	11.38	2,862	11.46	2,761	11.30
Petroleum	10,234	12.91	11,092	12.66	11,577	12.25	10,806	10.70	5,736	5.68	1,463	5.86	907	3.71
Trade (commerce)	8,400	10.60	9,054	10.30	9,992	10.54	10,301	10.21	10,011	9.92	2,568	10.28	2,351	9.62
Agriculture	6,702	8.45	6,564	7.49	7,107	7.52	7,392	7.32	7,631	7.57	1,916	7.67	1,982	8.11
Community services	5,996	7.56	6,943	7.90	7,555	7.97	8,036	7.96	8,372	8.30	2,057	8.24	2,014	8.24
Government services ⁽³⁾	5,013	6.32	5,500	6.26	6,051	6.38	6,320	6.26	6,591	6.53	1,596	6.39	1,615	6.61
Administrative activity ⁽⁴⁾	5,046	6.37	5,712	6.50	6,561	6.92	7,269	7.20	7,828	7.76	1,881	7.53	1,947	7.97
Transportation	3,696	4.66	3,860	4.39	4,109	4.34	4,417	4.38	4,660	4.62	1,145	4.58	1,168	4.78
Finance and insurance	2,300	2.90	2,761	3.14	2,509	2.65	2,740	2.71	2,791	2.77	716	2.87	693	2.84
Telecommunications	1,812	2.29	1,914	2.18	2,012	2.12	2,175	2.16	2,152	2.13	547	2.19	500	2.05
Electricity and water	928	1.17	1,046	1.19	1,002	1.06	1,201	1.19	1,421	1.41	343	1.37	364	1.49
Shrimp	421	0.53	462	0.53	494	0.52	811	0.80	816	0.81	203	0.81	183	0.75
Mining	229	0.29	289	0.33	323	0.34	506	0.50	529	0.52	140	0.56	123	0.50
Others ⁽⁵⁾	10,722	13.52	12,609	14.34	13,592	14.34	14,211	14.08	17,188	17.04	4,103	16.43	4,420	18.10
Total GDP	79,277	100	87,925	100	94,776	100	100,917	100	100,872	100	24,968	100	24,428	100

Source: Based on information from the Central Bank.

- (1) Table measures gross value added by economic sector and corresponding percentage of Nominal GDP.
(2) Includes manufacturing other than petroleum refining.
(3) Includes Public Defense and Social Security Administration.
(4) Includes Professional and Technical Administration.
(5) Includes fishing, petroleum refining, hospitality and food services, domestic services, and other elements of GDP.

The following table sets forth Ecuador's real GDP growth by expenditure as a percentage of total real GDP growth for the periods presented.

Real GDP and Expenditure Growth

(Percentage change from previous comparable period based on 2007 prices)

	For the Year Ended December 31,					For the Quarter Ended March 31,	
	2011	2012	2013	2014	2015	2015	2016
Real GDP Growth.....	7.9	5.6	4.6	3.7	0.3	3.2	-3.0
Import of goods & services ⁽¹⁾	3.6	0.8	8.0	5.6	-6.0	3.4	-11.0
Total Supply of Goods & Services	6.8	4.5	5.4	4.1	-1.2	3.3	-4.9
Public Sector Consumption.....	8.7	11.4	7.5	3.5	1.1	2.8	-3.2
Private Consumption	5.1	2.8	3.5	3.5	0.2	4.5	-3.9
Gross Fixed Capital Formation.....	14.3	10.6	10.7	5.3	-2.5	3.7	-8.9
Exports of goods and services ⁽¹⁾	5.7	5.5	2.6	4.9	0.2	4.5	-2.7
Total Final Demand	6.8	4.5	5.4	4.1	-1.2	3.3	-4.9

Source: Based on figures from the Central Bank Quarterly National Accounts for the First Quarter of 2016.

- (1) Corresponds to figures from "Real GDP by Expenditure" table.

The following table sets forth Ecuador's per capita GDP statistics for the periods indicated.

Per Capita GDP

	For the Year Ended December 31,					For the quarter Ended March 31,	
	2011	2012	2013	2014	2015	2015	2016
Per capita Nominal GDP (current U.S.\$)	5,193	5,665	6,008	6,297	6,196	1,552	1,493
Per capita Real GDP	3,991	4,147	4,266	4,353	4,298	1,096	1,044
Population (in thousands) ⁽¹⁾	15,266	15,521	15,775	16,027	16,279	16,090	16,362

Source: Based on figures from the Central Bank Quarterly National Accounts for the First Quarter of 2016.

(1) Population figures correspond to projected population annual figures from 2010 census.

The following table sets forth the real GDP growth by expenditure for the periods indicated.

Real GDP by Expenditure

(in millions of dollars)

	For the Year Ended December 31,					For the Quarter Ended March 31,	
	2011	2012	2013	2014	2015	2015	2016
Consumption							
Public Sector Consumption	7,840.9	8,734.0	9,385.3	9,710.4	9,816.8	2,429.4	2,352.4
Private Consumption	39,234.6	40,339.9	41,748.8	43,199.6	43,274.8	10,935.7	10,513.7
Total Consumption	47,075.5	49,134.0	51,134.1	52,910	53,091.6	13,365.1	12,866.2
Gross Investment							
Gross Fixed Capital Formation.....	14,920.8	16,496.2	18,266.7	19,234.6	18,748.2	4,821.7	4,391.4
Change in Inventory	1,277.0	380.3	562.5	578.0	-267.7	-31.4	-88.5
Exports of goods and services ⁽¹⁾	16,835.7	17,756.0	18,226.4	19,120.1	19,155.4	4,887.1	4,754.8
Imports of goods and services ⁽¹⁾	19,183.9	19,344.1	20,896.5	22,076.5	20,758.7	5,403.2	4,810.6
Real GDP	60,925.1	64,362.4	67,293.2	69,766.2	69,968.8	17,639.3	17,113.2

Source: Based on figures from the Central Bank Quarterly National Accounts for the First Quarter of 2016.

(1) The exports and imports figures in this chart are adjusted for inflation and reflect the contribution of exports and imports to GDP. They differ from the nominal exports and imports in the "Balance of Payments" table and stand-alone exports and imports tables in the "Exports-(FOB)" and "Imports-(CIF)" tables in the Offering Circular.

Economic and Social Policies

Since taking office in 2007, President Correa has sought to reform certain aspects of the Ecuadorian economy in order to comply with constitutional mandates. Certain reforms were undertaken as legislative proposals, which require the National Assembly's approval. Other reforms were undertaken by the executive branch and do not require legislative approval. The reforms were consistent with the Correa administration's objective to promote economic growth, while reducing poverty and inequality and fostering social progress. Below is a brief description of the most relevant major economic and financial reform initiatives since 2008.

The 2008 Constitution

Upon taking office, President Correa believed that significant reforms were necessary to rectify years of corruption, especially in regards to economic and financial matters. To do so, President Correa called for a referendum to write a new constitution, which was approved by the electorate and the National Assembly. The 2008 Constitution provided the foundation for the economic and financial reform initiatives of his administration.

One of the most important objectives of the 2008 Constitution was to grant control over the Central Bank to the executive branch. Section 6, Article 303 of the 2008 Constitution states that “the drafting of monetary, credit, foreign exchange and financial policies is the exclusive power of the executive branch and shall be implemented through the Central Bank” hence limiting the autonomy and authority of the Central Bank for the purpose of effective implementation of reforms by the executive branch and its agencies.

Another relevant reform embedded in the 2008 Constitution is the creation of a debt and finance committee (the “Debt and Finance Committee”), tasked with evaluating and approving issuances or incurrence of sovereign debt. The Debt and Finance Committee is comprised of the President or his delegate, the Minister of Finance or his delegate, and the National Secretary of Planning and Development or his delegate. The sub-secretary in charge of public debt (the “Undersecretary of Public Finance”) acts as the secretary for the committee. See “Public Debt – General.” Other important reforms include the establishment of limitations on the proceeds of public borrowing (Article 289) (see “Public Debt – General”), the establishment of presidential term limits (Article 144 of the 2008 Constitution) (see “The Republic of Ecuador - Form of Government”), the requirement of an evaluation structure for any public program in conjunction with the National Development Plan (Article 297 of the 2008 Constitution), and the establishment of a single master account in the Central Bank (the “*Cuenta Única del Tesoro*” or “Treasury Account”) or the administration of the general budget (Article 299). In May 2011, certain amendments to the 2008 Constitution were approved by popular referendum. The most debated amendments included the change to the Judiciary Council to its current make up (see “The Republic of Ecuador - Form of Government”), and the prohibition of owners of media companies to own stock in non-media companies.

On June 26, 2014, the President of the National Assembly submitted a request to the Constitutional Court soliciting their opinion as to whether certain proposals, including one that would allow for re-election of the President of Ecuador for an indefinite number of terms, were constitutional amendments or constitutional reforms. Constitutional amendments require only the approval of two-thirds of the National Assembly while constitutional reforms require both the approval of a two-thirds vote in the National Assembly and a majority of the population eligible to vote in a popular referendum. On November 1, 2014, the Constitutional Court ruled that the proposals were constitutional amendments and therefore did not require a popular referendum. In December 2015, the National Assembly approved the proposals, including an amendment allowing for the indefinite re-election of the president. However, a transitional provision was included stating that the amendment will not be effective before May 24, 2017, and thus it will not apply to President Correa, whose term finishes on May 23, 2017.

On April 13, 2016, a request soliciting the Constitutional Court’s opinion on the feasibility of a referendum to eliminate such a transitional provision was accepted. The Constitutional Court held that pursuant to Article 441 of the 2008 Constitution, in order for the referendum to take place, certain formal requirements must be met including a petition signed by at least 8% of the citizens registered in the electoral roll. The April 13, 2016 decision of the Constitutional Court did not specify a time limit for the referendum to be held.

Budget Reforms

Enacted in April 2008, the *Ley Orgánica para la Recuperación del Uso de los Recursos Petroleros del Estado y Racionalización Administrativa de los Procesos de Endeudamiento* (“Law for the Recovery of the Use of Oil Resources of the State and Administrative Rationalization of Indebtedness” or “LOREYTF”) replaced Ecuador’s then existing budget and transparency regulations. The objectives of the law were (i) to enhance the transparency and flexibility of the budget process by prioritizing investments and improving the management of Government resources and (ii) to terminate any distribution of budgeted amounts based on predetermined uses of resources. To achieve those objectives, the LOREYTF eliminated the *Cuenta Especial de Reactivación Productiva y Social del Desarrollo Científico-Tecnológico y de Estabilización Fiscal* (“Scientific-Technological and Fiscal Stability Social and Productive Reactivation Special Account” or “CEREPS”). Also, pursuant to Article 299 of the 2008

Constitution, LOREYTF established the *Cuenta Única del Tesoro* – a single Central Bank master account for the management of Ecuador’s resources. The *Cuenta Única del Tesoro* is comprised of various sub-accounts where amounts are allocated according to functional purposes. These sub-accounts include a social security account, accounts for public companies, a public banking account, and accounts for municipal and provincial governments (the “Autonomous Decentralized Governments”). The budget and transparency regulations established in LOREYTF were subsequently codified and superseded by the Public Planning and Finance Code (defined below).

Bank Supervision

Enacted in December 2008, the *Ley de Creación de la Red de Seguridad Financiera* (“Financial Safety Net Law”) created a regulatory framework for Ecuador’s banking sector. The objectives of the law were to strengthen the supervision of the financial sector, create a liquidity fund and a deposit insurance system for the benefit of the Ecuadorian banks and financial institutions, and to establish clear mechanisms for bank dissolutions. For more information on this law, see “Monetary System – Financial Sector.”

Tax Reforms

Enacted in December 2008, the *Ley Reformativa a la Ley de Régimen Tributario Interno y a la Ley Reformativa para la Equidad Tributaria del Ecuador* (“Reform Act to the Internal Tax Regime Law and the Reform Act for Tax Equity in Ecuador”) reformed the existing tax system by improving the mechanisms by which the Government collects tax revenues. The objectives of the law were to reduce tax evasion, improve direct and progressive taxation, increase the tax base, and generate adequate incentives for investment in economic activity. On December 29, 2014, the National Assembly enacted a corporate tax reform relating to the taxation of shareholders of Ecuadorian companies who reside in tax havens. The reform increases the corporate tax rate to 25% from 22% if an Ecuadorian company’s owners are tax haven residents who own collectively more than 50% of the company. In addition, the tax reform exempts companies from corporate taxes, for a period of 10 years, for profits related to new and productive investments as defined by the Production Code. For more information on these laws and other tax reforms, see “Public Sector Finances –Taxation and Customs,” and “Public Sector Finances –Tax Reforms.”

Mining Law

Enacted in January 2009, the *Ley Minera* (“Mining Law”) created norms for the exercise of the Government’s rights to manage and control the strategic mining sector. The objective of this law was to establish a sustainable and efficient administrative system to govern the relationship between the Government and domestic, foreign, public, or private individuals or legal entities involved in mining activities. Consequently, the Mining Law contains provisions regarding the attainment, preservation, and termination of mining rights and the performance of mining activities. Specifically, the Mining Law creates administrative agencies for the regulation, supervision and scientific investigation of the mining sector, sets specific geographic limits for mining activities, creates rules for public bids for concessions, and creates rules for concession and service contracts. Oil and other hydrocarbons are exempt from this law.

On June 13, 2013, the National Assembly passed an amendment to the Mining Law, imposing an 8% ceiling on previously open-ended royalties, streamlining the permits required for mining, and eliminating windfall taxes for companies until they have recouped their investments. For more information on the Mining Law, see “The Ecuadorian Economy–Strategic Sectors of the Economy –Mining.” In June 2014, President Correa announced on national radio that the Republic will amend its existing mining laws. In an interview, the Minister of Coordination of Strategic Sectors has stated the principal objective of these new laws will be to attract investment in the mining sector. However, drafts of these potential reforms have not been publicly circulated and once publicly announced, are subject to the modifications by and approval of the National Assembly.

Public Corporations Law

Enacted in October 2009, the *Ley Orgánica de Empresas Públicas* (“Public Corporations Law”) created economic, administrative, financial and management control mechanisms for public companies in accordance with the 2008 Constitution. The objectives of the law were to regulate the formations, mergers, and liquidations of public

companies outside the financial sector and that operate in Ecuador or abroad. To achieve those objectives, the Public Corporations Law:

- determines the procedures for the formation of public enterprises that are required to manage strategic sectors of the Ecuadorian economy;
- establishes the means to guarantee that the goals set forth by the Government are met by public companies, in accordance with the guidelines set by the *Sistema Nacional Descentralizado de Planificación Participativa* (“National Decentralized System of Participative Planning”);
- regulates the economic, financial, and administrative autonomy of public companies, in accordance with the principles and norms of the 2008 Constitution and other applicable laws; and
- encourages the integral, sustainable and decentralized development of the Republic by requiring public companies to take socio-environmental and technological update variables into account in their cost and production processes.

Renegotiation of Oil Field Contracts

Enacted in July 2010, the reform to the *Ley de Hidrocarburos* (“Hydrocarbons Law”) replaced the old system of oil revenue profit sharing contracts with a new contract system whereby the Republic owns oil production in its entirety, benefiting from all revenue windfalls that result from price increases. The objectives of the reform were to abide by Articles 1, 317, and 408 of the 2008 Constitution, which state that natural resources, such as oil, are part of the national heritage of Ecuador and that the Government shall earn profits from the exploitation of these resources, in an amount that is no less than the profits earned by the company producing them. Under the renegotiated contracts, contractor’s fees are established in accordance with the level and types of works and services to be performed, production costs, and a reasonable profit margin in relation to the level of risk. Under the old system, the Republic taxed between 17% and 27% of the first \$15 to \$17 in revenue for each barrel sold. Under the new system, the Republic taxes up to 80% of the revenue in each barrel sold. For more information on the Hydrocarbons Law, see “Strategic Sectors of the Economy – Oil Sector.” A number of oil companies have sued Ecuador in connection with the modification of their contracts resulting from the reform of the Hydrocarbons Law. See “Legal Proceedings -Windfall Profits Tax Litigation.”

Public Planning and Finance Code

Enacted in October 2010, the *Código Orgánico de Planificación y Finanzas Públicas* (“Public Planning and Finance Code”) created a new financial regulatory system pursuant to the 2008 Constitution. The objectives of the law, among others, were to develop and coordinate national and regional governmental planning, guarantee the rights of citizens through equitable resource allocation and increased citizen participation in framing public policy, and strengthen national sovereignty and Latin American integration through public policy decisions. To achieve those objectives, the Public Planning and Finance Code:

- allows for more flexibility for the Ministry of Finance to reallocate and reassign expenditures up to 15% of the approved Government budget without the prior approval of the National Assembly;
- sets an explicit total public debt ceiling of 40% of GDP including Central Government, non-financial public sector and Autonomous Decentralized Governments (see “Public Debt – General”);
- allows the Ministry of Finance to issue *Certificados de Tesorería* (“short-term treasury notes” or “CETES”), at its discretion, without having to undergo the same approval process required for long-term internal and external sovereign debt;
- allows for the establishment of citizens’ committees for financial public policy consultations;

- determines that all excess cash not spent during a fiscal year will be accounted for as initial cash for the following fiscal year; and
- establishes the functions and responsibilities of the Debt and Finance Committee (See “Public Debt – General”).

Both the Republic and the Autonomous Decentralized Governments are subject to this law. For more information on the Public Planning and Finance Code, see “Public Sector Finances – Fiscal Policy.”

Production Code

Enacted in December 2010, the *Código Orgánico de la Producción* (“Production Code”) was created to stimulate investment and increase the production of good and services. The objective of this law was to create fair guidelines that would balance workers’ rights with economic incentives for investors. To achieve that objective, the Production Code:

- provides guidelines for the *Consejo Nacional de Salarios* (“National Council on Wages”) to consider in setting the minimum wage;
- provides guidelines for foreign investments and outlines the rights of foreign investors; and
- creates tax incentives for investors, including a 3% reduction on capital gains tax and the elimination of up-front taxes on any new investment.

Law for Market Power Control and Regulation

Enacted in October 2011, the *Ley Orgánica de Regulación y Control del Poder de Mercado* (“Law for Market Power Control and Regulation”) was created to avoid, reform and penalize the abuse of market power. The objectives of the law were to prevent, prohibit and penalize collusive deals and other restrictive practices; control and regulate economic concentration operations; and prevent, prohibit and penalize disloyal practices, thereby seeking market efficiency as well as individual and collective well-being.

Environmental Improvement and State Resources Optimization Law

In November 2011, the Republic published and made effective the *Ley de Fomento Ambiental y Optimización de los Recursos del Estado* (“Environmental Improvement and State Resources Optimization Law”) to strengthen the environmental regulatory framework of the country. The law establishes, among others:

- an increase of the *Impuesto a la Salida de Divisas* (“ISD” or “Currency Outflow Tax”), from 2% to 5% (for more information regarding the Currency Outflow Tax see “Balance of Payments and Foreign Trade – Foreign Trade – Trade Policy”;
- a tax increase on cigarettes and alcoholic beverages;
- the creation of a two-cent tax on plastic bottles; and
- the creation of a vehicle pollution tax.

Law Reforming the Financial Institutions Law and the Restructuring Financial Taxes Law

Enacted in March 2012, the *Ley Reformativa a la Ley General de Instituciones del Sistema Financiero y a la Ley de Reordenamiento en Materia Económica en el área Tributario Financiero* (“Law Reforming the Financial Institutions Law and the Restructuring Financial Taxes Law”) was created to strengthen prior legislation related to mutual savings and housing credit associations. The objective of the law was to incorporate the concept of social

capital and the framework of economic sustainability to mutual savings and housing credit associations. The law provides mutual savings and housing credit associations with political, economic and property rights to promote the social well-being of its members.

Comprehensive Law for the Regulation of Housing and Automobile Loans

Enacted in June 2012, the *Ley Orgánica para la Regulación de los Créditos para Vivienda y Vehículos* (“Law for the Regulation of Housing and Automobile Loans”) was created to protect debtors in housing and automobile loan transactions. The law contains provisions, among others, that establish that collateral in these loans may only consist of the asset acquired through the loan and that the debtor of the loan may not use the acquired asset as collateral in other loan transactions.

Comprehensive Law of Redistribution of Income for Social Expenditures

Enacted in January 2013, the *Ley Orgánica de Redistribución de los Ingresos para el Gasto Social* (“Comprehensive Law of Redistribution of Income for Social Expenditures”) was created to direct economic resources towards the financing of certain key social expenditures that generate economic activity. For more information on this law, which includes tax reforms, see “Public Sector Finances – Taxation and Customs.”

Law to Strengthen and Optimize the Corporate and Securities Sector

Enacted by the National Assembly in May 2014, the *Ley Orgánica para el Fortalecimiento y Optimización del Sector Societario y Bursátil* (“Law to Strengthen and Optimize the Corporate and Securities Sector”) was created to regulate the establishment and operation of securities firms and stock exchanges. The law created the *Junta de Regulación del Mercado de Valores* (the “Committee for Securities Market Regulation”), a new regulatory agency that is responsible for establishing public policy for Ecuadorian insurance and stock markets and to make rules for their operation and control. The agency consists of governmentally appointed members, one of which is the delegate for the President. This new regulatory body replaces the *Consejo Nacional de Valores* (the “National Services Commission” or “CNV”) in formulating securities policies. The purpose of creating this new regulatory body was to ensure that the regulation of this market was in the hands of public servants as opposed to public and private individuals, as was the case with the CNV.

Monetary and Financial Law

In September 2014, the National Assembly enacted the Monetary and Financial Law in order to address weaknesses of the Republic’s financial system stemming from the banking crisis in 2000. To achieve its objectives, the Monetary and Financial Law creates a new regulatory body, the Committee of Monetary and Financial Policy Regulation, to oversee and regulate the execution of monetary, foreign exchange, financial, insurance, and securities policies of the country. The committee is comprised of delegates from Ecuador’s Ministry of Finance, the Ministry of Production and Industrialization, the National Secretary of Planning and Development, the Ministry of Economic Policy, and a delegate appointed by the President. The principal function of the committee is to oversee and monitor the liquidity requirements of Ecuador’s financial system, ensuring that liquidity remains above certain levels (to be determined by the Committee of Monetary and Financial Policy Regulation). The law also creates a separate internal auditor for the Government’s financial entities, establishes certain norms for the Central Bank and the Superintendent of Banks regarding their budget, purpose, and their supervision, and sets forth reporting requirements to the Committee of Monetary and Financial Policy Regulation. The law also explicitly establishes that certain accounts in the Central Bank, including the accounts used for the deposits of the COSEDE and the Liquidity Fund, are subject to sovereign immunity and cannot be subject to attachment of any kind.

The law further establishes that all transactions, monetary operations and accounts in the Republic of Ecuador will be expressed in U.S. dollars. Other sections of the law make reference to an electronic payment system to facilitate payments to vendors. Through this voluntary electronic payment system, Ecuadorians will be allowed to make online payments to participating vendors through a payment system managed by the Government. Payments made through the system will be deducted or credited directly from accounts that vendors can establish with the Central Bank. Each dollar in the electronic payment system is backed by a physical dollar at one time deposited or credited to an individual user, and will be backed by liquid assets in the Central Bank. On August 7,

2014, mobile phone carrier Movistar signed an agreement with the Central Bank to establish accounts to use the electronic payment system. In December 2014, the electronic payment system began operating. According to the Central Bank, as of May 2016, approximately U.S.\$1 million was in circulation in Ecuador in electronic currency. The law further established that further details regarding this payment system may be set forth by the Committee of Monetary and Financial Policy Regulation in regulations and laws. The Committee of Monetary and Financial Policy Regulation issued various laws, including the Law to Balance Public Finances and the Law of Solidarity, both of which are described herein, incentivizing and further regulating the use of electronic money. For more information regarding the Monetary and Financial Law, see “Monetary System – Supervision of the Financial System.”

Telecommunications Law

Enacted by the National Assembly in February 2015, the *Ley Orgánica de Telecomunicaciones* (“Telecommunications Law”) was created to improve access to quality telecommunications services and to increase the use of information technology in rural sectors. The objective of the law was to foster competition among telecommunication providers in order to increase the quality of telecommunication services in the country. The law applies to all companies that provide or facilitate the transmission of voice, video, data or any other type of signal via physical or wireless means. Under the Telecommunications Law, companies whose market share exceeds certain thresholds must pay a corresponding tax to the Government, which tax increases depending on the percentage of market share held. For example, companies that hold a market share higher than 75% must pay the government a tax equal to 9% of their total revenues for the year. In addition, the law provides that telecommunications companies must provide their services in Shuar and Quechua as well as in Spanish.

Labor, Justice and Home Maker Recognition Law

Enacted in April 2015, the *Ley Orgánica para la Justicia Laboral y Reconocimiento del trabajo en el Hogar* (the “Labor Justice and Home Maker Recognition Law”) amends certain laws related to Ecuador’s social security system. Under the Labor Justice and Home Maker Recognition Law, home makers previously ineligible to receive social security benefits can now enroll and receive benefits as a result of disability or old age. In addition, the law eliminates mandatory contributions to the social security system by the Government. Instead, the law establishes a Government guarantee to finance the social security system only when the contributions from employers and employees are insufficient to meet the resources required in a particular year.

Law for the Remission of Interest, Penalties and Surcharges

On May 5, 2015, the *Ley Orgánica de Remisión de Intereses, Multas y Recargos* (the “Law for the Remission of Interest, Penalties and Surcharges”) was published and became effective. This law provides a rebate of 100% or 50% of the interest, penalties and any other charges applicable to outstanding tax-payer obligations, provided such obligations are paid by July 28, 2015 or September 9, 2015, respectively. This law also provided new exemptions to the 5% Currency Outflow Tax including credits granted to Ecuadorian financial institutions by qualifying international financial institutions or specialized non-financial institutions, intended for purposes of financing housing, microcredits or productive investments.

Civil Procedure Code

On May 12, 2015, a new *Código Orgánico General de Procesos* (the “Civil Procedure Code”) creating a new homologation process involving additional court procedures for the enforcement of foreign arbitration awards in Ecuador, were approved and enacted by the National Assembly. Under the new Civil Procedure Code, any judgment rendered by a properly constituted arbitral tribunal would be enforceable against the Republic after an homologation process before a Provincial Civil Court of Justice, without re-examination of the issues, provided it complies with the requirements established in the treaty between Ecuador and the country in which such judgment has been rendered, or in the absence of such treaty, when the formalities set forth in Articles 104, 105 and 106 and other relevant provisions of the General Code of Procedure are met.

Law on Incentives for Public-Private Joint Ventures and Foreign Investment

On December 18, 2015, the National Assembly enacted the *Ley Orgánica de Incentivos para Asociaciones Público-Privadas y la Inversión Extranjera* (“Law on Incentives for Public-Private Joint Ventures and Foreign Investment”) with the purpose of establishing incentives for the development of public projects by public-private joint ventures. According to the law, joint ventures that provide socially desirable and environmentally responsible goods to the country in accordance with Article 285 of the 2008 Constitution will be entitled to certain tax benefits such as a 10-year income tax exemption, among others. This law also provided new exemptions to the 5% Currency Outflow Tax including foreign payment transactions made by public-private partnerships established or structured for purposes of developing and implementing public projects.

Law to Balance Public Finances

On April 29, 2016, the *Ley Orgánica para el Equilibrio de las Finanzas Públicas* (“Law to Balance Public Finances”), was published and became effective with the purpose of strengthening dollarization and correcting abuses in tax benefits and redistributions. According to a March 19, 2016 announcement by President Correa, the law would also generate additional revenue needed to offset the decline in oil prices. In order to achieve its goals, the law regulates and discourages excessive consumption of cigarettes, alcoholic beverages and sweetened beverages through a special consumption tax. Additionally, the law promotes the use of electronic money and credit cards issued by entities that are part of the national financial system by refunding 2% and 1% of payments made with electronic money and credit card, respectively, directly to consumers. The law also seeks to halt currency outflows by discouraging the transfer of large amounts of cash and encouraging instead the use of electronic means of payment.

Law of Solidarity

On May 20, 2016, the Law of Solidarity was published and became effective in an effort to reallocate public funds other than those for health and education, toward reconstruction effort resulting from the Pedernales earthquake. The Law of Solidarity includes the following measures:

- increasing the value added tax by 2 percentage points (from 12% to 14%) for one year, of which an additional 2% may be refunded if payments are made with electronic money (i.e. a 4% VAT reimbursement applies in payments made with electronic money);
- a one-time contribution by natural persons equal to 0.9% of an individual’s total assets for individuals whose total assets exceed U.S.\$1 million;
- a one-time contribution by corporations equal to 3% of their 2015 taxable income; and
- a one-time contribution of a day’s salary for one month for those earning more than U.S.\$1,000 a month; a one-time contribution of a day’s salary for two months for those earning more than U.S.\$2,000 a month, and similarly until a limit of a one-time contribution of one day’s salary for 5 months for those earning more than U.S.\$5,000 a month.

Further Reforms

In June 2014, President Correa announced on national radio that the Republic will amend its existing mining laws. In an interview, the Minister of Coordination of Strategic Sectors stated that the principal objective of these new laws will be to attract investment in the mining sector. In the same month, the Ministry of Labor Relations (defined herein) announced that it would submit a proposal to amend the existing labor laws. The objective of this new proposal is to conform the existing labor laws to the 2008 Constitution. As of the date of the Offering Circular, neither proposal has been submitted to the National Assembly.

In June 2015, President Correa proposed the *Ley de Herencia y Ganancia Extraordinaria* (“Law on Inheritance and Extraordinary Gains”). The law, as proposed, imposed certain taxes on inheritance and capital gains

on real estate. After a series of peaceful protests in Ecuador's major cities, the Government decided to re-evaluate the proposed law. The revised proposal, the Law to Prohibit Tax Evasion Related to Inheritance, Legacies, and Donations, was initially approved by the National Assembly on June 16, 2016. A revised version of the law, which incorporated changes based on President Correa's partial veto of the law, added an exception from taxation for amounts received by individuals from life insurance benefits. The law, as revised, was approved by the National Assembly and became effective on July 21, 2016. Additionally, the law reaffirms tax obligations relating to inheritance, legacies and donations, and establishes tax collection mechanisms, particularly with regards to high-net worth Ecuadorian nationals that have established foundations, trusts and other similar legal structures. Funds collected by virtue of this law are intended to finance scholarships for low income Ecuadorians, giving preference to members of indigenous communities, Afro-Ecuadorian nationals, and women heads of households, among others.

Strategic Sectors of the Economy

Ecuador's principal economic sectors are coordinated under the Ministry of Coordination of Strategic Sectors ("*Ministerio Coordinador de Sectores Estratégicos*" or "*MICSE*"). MICSE supervises and coordinates the activities of the Secretary of Water, Ministry of Telecommunications, Ministry of Electricity and Renewable Energy, Ministry of Mines and the Ministry of Hydrocarbons, who in turn are in charge of the water, telecommunications, electricity, and natural resources (oil and mining) sectors of the economy, respectively. The Republic considers these sectors as the most important aspects of its economy. Consequently, public investment in these segments has grown at a rapid rate. In 2014, the Government invested U.S.\$7,034 million in these strategic sectors, compared to U.S.\$3,617 million in 2011. In 2015, investment in Ecuador's principal economic sectors decreased by 20% to U.S.\$5,621 million. This decrease was due to the Government's decision to decrease investment in the oil sector in 2015 as a result of expected lower revenues from oil sales. Investment in the oil and mining sector decreased from U.S.\$4,339 million in 2014 to U.S.\$3,119 million in 2015. For more information regarding the 2015 budget please see "Public Sector Finances – 2015 and 2016 Budgets." The total aggregate investment amount in the strategic sectors from 2011 to 2015 was U.S.\$27,195 million. The following chart sets forth accumulated investment in strategic sectors since 2011.

Strategic Sector Investment

(in millions of U.S.\$)

	2011	2012	2013	2014	2015
Water	83	69	201	384	350
Telecommunications	283	360	422	294	305
Natural Resources (oil and mining)	2,082	2,604	3,915	4,339	3,119
Electricity.....	1,094	1,148	1,730	1,777	1,566
Ecuador Estratégico	0	109	190	175	225
Other investment ⁽¹⁾	75	107	67	66	57
Total Investment	3,617	4,398	6,525	7,034	5,621

Source: MICSE Information as of December 2015.

- (1) Includes investments made by the *Ministerio de Ambiente* (the "Environment Ministry") and the Public Enterprise Administrator of the Special Economic Development Zone Eloy Alfaro ZEDE).

Ecuador Estratégico ("Strategic Ecuador") is the state-owned company that administers all infrastructure projects carried out by MICSE. Its main functions are to evaluate project proposals submitted by municipalities, administer and distribute funds towards approved projects, and supervise the completion and progress of each project. According to Strategic Ecuador, the projects with the highest priority include the Mirador and Fruta del Norte mines (see "Mining" below). Financing for infrastructure projects has been procured through a selection process where competing financing offers are compared to determine the offer with the most favorable terms. The process, undertaken by Strategic Ecuador in consultation with the Ministry of Finance, assigns a percentage value to different aspects of an offer (price, experience of the financing entity in the type of project, and overall experience, among others). Projects with high levels of financing emphasize the price offered by the financing entity and assign a large percentage value to price. Then, competing offers are granted points depending on their qualifications. The financing entity with the most points is then chosen to finance the project. Financing has also been procured through joint venture contracts and direct investment through a grant of a concession and service contracts.

On February 13, 2015, President Correa signed Decree 578 (“Decree 578”), which creates the *Ministerio de Minas* (“Ministry of Mines”) and renames the Ministry of Non-Renewable Resources as the *Ministerio de Hidrocarburos* (“Ministry of Hydrocarbons”). Decree 578 was signed with the purpose of establishing one ministry to supervise and regulate geological, mineral, and metallurgical activities in the country, which were formerly undertaken by the Ministry of Natural Resources and the Vice-Ministry of Mines. The Ministry of Hydrocarbons will continue to supervise and regulate oil related activities in Ecuador in the same capacity as the Ministry of Non-Renewable Resources.

Oil Sector

Ecuador’s oil reserves are managed directly by state-owned oil companies Petroecuador and *Empresa Pública del Ecuador Petroamazonas EP* (“Petroamazonas”) and through service contracts with other Ecuadorian and foreign companies such as Rio Napo CEM. Oil exploitation operations are conducted under the supervision and regulation of the Ministry of Hydrocarbons acting through the *Agencia de Regulación y Control Hidrocarburífico* (“Hydrocarbons Regulation and Control Agency”) and the *Secretaría de Hidrocarburos del Ecuador* (“Hydrocarbons Secretariat of Ecuador”). In November 2012, President Correa signed Decree 1351-A (the “Consolidation Decree”), which consolidated the operations of Petroecuador and Petroamazonas allocating exploration and exploitation of hydrocarbon resources to Petroamazonas and transportation, refining and commercialization activities to Petroecuador.

While revenues from oil exports (including oil derivatives) have decreased from 2011 to 2015, non-petroleum sources of revenue increased during that time period. As a result, the percentage of oil revenues with respect to GDP has declined in relation to the percentage of GDP of non-petroleum revenues during the time period. According to data from the Central Bank of Ecuador, Ecuador’s crude oil exports reached U.S.\$13,016 million in 2014, a 3.0% decrease from U.S.\$13,412 million in 2013. Additionally, crude oil exports in 2015 reached U.S.\$6,355 million, a 51.2% decrease from U.S.\$13,016 million in 2014. Both decreases were due to the decrease in the price of oil beginning in late 2014 and continuing through 2015. In contrast, revenues from non-petroleum sources increased in both 2014 and 2015, reaching U.S.\$22,939 million in 2014 and U.S.\$25,942 million in 2015. Both increases were due to increased tax revenues for both years.

In 2015, Central Government oil revenues represented 2.2% of GDP and 11.1% of Central Government revenues and non-petroleum revenues represented 17.9% of GDP and 88.9% of Central Government revenues. For more information on Central Government revenues, see “Public Sector Finances – Central Government Revenues and Expenditures.” In the same year, oil revenues for the non-financial public sector represented 6.4% of GDP and 18.9% of non-financial public sector revenues and non-petroleum revenues represented 26.2% of GDP and 77.2% of non-financial sector revenues. For more information on revenues of the non-financial public sector, see “Public Sector Finances – Non-Financial Public Sector Revenues and Expenditures.”

In January 2015, in response to the decline of oil prices in the last quarter of 2014, Ecuador reduced its 2015 budget by U.S.\$1.4 billion, resulting in a modified budget of U.S.\$34.9 billion for 2015. In August 2015, in response to the continuing decline of oil prices, Ecuador further reduced its 2015 budget by U.S.\$800 million, resulting in a modified budget of U.S.\$34.1 billion. In November 2015, the National Assembly approved a budget of U.S.\$29.8 billion for 2016, a decrease of 17.9% as compared to the original budget for 2015. The 2016 budget assumes an average crude oil price of U.S.\$35 per barrel, which represents a 56% decrease from the U.S.\$79.7 per barrel assumption of the original 2015 budget. For information regarding adjustments to the 2016 Budget see “Public Sector Finances – 2015 and 2016 Budgets.”

Petroecuador and Petroamazonas are state-owned companies and are legal entities with their own assets and budgetary, financial, economic and administrative autonomy. The Hydrocarbons Secretariat of Ecuador is a Governmental institution under the management of the Ministry of Hydrocarbons, with its own assets and administrative, technical, economic, financial and operational autonomy. It conducts the management of non-renewable hydrocarbon resources and is tasked with executing activities such as the administration of oil fields and the execution and modification of oil field contracts. The Hydrocarbons Secretariat of Ecuador also provides technical, economic and legal support in service contract origination and public bidding processes.

Exploitation

Under the 2008 Constitution, all subsurface natural resources are property of the state, and in the case of petroleum, following the Consolidation Decree, its exploitation is undertaken directly by Petroamazonas. The 2008 Constitution, however, permits the Government to contract with the private sector for the development of these natural resources.

With the reforms to the Hydrocarbons Law, enacted in 2010, oil production sharing contracts were replaced by service contracts.

The reforms clearly define the public sector oil entities' functions as follows:

- the Ministry of Hydrocarbons implements the hydrocarbon policies defined by the nation's president;
- the Hydrocarbons Secretariat of Ecuador conducts the public tender process for specific service contracts to develop oil fields, and executes and administers such contracts;
- the Hydrocarbons Control and Regulation Agency controls and oversees hydrocarbon activity in all its phases; and
- Petroecuador and Petroamazonas are involved in the exploration, production, refining, and industrialization of hydrocarbon activities, as well as their internal and external marketing.

Under this new framework, Ecuador allows foreign investment in its hydrocarbon resources, which, under the 2008 Constitution and Hydrocarbons Law are exclusively owned by the state. In November 2010, the Government completed its contract renegotiations with foreign oil companies under the Hydrocarbons Law, which, as mentioned above, replaced production-sharing agreements for private companies with a fixed per-barrel fee for their exploration and production activities.

Production

Petroleum Production

(in thousands of barrels per year, except where noted)

	For the year ended December 31					For the Quarter Ended March 31	
	2011	2012	2013	2014	2015	2015	2016
Petroleum ⁽¹⁾	500	504	526	557	543	555	542
Public Companies ⁽²⁾⁽³⁾	130,528	133,656	144,921	157,976	154,308	38,501	38,683
Other operators	51,829	50,667	47,198	45,166	43,922	11,410	10,624
Total	182,357	184,323	192,119	203,142	198,230	49,911	49,307
Natural Gas Production ⁽⁴⁾	8,522	15,249	18,052	20,292	17,429	n/a	n/a

Source: Petroleum data is based on figures from the Central Bank June 2016 Monthly Bulletin (Table 4.1.1). Natural gas information is provided by Petroecuador.

(1) Petroleum information is displayed in thousands of barrels per day.

(2) Petroecuador and Petroamazonas until 2012. After January 1, 2013, only Petroamazonas is involved in petroleum production.

(3) Public company numbers include the production of Rio Napo, CEM, ("Rio Napo"). Petroamazonas and PDVSA own Rio Napo, with 70% and 30% interests respectively.

(4) Natural Gas Production information is displayed in millions of cubic feet.

Oil field crude production, including that of private and state-owned companies, reached 198.2 million barrels in 2015, an amount that represented a 2.4% decrease from the 203.1 million barrels produced in 2014 (and a decrease of 2.4% in barrels per day ("bpd")). This decrease was principally due to the Government's decision to

decrease investment in oil production in 2015 in order to reduce the overall budget for the year. Oil field crude production reached 49.3 million barrels in the first quarter of 2016, a decrease when compared to the 49.9 million barrels for the first quarter of 2015.

In both 2014 and 2015, state-owned companies were responsible for 77.8% of production, while private companies extracted 22.2% .

The vast majority (95%) of Ecuador's oil blocks are located onshore. The most productive oil blocks are located in the northeastern part of the country, with Shushufindi and Auca as two of the oldest and most productive fields. Crude oil production has increased in the last ten years with the opening of the Oleoducto de Crudos Pesados (OCP) pipeline (see below "Transportation"), which removed a chokepoint on heavy crude oil transportation in the country. Production in existing fields has leveled off in recent years as the result of the natural decline in the productivity of existing blocks, particularly older blocks such as Shushufindi, which has been in operation for over forty years. In January of 2012, in order to boost production, Ecuador signed incremental production contracts with two oil company consortiums. The Shushufindi S.A. consortium, composed of oil field services companies Schlumberger and KKR from the United States and Argentina's Tecpetrol, was awarded the contract for the Shushufindi field. The Pardaliservices S.A. consortium, which comprises of Tecpetrol, Canada's Canacol Energy, Schlumberger and Ecuador's Sertecpet, will work on the Libertador-Atacapi field. These companies will invest more than \$380 million to extract more than 14 million barrels of oil over the course of 15 years.

Despite the decrease in production in 2015, the Republic expects production to increase significantly through the development and inauguration of new fields. In 2010, Petroamazonas began production in the Pañacocha field in the Ecuadorian Amazon. On November 28, 2012, President Correa officially launched the 11th round of tenders for oil exploration of thirteen oil blocks in southeast Ecuador. Ecuador earmarked three additional fields for Petroamazonas, which will enter into exploration agreements with foreign state-owned oil companies. The first agreement was a joint-venture agreement signed in September 2014 with Chile's Sipetrol S.A. and Belarus'Belorusneft. Under the agreement, Sipetrol S.A. and Belorusneft plan to invest U.S.\$400 million to explore and develop a 490,000-acre concession in Block 28 in southeastern Ecuador. Petroamazonas will own a 51% stake in the project, while Sipetrol S.A. and Belorusneft will own 42% and 7%, respectively. The companies plan to conduct exploration beginning in January 2015 for a three-year period and anticipate producing oil from the block for over 15 years. As of the date of this Offering Circular, Ecuador continues to evaluate the proposals of possible foreign state-owned oil companies for future joint venture contracts.

In August 2013, President Correa signed a decree authorizing the exploitation of oil from Blocks 31 and 43, which include the ITT field in Yasuní National Park. The ITT field has estimated reserves of 1.67 billion barrels of crude, 750 million barrels more than originally estimated. This decree reversed a moratorium imposed since 2007 on the extraction of oil from ITT, which was created to protect biodiversity and avoid dislocation of isolated indigenous cultures with support from international donors to partially offset the opportunity costs of not developing the ITT fields. However, considering the low levels of support from international donors as well as the potential gains from the extraction of oil for this initiative, President Correa issued the decree allowing development of the ITT fields. Following the issuance of the decree in August 2013, environmental and indigenous groups have announced their opposition to the removal of the moratorium and the Presidential decree authorizing the development of the ITT fields; however, the National Assembly has approved the use of the ITT fields and, as of May 2014, the Environment Ministry has issued permits allowing Petroamazonas to develop the fields. Ecuador expects that the output from the ITT fields will offset the decline from existing oil fields and increase overall production. According to estimates by Petroamazonas, investment to exploit the ITT fields is expected to equal U.S.\$4.3 billion until 2021 and once fully operational, the oil field is expected to generate revenues of U.S.\$18 billion over the life of the reserves.

In December 2015, Schlumberger, a French oilfield services company, entered into an oilfield servicing contract with Petroamazonas. The 20-year agreement commits Schlumberger to invest U.S.\$4.9 billion in production-enhancing measures at Block 61, located in the Ecuadorian Amazon. The primary part of Schlumberger's investment will be spent on improving upstream production. However, the company has also agreed to assume the block's operational costs, which will require an additional investment of U.S.\$1.8 billion during the term of the contract.

Exports

Crude oil exports as measured in U.S. dollars steadily increased from 2011 to 2013. Ecuador's crude oil exports reached U.S.\$13,016 million in 2014, a 3.0% decrease from U.S.\$13,412 million in 2013. Crude oil exports in 2015 reached U.S.\$6,355 million, a 51.2% decrease from U.S.\$13,016 million in 2014. Both decreases were due to the decrease in the price of oil beginning in late 2014 and continuing through 2015.

In 2014, 98.0% of the value of oil exports was crude oil and 2.0% was oil derivatives. In 2015, 95.4% of the value of oil exports was crude oil and 4.6% was oil derivatives. In 2014, 59.7% of oil exports were exported to the United States, followed by Chile, Peru, Panama, and India with 15.5%, 9.6%, 8.6%, and 2.2%, respectively. In 2015, 62.4% of oil exports were exported to the United States, followed by Chile, Peru, Panama, and Japan with 13.0%, 10.2%, 6.0%, and 2.4%, respectively.

PetroChina International Company, Limited, ("Petrochina") a wholly-owned subsidiary of China National Petroleum Corporation ("CNPC"), has made prepayments to Petroecuador in connection with crude oil supply agreements, including an agreement providing for prepayments of U.S.\$2 billion executed in August 2013, and Unipac Asia Co., Ltd ("Unipac"), a wholly-owned subsidiary of China Petrochemical Corporation ("Sinopec"), has also made prepayments to Petroecuador in connection with crude oil supply agreements, including an agreement providing for prepayments of U.S.\$2.4 billion, executed in May 2014.

In June 2015, PTT Public Company Limited, a Thai state-owned oil and gas company, executed an agreement providing for prepayments of U.S.\$2.5 billion to Petroecuador in connection with a crude oil supply agreement.

Transportation

Ecuador has two major oil pipelines. Most of Ecuador's crude oil production is transported through the Trans-Ecuadorian Pipeline System (the "SOTE"), which links Lago Agrio in the Oriente region to the Balao export terminal on the Pacific coast. The SOTE was built by Texaco (now Chevron) and was transferred to Petroecuador in 1998. The SOTE has a capacity of approximately 390,000 bpd. In 2013, the SOTE transported 131.9 million barrels, averaging 361,568 bpd, an increase of 2.3% compared to 2012. In 2014, the SOTE transported 132.5 million barrels, averaging 363,097 bpd, an increase of 0.4% compared to 2013. In 2015, the SOTE transported 133.7 million barrels, averaging 366,215 bpd, an increase of 0.9% compared to 2014.

On May 31, 2013, a rain-caused landslide ripped up a tranche of the SOTE near the Reventador volcano in the north-east region of Ecuador, near Peru and Brazil. It is estimated that approximately 11,500 barrels of oil were lost. Much of the oil spilled affected the waters of the Quijos, Coca and Napo rivers, and it is estimated that the oil may have reached the Amazon river and other territories or waters in Peru and Brazil. The Republic is in the process of analyzing the incident and is working closely with the governments of Peru and Brazil to contain any environmental damage that the accident may have caused. The Republic is not aware of any pending or threatened lawsuit or claim arising from this incident.

In June 2001, Ecuador awarded the construction and operation contract for its second pipeline, the OCP heavy crude oil pipeline, to Oleoducto de Crudos Pesados Ecuador S.A., a consortium of domestic and foreign oil companies. The OCP pipeline was constructed at a cost of U.S.\$1.4 billion, all of which was paid by the consortium. Construction was completed in September 2003, and operations began the same month. The contract for the operation of the OCP has a duration of twenty years and ends in 2023. At the end of the contract, the OCP pipeline will become national property. The Ministry of Energy and Mines and Petroleum (now the Ministry of Hydrocarbons) oversaw the construction of the OCP pipeline, and now oversees its operation. The OCP pipeline is made up of two sections, the largest of which was designed to transport a maximum of 517,300 bpd and has a sustainable transportation rate of 450,000 bpd of crude oil of 18° to 24° American Petroleum Institute degrees. In 2013, the OCP pipeline transported 53.3 million barrels, averaging 146,121 bpd, an increase of 10.2% compared to 2012. In 2014, the OCP pipeline transported 59.1 million barrels, averaging 161,929 bpd, an increase of 10.8% compared to 2013. In 2015, the OCP pipeline transported 62.1 million barrels, averaging 170,025 bpd, an increase of 5.0% compared to 2014.

Refining

Following the Consolidation Decree, Petroecuador is the only company that conducts refining activities in Ecuador. Petroecuador owns three refineries in Ecuador (Esmeraldas, La Libertad and Amazonas) with processing capabilities of 110,000, 45,000 and 20,000 bpd, respectively. Petroecuador also owns one associated gas processing plant (Shushufindi), which has a processing capacity of 637.8 million barrels of liquefied petroleum gas (“LPG”) and average production of 1,747.6 barrels per day.

In 2015, the three main refineries produced 66.2 million barrels of oil derivatives including gasoline, diesel, fuel oil, jet fuel and liquefied petroleum, which represented a decrease of 0.3% compared to the 66.0 million barrels of oil derivatives produced in 2014. This decrease was caused primarily by the maintenance project in the Esmeraldas refinery, which is described below.

During 2015, the domestic consumption of oil derivatives was 92.8 million barrels, which represents an increase of 2% compared to the 94.7 million barrels in 2014. It is important to note, however, that Ecuadorian refineries do not produce sufficient oil derivatives to meet internal demand. Accordingly, Ecuador is a net importer of oil derivatives, even though it is a net exporter of crude oil.

In February 2013, Petroecuador announced that the Esmeraldas refinery would be undergoing a project of preventative maintenance, which resulted in reduced operations until year-end 2015, when all maintenance was completed. Reduced production by the Esmeraldas refinery during the preventive maintenance project required Ecuador to import additional oil derivatives to meet domestic demand. Upon completion, improvements to the refinery included, among other things, the expansion of the Fluid Catalytic Fractionation Unit (the “FCC”), and replacement of the FCC’s reactor and regenerator which increased processing capacity and improved the quality of finished products. Ecuador estimates that the preventive maintenance project at Esmeraldas will allow Ecuador to reduce imports of gasoline by 17%, diesel by 15%, and liquefied petroleum gas by 10%, resulting in annual savings of approximately U.S.\$305 million in fuel import costs for the country. The cost of the project, contracted with several international companies including SK Engineering, was approximately U.S.\$1.2 billion.

Operations at the Esmeraldas refinery were temporarily halted to allow for technical inspections of the facility following the earthquake on April 16, 2016 but resumed on April 18, 2016 and returned to full operating rates as of April 23, 2016 and intermittently halted for inspections following aftershocks.

As of the current date, there is no private sector participation in the production of oil derivatives. However, on July 15, 2008, Petroecuador and Petróleos de Venezuela Ecuador, S.A. (“PDVSA Ecuador”) formed a new entity called RDP in which Petroecuador is currently the majority shareholder (51%) and PDVSA Ecuador is the minority shareholder (49%). RDP will develop a refinery project with the same name to be built in the municipality of Manta, Manabí Province, with a total nameplate capacity of 300,000 bpd. It is expected that RDP will produce gasoline, diesel, kerosene, polypropylene, benzene, mixed xylene and LPG. The land rights and environmental licenses necessary to develop RDP have already been obtained, and a preliminary detailed feasibility study of the project is complete. The total estimated investment for RDP is approximately U.S.\$15 billion. Negotiations are ongoing to provide financing for the project. In the event RDP is able to obtain financing through debt for this project, it is not clear whether it would be able to do so while remaining within the 40% public debt to GDP limit as further described in “Public Sector Finances – Fiscal Policy.” For a description of the risks of the limitation on further borrowing for projects like RDP, see “*Risk Factors – Risk Factors relating to Ecuador – The Republic may seek to increase the total public debt to GDP ratio beyond the current 40% limit, which could materially adversely affect the interests of Noteholders.*” Construction has commenced and the project is scheduled to be completed by year-end 2021.

Domestic Fuel Distribution

In 1993, the Government implemented a free market in domestic fuel distribution, which has led to a rapid modernization of distribution facilities. The price at which gasoline is sold to domestic distributors is fixed by the President in accordance with the Hydrocarbons Law, and set according to variables such as domestic demand and the impact of the price on public finances. Until 1998, the Government had fixed the maximum profit level for distributors at 18%. In 1999, the fixed margin was eliminated. In early 2000, the Government reinstated a 15% fixed

margin for regular gasoline and diesel fuels (distributors remained free to set any margin for premium gasoline). Since 2003, the fixed margin has been determined in cents per gallon. In 2005, the margin increased to U.S.\$0.71 per gallon of regular gasoline and to U.S.\$0.137 per gallon of diesel. These margins were set by Presidential decree number 73 ("Decree 73"), which was issued in August 2005. Any future change to the profit margin would require a new Presidential decree.

Decree 73 also regulates the sales price of consumer petroleum derivatives, thereby creating consumer subsidies for gasoline and diesel products. The price of gasoline sold to consumers is fixed at U.S.\$1.68 per gallon for gasoline and at U.S.\$0.90 per gallon for diesel. The amount of the subsidy is thereby determined by the differential price between this fixed price of crude oil and the spot price of West Texas Intermediate ("WTI"), as determined by the New York Mercantile Exchange ("NYMEX").

Several private multinational petroleum companies, including ExxonMobil and PDVSA Ecuador, have established service stations in Ecuador. As of December 31, 2015, Petroecuador maintains a network of 45 service stations of its own and 264 affiliate stations.

Natural and Liquefied Petroleum Gas

An important part of Petroecuador's commercial strategy includes the distribution of natural gas to southern Ecuador in order to reduce the consumption of LPG, the replacement of gasoline use with LPG for taxis and the creation of a network of service stations in order to compete in quality, service and price with private oil companies. Ecuador has 5.2 billion cubic meters of natural gas reserves, which it expects will be sufficient to meet internal demand for the next 20 years.

Since 2010, the natural gas platform at the Amistad field which was previously operated by the U.S. Company Energy Development Corp. Ecuador Ltd. ("EDC") has been managed by Petroecuador, as a result of EDC failing to reach a contractual agreement with the Government. In 2012, Petroecuador announced the discovery of approximately 28.3 billion cubic meters of natural gas in block 6 of the Amistad field in the gulf of Guayaquil. Due to the creation of four new wells and exploration drilling in this block, production increased from 49.77 cubic meters per day in 2013 to 55.91 cubic meters per day in 2014.

In August 2013, Petroecuador began tests at the Monteverde LPG terminal. The terminal is a new facility, built as part of a combined LPG storage, transport and distribution project in the Guayas and Santa Elena provinces. Ecuador has invested U.S.\$550 million in the combined project, which also includes the Monteverde-El Chorrillo pipeline. This new terminal replaced the floating LPG storage units and related maritime transport to Tres Bocas terminal, thereby generating expected annual savings of U.S.\$40 million and easing congestion in the access canal to the Port of Guayaquil. The new facilities, which became operational in 2014, have a capacity to store 76,700 tons of LPG and have storage tanks for diesel and petroleum.

In February 2014, Petroecuador signed a long-term propane and butane requirement contract with Petredec Limited, a liquefied petroleum shipping company. Under the agreement, Petroecuador will buy up to 2,470,000 metric tons (plus or minus 20% at the option of Petroecuador) to be made in monthly deliveries of 72,500 metric tons per month. Petroecuador may also request for up to an additional 30,000 metric tons per month. The first monthly delivery of butane and propane occurred in March 2014 for 72,500 metric tons. According to Petroecuador, the contract is valued at approximately U.S.\$2 billion.

Mining

The mining sector represents an important source of potential resources for the development of the Republic. According to information from MICSE as of April 2016, Ecuador has potential mineral reserves of 47 million pounds of copper, valued at U.S.\$90 billion, potential gold reserves valued at U.S.\$38.7 billion, molybdenum reserves valued at U.S.\$4.3 billion, and silver reserves valued at U.S.\$2.8 billion. In total, the nation has estimated reserves valued at U.S.\$135.8 billion.

The Mining Law establishes norms for the exercise of the Government's rights to manage and control the mining sector, in accordance with the principles of sustainability, precaution, prevention and efficiency. It provides

that it is the Government's responsibility to oversee all aspects of the mining process, such as exploration, development, industrialization and marketing and authorizes the Republic to invest directly or through joint ventures with domestic or foreign private sector entities. In addition, it authorizes the Republic to both hire and grant licenses and concessions to wholly owned private entities to conduct all phases of development. However, the Republic cannot grant ownership rights in the soil and subsoil mineralogical wealth to entities that are not controlled by state entities.

The mining sector represents a small portion of GDP (0.52% in 2015, 0.50% 2014, 0.33 % in 2013, 0.33% in 2012 and 0.29% in 2011). In the first quarter of 2016, the mining sector represented 0.50% of GDP, compared to 0.56% of GDP for the first quarter of 2015. In 2013, most production from mining was generated by domestic artisan and jeweler businesses. However, Ecuador expects mining exports to continue to increase as a result of an expansion of the nation's mining projects in 2014 and 2015. Currently, there are five projects in advanced stages of completion – two copper mines and three gold mines. Project Mirador is the largest copper project in Ecuador. The copper mine in the Zamora Chinchipe province is expected to begin production in 2018. Project Mirador is financed in part through a U.S.\$2,040 million concession to Ecuacorriente S.A., a joint-venture owned by the Chinese companies China Railway Construction Corporation ("CRCC") and Tongling Nonferrous Metals Group. Investment in the project will be made by Ecuacorriente S.A. over a 15-year period, with 50% of the amount coming in the first seven years. The Government estimates that the project will produce 30,000 tonnes per day during the first three years, increasing afterwards to 60,000 tonnes per day. The Fruta del Norte Project, located in the Zamora Chinchipe Province, is a gold and silver ore deposit owned by the Lundin Gold group, which is expected to start operations in 2018. The Rio Blanco project is a gold and silver mining project located in the Azuay Province which will start operations in the second half of 2017. Other projects, mostly in the south of the country, are in different stages of negotiation and completion.

Electricity and Water

As of 2014, hydroelectric plants supplied approximately 46% of the power in Ecuador. By year-end 2016, the Government predicts that hydroelectric plants will generate 93% of the power in Ecuador, compared to 45.6% in 2014. This is expected to be achieved through the development of a matrix of hydroelectric plants built throughout Ecuador. Ecuador's objective in developing this matrix is to reduce its consumption of oil through oil based generators, thereby decreasing oil imports and improving energy independence. Ecuador also plans to replace household oil-based consumption (for cooking and heating as further described below) with electricity-based consumption through the hydroelectric power grid, thereby eliminating the need for a gas subsidy.

The 1,500 MW Coca Codo Sinclair plant will be Ecuador's largest hydroelectric project. It is expected to generate an average of 8.73 GWh per year and supply approximately 30% of the country's electricity needs. In April 2016, four of the eight turbines in the plant became operational, generating 750MW of power, or 15% of Ecuador's electricity needs. The remaining four turbines are scheduled to become operational in July 2016. The plant is set to reduce 3.5 million tons of carbon emissions per year and replace oil energy consumption for domestic purposes such as cooking and water heating. The plant will join the existing infrastructure of hydroelectric plants that include the 160 MW Mazar plant in the Azuay province, the 1,075 MW Paute-Molino plant near Cuenca, the 275 MW Minas San Francisco plant, the 50 MW Quijos plant, and the 487 MW Sopladora and Cardenillo plants planned along the Paute River. Many of these hydroelectric projects are financed through agreements with bilateral lenders, including the China Exim Bank, which has provided U.S.\$1,700 million to finance the Coca Codo Sinclair project, U.S.\$571 million to finance the Sopladora hydroelectric project and U.S.\$313 million to finance the Minas San Francisco hydroelectric project, the Brazilian National Economic and Social Development Bank which has provided U.S.\$90.2 million to finance the Manduriacu hydroelectric power plant project near Quito, and Société Générale and Deutsche Bank which in April 2014 committed to together provide an additional U.S.\$50 million to finance the Manduriacu hydroelectric power plant.

The construction of these hydroelectric plants is due to an enhanced effort by the Government to invest in the sector. In 2015, the Government invested U.S.\$1,566 million in the electricity sector, a 43% increase from 2011, when the Government invested U.S.\$1,094 million in the sector. Construction on the new line of hydroelectric plants continued in 2016 including the 115MW Delsitanisagua hydroelectric plant and the 254.4 MW Toachi Pilaton hydroelectric plants, and the construction of a reservoir in the Minas San Francisco project.

In March 2014, President Correa announced a new program to substitute electricity use for gas use. Under this program, beginning in November 2014, the Government began to sell subsidized stoves to replace gas stoves. President Correa has stated that the use of electric stoves will enable the Government to terminate the gas subsidies in 2017 and the net effect on the Government budget will be positive due to the elimination of the subsidies, with savings of approximately U.S.\$800 million a year.

The Government has also increased investment in the water sector in order to alleviate flood conditions and access to potable water in various parts of the country. Ecuador's national water authority, *Secretaria de Agua*, currently has invested U.S.\$1,130 million out of a planned U.S.\$2,100 million for six multi-purpose projects to improve flood control and irrigation. One of the most important projects in the water sector is the Multipropósito Chone project in the Manabí province. Financed by the Government and private partners, the U.S.\$20.3 million project sets out to construct a dam to alleviate the flood conditions of the region. The project will also construct a drain system, which will serve for irrigation purposes and provide a drinking water supply for Manabí.

Other water projects include: (i) the Cañar Naranjal project, which is expected to cost U.S.\$319 million to protect approximately 40,553 hectares along the Cañar River and its adjoining streams through a system of levees, including a 12-kilometer bypass, (ii) four new bridges, (iii) a flood regulatory system and (iv) the U.S.\$352 million Daule-Vinces project that is expected to redirect water from the Daule River and transport it along a 70 kilometer canal to dry farmlands.

These flood control projects will reduce the social and economic damage caused by floods in the winter season, allowing the Government to reallocate resources previously used to repair the damage to other projects. To repair the damage, the Government spent U.S.\$312 million in 2012 and U.S.\$415 million in 2013. The Government did not spend any funds in 2014 and 2015 due to the mild winter conditions for those years.

In 2015, the electric and water sectors contributed a total of U.S.\$1,421 million to GDP, an increase compared to U.S.\$1,201 million in 2014. Since 2011, the sectors represent an average of approximately 1.2% of GDP per year. For the first quarter of 2016, the electric and water sectors contributed a total of U.S.\$364 million to GDP, an increase compared to U.S.\$343 million for the first quarter of 2015.

Telecommunications

In 2007, only 8.47% of the Ecuadorian population was connected to the Internet. Under President Correa's administration, the average percentage of Internet users has increased to 108.7% per every 100 inhabitants as of March 2016. Similarly, while only 20 of Ecuador's 221 municipalities had access to the national fiber optic network in 2007, this number increased to 200 by 2015.

In 2011, the telecommunications sector accounted for U.S.\$1,812 million of GDP. This amount steadily increased through 2014, when the telecommunication sector accounted for U.S.\$2,175 million of GDP. In 2015, the telecommunications sector decreased and accounted for U.S.\$2,152 million. From 2011 through 2015, the telecommunications sector represented an average of approximately 2.18% of GDP per year. In 2015, the Government invested U.S.\$305 million in the sector, an increase compared to U.S.\$294 million in 2014. For the first quarter of 2016, the telecommunications sector accounted for U.S.\$500 million of GDP, a decrease compared to U.S.\$547 million for the first quarter of 2015.

In 2008, Ecuador granted Spain's Telefónica (currently operating in Ecuador as "Movistar") and Mexico's América Móvil (currently operating in Ecuador as "Claro") fifteen-year concession contracts to provide the country with telephone and 3G services. The concessions are extensions of previous agreements both companies had with Ecuador and are expected to generate U.S.\$840 million in revenues for Ecuador over the course of the term of the concessions. In February 2015, Ecuador amended the concession to provide the country with 4G services.

In February of 2015, the National Assembly enacted the Telecommunications Law as a means to improve access to quality telecommunications services and to increase the use of information technology in rural sectors. For more information on the Telecommunications Law, see "The Ecuadorian Economy – Economic and Social Policies – Telecommunications Law."

Other Sectors of the Economy

Agriculture

Before the discovery of petroleum fields in provinces of the Orient region in the 1970's, the agriculture sector had traditionally been the largest contributor to Ecuador's GDP. Of Ecuador's total 27.1 million hectares, 7.8 million are devoted to agriculture and livestock. Ecuador's diverse climatic conditions, varying altitudes and rich volcanic soil are well suited to tropical and subtropical agriculture. Ecuador's primary product from this sector, which is also the nation's most significant non-oil export, is bananas. According to data from the Food and Agricultural Organization of the United Nations ("FAO"), Ecuador has represented approximately 25% to 30% of banana world exports for the ten years ending in December 31, 2013. Ecuador also exports significant amounts of coffee, flowers, and cacao. The agricultural sector constituted an average of 7.67% of GDP per year for the years 2011 through 2015. In the first quarter of 2016, the agricultural sector represented 8.11% of GDP, an increase compared to 7.67% for the first quarter of 2015.

Between 2011 and 2015, the volume of Ecuador's banana exports increased by 25%. In 2012, the value of Ecuador's banana exports decreased by 7.5%, primarily as a result of difficult growing conditions for that year. However, the value of these exports increased by 11.8% in 2013 when growing conditions returned to normal and 10.9% and 9.0% in 2014 and 2015, respectively.

Ecuador also exports significant amounts of cacao. Cacao exports were U.S.\$474 million in 2011. In 2012, the value of cacao exports decreased to U.S.\$345 million due to difficult growing conditions for that year. However, exports increased to U.S.\$423 million in 2013 when growing conditions returned to normal. With continued normal growing conditions, cacao exports reached U.S.\$576 million in 2014 and increased to U.S.\$693 million in 2015.

Flowers and flower products are among one of the newest, but fastest growing exports for Ecuador, making up 4.5% of Ecuador's total exports in 2015. Flower exports were U.S.\$676 million in 2011, U.S.\$714 million in 2012, U.S.\$830 million in 2013 and U.S.\$918 million in 2014. In 2015, flower exports decreased by 12% to U.S.\$820 million primarily as a result of the strengthening of the dollar which made Ecuador's flowers more expensive compared to Colombian flowers.

Fishing

Another important aspect of Ecuador's agriculture is its fishing exports. Ecuador exports significant amount of tuna and other fish, but its predominant fishing export is shrimp. Ecuador is the largest shrimp producer in the Americas, and one of the largest shrimp producers in the world. According to the FAO, over the ten years ending December 31, 2013, Ecuadorian shrimp exports have represented approximately 2% of worldwide shrimp exports. The amount of shrimp exports steadily rose in the period from 2011 to 2014, growing from U.S.\$1,178 million in 2011 and reaching U.S.\$2,513 million in 2014. In 2015, shrimp exports totaled U.S.\$2,280 million, a 9.3% decrease from 2014. This decrease is due to the phenomenon of El Niño, which took place in 2015, as well as a decrease in exports to Asia. Fishing exports, other than shrimp, decreased from U.S.\$257 million in 2011 to U.S.\$231 million in 2015.

Manufacturing

Manufacturing, excluding petroleum products, is dominated by consumer products such as food, beverages, textiles, and paper, with a concentration of imported intermediate and capital goods. The manufacturing sector contributed 12.20%, 12.21%, 12.45%, 13.38% and 13.55% to the GDP, per year for the years 2011, 2012, 2013, 2014 and 2015 respectively. The manufacturing sector also contributed 13.73% and 13.92% to the GDP for the first quarter of 2015 and 2016, respectively.

Ecuador's main manufactured, non-petroleum exports are canned seafood, automobile assembly, processed cocoa, and processed coffee. The manufacturing sector has grown an average of 9.8% per year between 2011 and 2015. During 2011, 2012, 2013 and 2014, manufacturing grew by 12.4%, 11.1%, 9.8%, and 14.5%, respectively. In 2015 manufacturing grew by 1.2%, reaching U.S.\$13,668 million. Manufacturing decreased by -0.8% from

U.S.\$3,428 million in the first quarter of 2015 to U.S.\$3,399 million in the first quarter of 2016. According to reports from the Central Bank, 2011 saw an increase in the amount of credit extended towards manufacturing activities. This led to a substantial growth in the sector, particularly in the production of dairy products, wheat products, beverages, and the processing and conservation of meat, among others, which contributed to the 12.4% increase in that year. The slowdown in growth to 1.2% in 2015, and the decrease in growth of the manufacturing sector were due to the general slowdown of the economy in Ecuador for those periods.

Ecuador's membership in international trade organizations and its status as a party to various multilateral agreements such as ALADI, CELAC, and the Community of Andean Nations have contributed to the opening of new markets for the sale of Ecuadorian goods abroad and challenged domestic manufacturers to operate more competitively. On December 12, 2014, representatives from Ecuador's Ministry of Foreign Commerce signed a trade agreement with the European Union. For more information, see "Balance of Payments and Foreign Trade – Foreign Trade – Trade Policy." By the end of 2015, 27% of Ecuador's non-petroleum exports were sold in the European Union, and 15.1% of all of Ecuador's exports were sold in the European Union.

Construction

The construction sector accounted for 10.65% of GDP in 2013, 10.67% in 2012, and 10.23% in 2011. In 2015, the construction sector accounted for 11.38% of GDP, compared to 11.13% in 2014. For the first quarter of 2016, the construction sector accounted for 11.30% of GDP compared to 11.46% for the first quarter of 2015. In 2014, construction activity continued to increase in real terms, growing by 7.3%, compared to 8.3% in 2013 and 12.2% in 2012. In 2015, construction activity decreased by 0.6% in real terms compared with 2014, and for the first quarter of 2016, construction activity decreased by 3.5% in real terms compared with the corresponding period in 2015. These decreases in construction activity were due to a decrease in public construction projects. In 2014, approximately U.S.\$1,029 million worth of raw materials used for construction were imported, an increase from 2013 when U.S.\$928 million worth of raw materials used for construction were imported. In 2015, U.S.\$611 million worth of raw materials used for construction were imported, a decrease from 2014. The steady increase in construction and the large percentage of GDP that it represents is a result of the construction activity in connection with the nation's infrastructure projects, particularly the development of new oil fields, and the hydroelectric and flood control projects of the past seven years.

Science and Technology

The Government has begun development of a very large education and research center north of Quito, known as "Yachay-the City of Knowledge" ("Yachay"). Construction of Yachay began in 2012 and is expected to be completed in 2028. Yachay is a 18-square-mile planned community that is expected to house a large university and a dozen technology and innovation parks. The university opened its doors to 187 enrolled students in April 2014.

The goal of Yachay is to create a culture of scientific research in Ecuador and promote a long-term state-of-the-art site for technological research. Developers have mentioned that there will be an emphasis on nanotechnology, but add that Yachay will be multi-disciplinary. Long-term goals include the development of knowledge-based products to diversify the Ecuadorian economy and the development of new technologies for the country's well-being. Ecuador estimates that it will spend U.S.\$20 billion over the course of 16 years to complete the project.

In February 2016, the Republic entered into a U.S.\$198 million loan agreement with China Exim Bank to finance the first phase of Yachay.

Tourism

Ecuador's tourism industry has steadily grown over the past five years. In 2011, 1.14 million tourists visited the country. The figure increased to 1.27 million in 2012, 1.36 million in 2013, and 1.56 million in each 2014 and 2015. In 2015, the largest population of tourists came from Colombia, followed by the United States, and then Peru. There is also a significant number of U.S. expatriates and retirees who currently reside in the country.

The steady increase in tourism over the last five years is in large part due to promotional campaigns instituted by the Ministry of Tourism. In 2010, the “Ecuador loves life” campaign was launched in England, Germany, France and the United States. A second campaign, the “I discovered” campaign, was launched in 2011, and a third campaign, the “All you need is Ecuador” campaign, was launched in 2014. As part of this campaign, Ecuador became the first government to advertise during the Super Bowl, airing a thirty second spot during the 2015 event. The Ministry also provides financing and logistics advice to local businesses that cater to tourists such as tours and adventure companies. The 2015 annual budget allocated U.S.\$110.7 million to the Ministry of Tourism for tourism promotional campaigns and other initiatives to promote tourism.

Transportation

In 2015, the Government invested a total of U.S.\$1,119 million in roads and highways, a decrease of 20% from the previous year, when total investment was U.S.\$1,400 million. The most significant road projects in Ecuador are the Manta (Ecuador)-Manaus (Brazil) road network, linking the Pacific Ocean with the Atlantic and the Troncal-Amazonica road, which runs from north to south, linking the Colombian and Peruvian borders. The Troncal-Amazonica road was completed in early 2016 with the construction of the El Tigre bridge and a portion of the Manta-Manaus road network. The Manta-Manaus road-network is currently under construction, although there is no definitive completion date. Both projects are not toll roads and were financed by oil revenues and financing from CAF.

The 2016 budget allocates U.S.\$681 million for all Government transportation projects including airport, road, and various municipal construction and maintenance projects. Two recent significant projects have recently been financed along with the municipality of Quito. In February of 2013, a new international airport opened in the suburbs of Quito. The airport cost was U.S.\$700 million and was financed by Quiport S.A., an international consortium led by AECON Construction Group and HAS Development Corporation. The new airport features the largest control tower and the longest runway of any international airport in Latin America. Phase 2 of the airport, which includes the expansion of the passenger terminal, new jet bridges, and the expansion of the shopping areas was financed by Quiport S.A. and cost U.S.\$70.5 million. Construction of Phase 2 of the airport was completed in 2015, and began operating as a passenger terminal in May of that year. A new road and bridge to reduce congestion from the previous single bridge and highway that led to the airport have been completed. Construction of a subway system in Quito based on the Metro of Madrid has been underway since 2012. This metro system is expected to connect the northern business and resident areas of Quito to Quito’s historic city center. The project is budgeted to cost U.S.\$1,680 million through completion and is expected to commence operations in 2019. This project was financed, in part, by a U.S.\$205 million loan from the World Bank, a U.S.\$259 million loan from the European Investment bank, a U.S.\$200 million loan from the IDB and a U.S.\$200 million loan from CAF. In February 2014, the municipality of Cuenca began construction of the *Tranvía Cuatro Ríos*, a 21.4-kilometer tram system with 27 stations. The project is planned to connect the airport and city-center to the outlying suburbs of the city. The project is estimated to cost U.S.\$232 million and was financed, in part, by a 15-year loan executed in January 2013, pursuant to the French government’s Emerging Country Reserve Loan program.

Employment and Wages

The National Council on Wages sets the minimum wage for workers in the private sector on an annual basis. The monthly minimum wage for a job in the private sector has increased from U.S.\$264 for 2011 to U.S.\$354 for 2015. The announcement of the minimum wage applicable for 2016 was made in December of 2015 and was set at U.S.\$366 per month. Public sector employee wages are based on the wage scale determined by the *Ministerio de Relaciones Laborales* (“Ministry of Labor Relations”). The following table shows the increase in minimum wage from 2011 to 2016.

Monthly Minimum Wage ⁽¹⁾
(in U.S.\$)

2011	2012	2013	2014	2015	2016
264	292	318	340	354	366

Source: Ministry of Labor Relations.

(1) Minimum wages set at the beginning of each year.

Private employee salaries received a boost with the introduction of the “Living Wage” into the Labor Law. Enacted in December 2010, this law dictates that any company that generates a profit shall distribute it amongst its employees until their total income has risen to the level of the living wage. The value of the living wage is determined annually by INEC on the basis of the cost of living and the number of family members in each family unit.

The following table shows certain labor force and employment data for the periods indicated:

Labor Force and Employment
(in thousands of persons, except percentages)

	For the year ended December 31,					As of March 31,	
	2011	2012	2013	2014	2015	2015	2016
Total Population ⁽¹⁾	15,266	15,520	15,775	16,027	16,279	16,090	16,362
Labor Force ⁽²⁾	10,533	10,864	11,200	11,159	11,399	11,202	11,468
Labor Force Participation ⁽³⁾	6,582	6,701	6,953	7,195	7,499	7,374	7,862
Labor Force Participation Rate.....	62.49%	61.68%	62.08%	64.47%	65.78%	65.82%	68.55%
Employed Labor Force	6,305	6,425	6,664	6,921	7,141	7,091	7,412
Unemployed Labor Force	277	276	289	273	357	283	449
Unemployment Rate ⁽⁴⁾	4.21%	4.12%	4.15%	3.80%	4.77%	3.84%	5.71%

Source: Based on figures from INEC as of March 2016.

(1) Total population numbers based on yearly projections from 2010 census.

(2) Refers to population above minimum working age (15 years old), whether or not they are willing to work.

(3) Also referred to as economically active population.

(4) As a percentage of economically active population.

In 2009, in order to reduce unemployment, the Ministry of Labor Relations established the *Red Socio Empleo* (“Employment Partner Network”), a government agency designed to assist with employment searches and provide educational opportunities abroad for future work in Ecuador. The agency provides scholarships and allows individuals looking for work to post resumes, create their own web pages, and schedule interviews with potential employers online.

From 2011 to 2015, the unemployment rate increased by 0.56 percentage points. Underemployment, or individuals who are unable to obtain full-time work to receive a salary meeting the official minimum wage, decreased from 49.29% to 48.09% during this time as well. During 2011 and 2012, unemployment decreased to 4.21% and 4.12%, respectively. In 2013, unemployment slightly increased to 4.15%, then decreasing to 3.80% in 2014 due to increased job creation in the services and commerce industries. In 2015, the unemployment rate increased to 4.77% due to a general slowdown of the economy in 2015 that led to job losses in both the private and public sectors. The rate of unemployment increased to 5.71% as of March 31, 2016 due to a continued slowdown of the economy.

The rate of individuals who are unable to obtain full-time work to receive a salary meeting the official minimum wage, or underemployment, also steadily decreased from 49.47% in 2011 to 47.17% and 47.77% in 2012, and 2013, respectively. The underemployment rate continued to decrease to 46.69% in 2014 but increased in 2015 to 48.09%.

The sectors that registered the greatest reduction in employment in the period from 2011 to 2015 were the agriculture sector with 2.89 %, and the commerce sector with 1.52%. The labor force participation rate of the Ecuadorian economy increased by an aggregate of 3.29 percentage points, from 2011 to 2015 while unemployment increased by 0.56%. Underemployment decreased by 1.20% in the same time period.

The following table sets forth information regarding the unemployment and underemployment rates, and real minimum wages for the periods presented:

Wages and Unemployment

	For the Year ended December 31,					As of March 31,	
	2011	2012	2013	2014	2015	2015	2016
Unemployment rate (% of economically active population) ⁽¹⁾	4.21	4.12	4.15	3.80	4.77	3.84	5.71
Underemployment rate (% of economically active population) ⁽²⁾	49.67	47.15	47.77	46.69	48.09	52.06	54.00

Source: Based on figures from INEC as of March 2016.

- (1) Refers to population at or above the minimum working age that is not employed and is willing to work (even if not actively seeking work) as a percentage of the total labor force.
- (2) Refers to individuals who are unable to obtain full-time work to receive a salary meeting the official minimum wage.

Average Wages by Economic Sector (Monthly) ⁽¹⁾ (in U.S. dollars)

	Average Wage	Oil and Mining	Agriculture ⁽²⁾	Services ⁽³⁾	Manufacturing	Tourism ⁽⁴⁾
2011	295.70	340.81	263.30	424.05	247.28	326.86
2012	345.50	479.73	302.90	493.10	282.78	372.86
2013	374.90	510.80	340.00	551.21	313.20	398.24
2014	416.5	704.93	373.00	560.00	341.30	424.10
2015	422.80	715.46	398.70	535.10	352.20	446.00

Source: Based on figures from INEC.

- (1) These figures include mixed income (wage and non-wage income) by economic sector per month as of the date indicated. Methodology to compute the data is based on all wages earned by individuals in a month. For the purposes of this data, there is no distinction made between full-time and part-time workers.
- (2) Represents industrial production of agricultural products.
- (3) Services include water and electric.
- (4) Tourism includes hotels and restaurants.

Poverty

In recent years, Ecuador has seen decreases in levels of urban and rural poverty. The urban poverty rate decreased from 17.4% to 15.7% between 2011 and 2015, while the rural poverty rate decreased from 50.9% to 39.3% across the same time frame. Extreme poverty rates have also decreased, from 5.0% of all urban households in 2011 to 4.4% of all urban households in 2015, and from 24.6% of all rural households in 2011 to 17.0% of all rural households in 2015. At the same time, the total extreme poverty rate decreased from 11.6% in 2011 to 8.5% in 2015.

The Republic believes this decrease in poverty is partially the result of a significant expansion of the *bono de desarrollo humano* (“BDH”), a cash transfer program for those in the lower 40% of income distribution who are either mothers of children under the age of 16, above the age of 65, or disabled. Currently, the BDH transfers U.S.\$50 a month to qualifying individuals.

The following table shows the percentage of households in poverty for the periods indicated.

Percentage of Households in Poverty

	Poverty Based on Income ⁽¹⁾			Extreme Poverty Based on Income ⁽²⁾			Poverty Based on Lack of Basic Necessities ⁽³⁾		
	Urban	Rural	Total	Urban	Rural	Total	Urban	Rural	Total
December 2011	17.4	50.9	28.6	5.0	24.6	11.6	22.1	73.7	39.4
December 2012	16.1	49.1	27.3	5.0	23.3	11.2	20.1	70.3	37.0
December 2013	17.6	42.0	25.6	4.4	17.4	8.6	25.7	65.7	38.7
December 2014	16.4	35.3	22.5	4.5	14.3	7.7	24.8	57.8	35.4
December 2015	15.7	39.3	23.3	4.4	17.0	8.5	n/a	n/a	n/a
March 2015	15.1	43.3	24.1	3.9	19.7	9.0	n/a	n/a	n/a
March 2016	16.6	44.0	25.4	5.6	19.5	10.0	n/a	n/a	n/a

Source: Based on figures from INEC as of March 2016.

- (1) Persons whose income is below the poverty line. As of December 31, 2015, the poverty line, as determined by Ecuador, is U.S.\$83.79/month, per household.
- (2) As of December 31, 2015, the extreme poverty line is U.S.\$47.22/month per household.
- (3) This number is based on information taken at the census regarding the lack of availability of basic necessities. Variables considered in this figure include literacy rates and access to potable water, sewage systems and hygienic services, electricity, running water, telephone lines, doctors and hospital beds per 1000 persons.

Social Security

The social security system in Ecuador is administered by the *Instituto Ecuatoriano de Seguridad Social* (the Ecuadorian Social Security Institute or “IESS”), as well as by the *Instituto de Seguridad Social de las Fuerzas Armadas* and the *Instituto de Seguridad Social de la Policía Nacional* (the Social Security programs of the Armed Forces or “ISSFA” and the Ecuadorian Police Department or “ISSPOL,” respectively). The Ecuadorian Social Security System is a trans-generational model where the current work force funds the benefits of those who are no longer in the work force and permits retirees to also make on-going contributions to their retirement fund.

Social security benefits are a constitutional right for all workers and their families, designed to protect the insured in case of illness, maternity, unemployment, disability, old age and death. The social security system also provides financing for workers’ housing. Ecuador’s social security system is financed by contributions from the Government, employers and employees. The level of employee contribution is based on an employee’s income. The monthly pension is based on a percentage of the insured’s average monthly earnings in his or her five highest years of earnings. The minimum monthly pension for 2016 is U.S.\$183.

Retirees benefit from the IESS system once they have left employment. As of December 2015, IESS, ISSFA and ISSPOL had 9.2 million, 1.1 million and 0.2 million beneficiaries, respectively. In 2015, total non-financial public sector contributions to social security were U.S.\$5.0 million, or 5.1% of GDP, an increase from U.S.\$4.7 million, or 4.7% of GDP in 2014. IESS’s beneficiaries include 3.1 million affiliates, 0.4 million pensioners, 4.4 million dependents, 1.1 million people covered through rural social security and 0.03 million people that receive benefits related to work related risks. For 2015, IESS’s expenditures totaled approximately U.S.\$6 billion.

Under Article 372 of the 2008 Constitution, the *Banco del Instituto Ecuatoriano de Seguridad Social* (the Social Security Institute Bank of Ecuador or “BIESS”) is responsible for channeling investments and managing public pension funds. Resolution JB-2009-1406 enacted in July 2009 sets the parameters for the types of investments allowed. Investments in real estate are only allowed in the long term (over five years), investments in trusts are not allowed in the short term (less than 3 years), and investments in public sector securities cannot exceed 75% of the market value of the fund. A risk committee must approve all investments. Investments must be rated by an approved rating agency, and no investment may be rated lower than specific thresholds set for that type of

investment, as determined by the risk committee. As of December 31, 2015, BIESS is the largest holder of Government securities, with 45.31% of its portfolio investment, or U.S.\$7,631 million, in Government holdings.

The primary functions of the BIESS are, among others, the provision of different financial services such as mortgages, pledge-backed loans and unsecured credits. Additional services include portfolio re-discount operations for financial institutions and other financial services in favor of retirees and other affiliates of the IESS by means of direct operations or through the national financial system. Additional bank functions are investment in infrastructure projects that generate financial profitability, added value and new sources of employment, as well as investments in fixed and variable income securities through the primary and secondary markets.

Education

In 2011, the Government implemented the *Ley Orgánica de Educación Intercultural* (the “Intercultural Education Law”). The law created a standardized curriculum for all high schools, consolidated school systems to eliminate single-teacher schools, created a stringent evaluation system for teachers and schools, and launched a nation-wide literacy program. Under the reform, students were to receive free medical attention, school lunches, and uniforms.

The 2016 annual budget allocated U.S.\$4.9 billion for Government education and education initiatives. Education initiatives include the continued construction of Yachay (See “The Ecuadorian Economy – Other Sectors of the Economy – Science and Technology”), the use of outside consultants to improve English education, the granting of scholarships to exceptional students for study in elite foreign universities, the inspection of Ecuador’s universities to ensure that they meet a high standard quality, and various other projects administered by individual municipalities.

Education is mandatory in Ecuador until the age of 14. The literacy rate for adults over fifteen years of age was 94.2% in 2015, and has been above 90% since 2004.

Health

The 2016 annual budget allocated U.S.\$2.4 billion for Ecuador’s health sector. Recent reforms include a mandatory increase in hours and pay for medical professionals, and the creation of mobile clinics intended to ensure vaccinations in the most remote areas of the country. The Government has also signed various agreements with private companies to produce generic drugs in the country.

LEGAL PROCEEDINGS

The Republic is involved in certain litigation and administrative arbitration proceedings described below. Some of the proceedings described below are conducted pursuant to the mandatory arbitration provisions contained in the U.S.-Ecuador Bilateral Investment Treaty and the Canada-Ecuador Bilateral Investment Treaty, as applicable. These treaties aim to protect investors of both nations in the other country. An unfavorable resolution of some of these proceedings could have a material adverse effect on the Republic.

Occidental - Breach of Contract Claim

In May 1999, *Empresa Pública de Hidrocarburos del Ecuador* (“Petroecuador”) and Occidental Exploration and Production Company (“Occidental”) entered into a participation agreement for the exploration and exploitation of hydrocarbons in Block 15, in the Oriente region. On September 15, 2004, Petroecuador sent Occidental a notice of breach alleging various grounds for forfeiture of the participation agreement, including the unauthorized assignment of 40% of Occidental’s rights and obligations thereunder to Canadian oil company Encana. Block 15 is one of Ecuador’s most productive oil fields. In May 2006, the Ministry of Energy and Mines declared the participation agreement with Occidental to be terminated due to its alleged breach of the Hydrocarbons Law. As a result, all of Occidental’s assets were transferred to the Republic. In May 2006, Occidental filed a claim before the International Centre for the Settlement of Investment Disputes (“ICSID”) against Ecuador in an amount of U.S.\$3.3 billion, claiming that the termination of the participation agreement constituted the “equivalent of expropriation,” in violation of the U.S.-Ecuador Bilateral Investment Treaty, and that the forfeiture of the participation agreement was litigated for political reasons rather than due to an illegal assignment.

On October 5, 2012, the ICSID arbitral panel issued an arbitral award in favor of Occidental in the amount of U.S.\$1.7 billion, plus interest, but it also found that Occidental’s assignment to Encana was made in violation of Ecuadorian law. The arbitral panel calculated the amount based on the full value of the contract, with a reduction of 25% due to such violation. On October 9, 2012, Ecuador filed a petition for a stay of the enforcement of the arbitral award until an annulment procedure could be carried out. The petition was registered with ICSID on October 11, 2012. On January 18, 2013, ICSID appointed an ad hoc panel to resolve the petition for the stay and consider a petition for annulment. The first meeting of the panel took place on March 25, 2013. On May 13, 2013, the panel met to consider a February 13, 2013 petition by Occidental to lift the currently effective stay of the arbitral award. In a September 30, 2013 decision, the panel ratified the stay of the award and held that it should continue unconditionally.

On August 12, 2013, Ecuador submitted its brief of annulment. On October 18, 2013, Occidental presented its response, arguing that there was no basis for an annulment. Ecuador presented its reply on January 6, 2014 and Occidental submitted its rejoinder on February 28, 2014. The hearing concerning annulment took place between April 7 and April 10, 2014.

On November 2, 2015, the ad hoc panel partially annulled the October 5, 2012 arbitral award, finding that the unauthorized assignment of 40% of Occidental’s rights under the participation agreement was made in violation of Ecuadorian law and therefore limited the arbitration award to U.S.\$1.06 billion, plus interest. Subsequent to this finding, on November 4, 2015, the U.S. District Court for the Southern District of New York issued an order, at the petition of Occidental, recognizing the award as a final judgment of the court.

In January 2016, Ecuador and Occidental entered into a settlement agreement. As a result, no further actions have been taken in court proceedings in New York to enforce the award. In the settlement agreement, Ecuador agreed to pay a total of U.S.\$980 million to Occidental in a series of installments. In June 2016, Ecuador paid the final installment to Occidental. Occidental agreed to release all claims and accept such payments as a final settlement of all amounts payable pursuant to the arbitral award.

Chevron

In 2006, Chevron brought arbitration proceedings against the Republic under the arbitration rules of the United Nations Commission on International Trade Law (“UNCITRAL”) alleging the Republic’s breach under certain “denial of justice” provisions under the U.S.-Ecuador Bilateral Investment Treaty. In August 2011, the arbitral tribunal established that Ecuador had breached such treaty and should pay Chevron U.S.\$96 million plus compound interest calculated from September 1, 2011 until the date of payment. The tribunal accepted the position of Ecuador that any amount received by Chevron should be subject to the payment of a tax at a rate of 87.31% (the preliminary arbitral award was approximately U.S.\$700 million) and deducted the tax amount due to Ecuador from the preliminary arbitral award of U.S.\$700 million. Consequently, Ecuador filed a petition to annul the arbitral award before the District Court of The Hague, which was denied on May 2, 2012. Ecuador presented an appeal to the District Court decision, and on May 13, 2013, the Appellate Court of The Hague heard the arguments of the parties on appeal and rejected Ecuador’s appeal on June 19, 2013. In September 18, 2013, Ecuador presented an appeal to the Supreme Court of the Netherlands, which held hearings on February 28, 2014 and denied Ecuador’s appeal on September 26, 2014.

On July 27, 2012, Chevron filed a claim before the District Court of the District of Columbia (Washington, DC) seeking recognition and enforcement of the arbitral award. On March 25, 2013, Ecuador filed its brief in opposition with the court, and on April 25, 2013, Chevron filed its response. On June 6, 2013 the District Court confirmed the award in favor of Chevron. Ecuador filed an appeal on July 1, 2013, to which Chevron filed an opposition brief on August 19, 2013. On October 9, 2015, the United States Court of Appeals for the District of Columbia Circuit affirmed the District Court decision. Accordingly, the arbitral award granted to Chevron became due and payable in the United States with the same force and effect as a judgment in a judicial action. The total amount due under the award, (U.S.\$96.4 million plus U.S.\$16.4 million in interest) was paid by Ecuador to Chevron in satisfaction of the arbitral award.

On September 6, 2013, because Ecuador did not have substantial assets in the District of Columbia, Chevron filed a motion to enable it to register the district court award “in any other district” in the United States. Ecuador objected, arguing that Chevron should be permitted to register the award only in “those districts for which Chevron has provided sufficient evidence that Ecuador has substantial assets.” On October 29, 2013, the District Court of the District of Columbia granted Chevron’s motion to register the award in any other district. On June 11, 2014, Ecuador appealed the District Court decision. Chevron filed a response to this appeal on July 18, 2014 and Ecuador filed a reply on August 8, 2014. On August 4, 2015, the United States Court of Appeals for the District of Columbia Circuit affirmed the District Court decision. On February 25, 2016, Ecuador filed a petition for a writ of certiorari requesting that the United States Supreme Court review the decision of the Court of Appeals. On June 6, 2016, the United States Supreme Court denied the Republic’s writ of certiorari.

On a separate matter, in September 2009, Chevron filed a UNCITRAL arbitration claim against Ecuador for an undetermined amount. The claim seeks indemnification for claims brought by indigenous communities in Lago Agrio, Ecuador, against Chevron for environmental damages. In 2011, an Ecuadorian court ruled in favor of the Lago Agrio community, ordering Chevron to pay U.S.\$19 billion in damages. This amount was reduced to U.S.\$9.5 billion in November 2013. Chevron argues that Ecuador and Petroecuador should be solely responsible for any judgments arising from claims resulting from the Lago Agrio litigation because of “hold harmless” provisions of a 1995 settlement agreement (“1995 Settlement”) between Chevron and the Republic and also claims breach of the 1995 Settlement and the U.S.-Ecuador Bilateral Investment Treaty. On the other hand, Ecuador argues that it has not assumed any obligation to indemnify, protect, or defend Chevron from third party claims. On January 25, 2012, the arbitral tribunal issued an interim award that ordered Ecuador to take all available measures to suspend the enforcement or recognition of the claims in the Lago Agrio case in Ecuador and abroad. On February 16, 2012, the tribunal issued a second interim award ordering Chevron to compensate Ecuador for the costs Ecuador incurs in performance of its obligations under the interim awards, and ordered Chevron to post a bond in the amount of U.S.\$50 million to secure payment of the same. The plaintiffs for the Lago Agrio case, in November 2012, obtained the seizure of certain bank accounts of Chevron in Argentina and the seizure of Chevron’s interests in its Argentine subsidiaries. In a third interim award dated February 27, 2012, the arbitral tribunal held that it had jurisdiction to hear the claim. In a fourth interim award dated February 7, 2013, the arbitral tribunal resolved that Ecuador has not complied with the decisions from the previous awards, and that each party shall argue whether Ecuador must reimburse Chevron for any expenses related to the enforcement proceedings. The arbitration tribunal has divided

the merits of the case into three tracks. The first track will decide issues relating to the 1995 Settlement and the obligation of Ecuador to indemnify Chevron from third party claims. The second track will decide issues relating to denial of justice claims by Chevron and the alleged breach of the U.S.-Ecuador Bilateral Investment Treaty. Once tracks 1 and 2 have been decided on the merits, the third track will determine any monetary damages that resulted from the alleged breaches and will assess the monetary value of the environmental damage in the Lago Agrio community. On September 17, 2013 the arbitral tribunal issued a partial track 1 award (track 1A) where it agreed with the Republic in that the 1995 Settlement did not preclude the Lago Agrio plaintiffs from asserting claims “in respect of their own individual rights.” According to the arbitral tribunal, the 1995 Settlement bars claims that Ecuador might raise in the exercise of their own rights, but does not bar to claims by third parties acting independently from the state in the exercise of their individual rights. It also held that the 1995 Settlement did not contain an indemnity provision that required the Republic to be held liable for any costs or any judgment rendered against Chevron. However, the arbitral tribunal held that Chevron was a “released party” under the 1995 Settlement. The arbitration tribunal did not decide on the claims of breach of the 1995 Settlement. In response, on January 7, 2014, Ecuador filed a writ of summons in the District Court of the Hague requesting an order setting aside the September 17, 2013 partial award and of the previous interim awards. The District Court of the Hague held a hearing regarding Ecuador’s writ of summons on November 2015 and rejected Ecuador’s request in a decision issued on January 20, 2016. Ecuador is currently preparing to appeal the decision.

On March 12, 2015, the arbitral tribunal issued a second track 1 (track 1B) decision in favor of Ecuador, holding that the initial pleading brought by the Lago Agrio plaintiffs qualified as an “individual rights” claim not barred by the 1995 Settlement.

On May 9, 2014, Chevron submitted a supplemental brief regarding the second track issue of the alleged violations of the Ecuador-US Bilateral Investment Treaty, explaining the relevance of certain prehearing exhibits.

On November 7, 2014, Ecuador filed a written response to Chevron’s supplemental brief on track 2, to which Chevron replied on January 14, 2015. Ecuador in turn filed a supplemental rejoinder brief on March 17, 2015. A telephone conference regarding procedural matters took place on March 27, 2015. Hearings on the track 2 issues relating to the supplemental briefs took place in Washington, D.C. from April 21 to May 8, 2015. The result of the track 2 hearing is pending.

On a separate matter, in October of 2013, a provincial court of Ecuador ordered the *Instituto Ecuatoriano de la Propiedad Intelectual* (the “Ecuadorian Institute for Intellectual Property” or “IEPI”) to place an embargo on 50 trademarks of Chevron in Ecuador as a result of the Ecuadorian verdict against Chevron in the Lago Agrio case. According to IEPI, the embargo was placed in order to guarantee the payment of the verdict amount by redirecting the revenues from the trademarks to Ecuador, as opposed to Chevron.

Windfall Profits Tax Litigation

A number of foreign oil companies have sued Ecuador in connection with the application of Ecuadorian law 42-2006, which levied a 99% tax on the windfall profits of a number of foreign oil companies. For a description of the windfall profits tax, see “The Ecuadorian Economy – Renegotiation of Oil Field Contracts.” As a result of the implementation of the windfall profits tax law, Ecuador is a defendant in the following arbitration proceedings:

Burlington Resources, Inc.

Burlington filed an arbitration claim before ICSID in April 2008 against Ecuador, seeking compensation for alleged modifications to its contracts for the development of Blocks 7 and 21 in Ecuador imposed by Ecuadorian law 42-2006. Burlington argued that such unilateral modification resulted in an expropriation of the blocks that Burlington was operating, although, subsequent to the commencement of the proceedings, Burlington withdrew the contractual claims and based all claims solely on violations of the U.S.-Ecuador Bilateral Investment Treaty. On September 30, 2011, Ecuador filed two counterclaims against Burlington for environmental damage and failure to maintain the facilities of Blocks 7 and 21, in an approximate amount of U.S.\$2 billion. On December 14, 2012, the tribunal decided the liability issue in favor of Burlington and consequently, on January 28, 2013, Ecuador submitted a petition for reconsideration. The arbitral tribunal was scheduled to meet for a hearing on damages and Ecuador’s counterclaims in August 2013, but the hearings were suspended due to the request by Ecuador that one of the

arbitrators recuse himself from the decision because of a conflict of interest. Burlington presented its assessment of damages memorandum on June 24, 2013, to which Ecuador responded on May 23, 2014. The tribunal held a hearing regarding damages from March 2 to March 6, 2015 in Paris, after which both parties presented their post-hearing briefs on May 29, 2015. The result of the hearing is pending.

Hearings for the counterclaims took place from June 1 to June 7, 2014 in Paris. The parties presented their post-hearing briefs on October 3, 2014 and, in an effort to assess the validity of the counterclaims, the tribunal visited Blocks 7 and 21 in April 2015. The parties presented their post-visit briefs on July 15, 2015. The result of the hearing regarding the counterclaim is pending.

Perenco Ecuador Limited

On April 30, 2008, Perenco Ecuador Limited (“Perenco”) filed an ICSID arbitration claim against Ecuador seeking compensation of U.S.\$440 million plus costs and interest for alleged changes to its contracts for the development of Blocks 7 and 21 in Ecuador imposed by Ecuadorian law 42-2006. The amount of the claim remains subject to adjustment. Perenco argued that law 42-2006 modified the participation of Perenco under contracts for development of Blocks 7 and 21 in Ecuador and that the unilateral modification of the contracts resulted in an expropriation of the blocks that Perenco was operating. On July 18, 2014, the tribunal decided the claim in favor of Perenco and is currently determining the procedural schedule for the assessment of damages.

On December 5, 2011, Ecuador filed two counterclaims against Perenco for environmental damage and failure to maintain the facilities of Blocks 7 and 21, in an approximate amount of U.S.\$2 billion. On March 13, 2013, the parties presented their respective memoranda to the arbitral tribunal. Hearings took place from September 9 to September 17, 2013. On August 11, 2015, in an interim decision, the tribunal held that contamination exists in Blocks 7 and 21. However, the tribunal held that a third environmental expert will be needed in order to determine if the contamination was caused by Perenco.

Murphy Ecuador Oil Company, Ltd.

Murphy Ecuador Oil Company, Ltd. (“Murphy”) has claimed that law 42-2006 modified its contracts for exploration and production of crude oil in Ecuador, resulting in an expropriation and a violation of the U.S.-Ecuador Bilateral Investment Treaty. Murphy filed its ICSID arbitral claim against Ecuador on September 30, 2011. In November 2013, the arbitral tribunal rejected Ecuador’s objection to jurisdiction. Ecuador submitted its response to merits and jurisdiction to the arbitral tribunal on May 4, 2014. Hearings on the matter took place from November 17-21, 2014 in Washington, D.C. The post-hearing briefs were submitted by both parties on January 9, 2015. At the request of the arbitral tribunal, both parties submitted their briefs regarding costs on January 15, 2016. A partial final award against Ecuador was rendered on May 6, 2016, ordering the payment of U.S.\$19 million in damages and the arbitration cost of 5 million euros. The tribunal also held that the parties must submit their calculation of the fair market value of Murphy’s property in Ecuador for the tribunal’s consideration.

William and Roberto Isaías Dassum

In 2009, Ecuador commenced an action against William and Roberto Isaías, who were the President and Executive Vice-President of Filanbanco S.A, Ecuador’s largest bank at the time of its bankruptcy in 2001. Arguing before a U.S. federal court, Ecuador alleged that the defendants embezzled funds and forged financial statements thereby resulting in losses suffered by the *Agencia de Garantía de Depósitos* (“the Deposit Guarantee Agency” or “AGD”), in the amount of U.S.\$661.5 million. On May 30, 2013, the federal court judge granted summary judgment against Ecuador. On August 28, 2013, Ecuador filed for appeal in the U.S. Court of Appeals for the Third Circuit. On July 2, 2014, the Third Circuit ruled in favor of Ecuador, reversing the federal court’s decision and finding the defendants liable for the losses of Filanbanco S.A. The defendants petitioned the Third Circuit for a hearing to review the July 2, 2014 decision, which the Third Circuit granted. On August 6, 2014, the defendants submitted their brief in support of their petition, which was denied by the Third Circuit court on September 16, 2014.

Upon remand, the federal court, in an October 15, 2015 decision, held that the ten-year statute of limitations on the action had expired. On November 12, 2015, Ecuador notified the federal court that they would appeal this decision. On November 16, 2015, the defendants filed a motion for costs and fees. On January 11, 2016,

the federal court issued an order deferring the decision regarding costs and fees until after the appeal is decided. Ecuador presented its motion to appeal on March 17, 2016. The result of the appeal is pending.

Copper Mesa

On January 21, 2011, Ecuador was notified of an arbitration proceeding by Copper Mesa for a breach of the Canada-Ecuador Bilateral Investment Treaty based on the termination of the Junin, Chaucha and Telinbela concessions. Copper Mesa claimed indemnification for no less than U.S.\$120 million. Hearings to determine jurisdiction were held in September 2013, December 2013 and January 2014. The proceedings were concluded on March 12, 2014.

On March 15, 2016 the arbitration tribunal concluded that Ecuador breached the Canada-Ecuador Bilateral Investment Treaty by expropriating certain assets of Copper's Mesa in Ecuador. The arbitration tribunal, however, reduced the total indemnification owed to Copper Mesa to U.S.\$11,184,595 for the Junin concession and U.S.\$8,262,899 for the Chaucha concession. The arbitration tribunal rejected Copper Mesa's argument regarding the Telinbela concession.

Zamora Gold

On July 7, 2011, Ecuador was notified of an arbitration proceeding for allegedly depriving Zamora Gold of its investments in violation of the Canada-Ecuador Bilateral Investment Treaty. Since then, the plaintiff has not taken further action. The amount of the claim has not yet been determined.

RSM Production Corporation

On May 13, 2010, Ecuador was notified of an arbitration proceeding for allegedly cancelling a mining license held by RSM Production Corporation in violation of the U.S.-Ecuador Bilateral Investment Treaty. Since then, there has not been further action by the plaintiff. The amount of the claim has not yet been determined.

Merck Sharp & Dohme

On February 2, 2011, Merck Sharp & Dohme ("Merck") filed a claim against Ecuador alleging denial of justice for not having provided judicial guarantees in a judgment initiated against Merck by the Ecuadorian company NIFA S.A. (currently PROPHAR, S.A.) in violation of the U.S.-Ecuador Bilateral Investment Treaty. The amount of the claim in the international tribunal has not yet been determined. On May 22, 2014, the international tribunal scheduled the hearing in London for March 16 and 20, 2015. The result of the hearing is pending.

On February 5, 2016, Merck filed a petition requesting that the arbitration tribunal set forth certain measures to protect Merck from an unjust final judgment in Ecuador. On May 7, 2016, the arbitration tribunal accepted Merck's petition and ordered that Ecuador guarantee that a final judgment shall not be enforceable in Ecuador until the arbitration tribunal issues its final decision on the matter.

Hutchison Port Investments Ltd

In 2012, Ecuador commenced an arbitration proceeding against Hutchison Port Investments Ltd. and Hutchison Port Holdings ("Hutchison"), in the *Centro de Arbitraje y Mediación de la Cámara de Comercio de Quito* ("Center for Arbitration and Mediation of Quito Chamber of Commerce") to recover U.S.\$141 million in damages to the Manta Port Authority. Ecuador alleges that it suffered these damages as a result of Hutchison's unilateral abandonment of the facilities and other defaults under a concession agreement to operate the port at Manta. Hearings took place from February 9 to 13, 2015 in Panama. On November 30, 2015, the arbitration tribunal decided in favor of Ecuador for an amount of U.S.\$30 million.

Arch Trading Corp.

On June 26, 2013, Arch Trading Corp. and four other media companies filed a claim against the Republic of Ecuador and two other governmental entities for the alleged seizure of over 200 companies owned by the

plaintiffs. The plaintiffs allege that they suffered damages exceeding U.S.\$1 billion dollars and request monetary damages plus interest and attorney's fees. Ecuador was served with notice on March 20, 2014. Ecuador filed a motion to vacate with the U.S District Court for the Southern District of New York on July 3, 2014. Hearings took place on July 31, 2014. On September 5, 2014, Ecuador filed a motion to vacate on the basis of jurisdictional objections, which was granted by the U.S. District Court on May 29, 2015. Arch Trading filed its motion to appeal on August 26, 2015 to which Ecuador presented its reply on September 23, 2015. On January 5, 2016, the Court of Appeals held a hearing regarding Arch Trading's motion to appeal. The result of the hearing is pending.

Ecuador TLC, Cayman International, and Teikoku Oil

On February 26, 2014, Ecuador TLC, Cayman International, and Teikoku Oil filed a breach of contract arbitration claim against Ecuador in the Permanent Court of Arbitration in the Hague for an amount of U.S.\$808.3 million plus interest. The claim is connection with an oil-field exploration contract that was terminated by Ecuador because the plaintiffs did not agree to the new renegotiated terms. See "The Ecuadorian Economy – Economic and Social Policies – Renegotiation of Oil Field Contracts." Ecuador presented its response brief on March 21, 2016 and Ecuador TLC presented its response on June 20, 2016.

GMO Trust

On December 12, 2014, GMO Trust issued proceedings against the Republic in respect of an alleged U.S.\$15,876,000 holding of the 2030 Bonds. GMO voluntarily withdrew its complaint pursuant to a settlement agreement between the parties. A stipulation dismissing the complaint was filed on March 16, 2015; under that stipulation, the case cannot be re-filed.

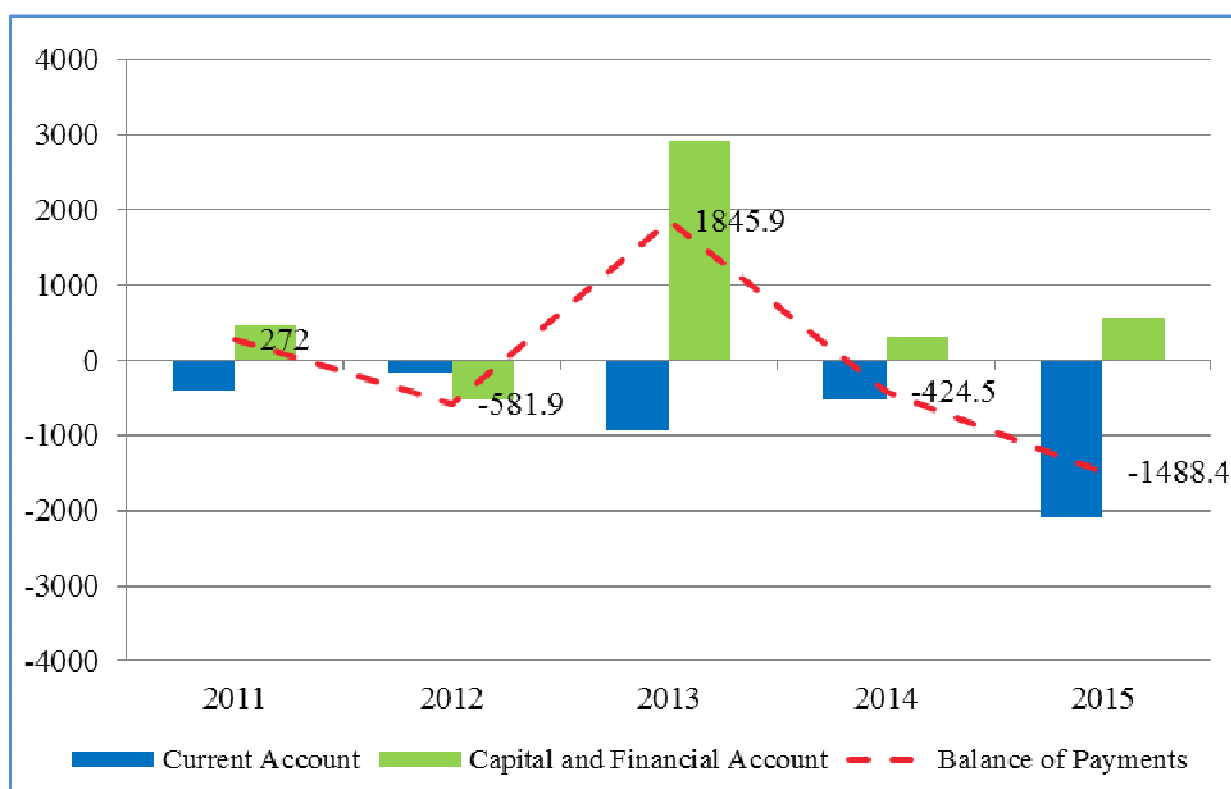
Daniel Penades

On January 30, 2015, Daniel Penades issued proceedings against the Republic in respect of an alleged U.S.\$455,000 holding of the 2030 Bonds in the United States District Court for the Southern District of New York. Ecuador was served with a notification of the claim on September 16, 2015. On January 15, 2016, Ecuador filed a motion to dismiss. As of the date of this Offering Circular, the District Court continues to consider Ecuador's motion to dismiss.

BALANCE OF PAYMENTS AND FOREIGN TRADE

Balance of Payments

Given Ecuador's dollarized economy, the balance of payments is important in determining money supply. A positive balance of payments would increase money supply and a negative balance of payments would decrease money supply. Between 2011 and 2015, Ecuador experienced fluctuations between balance of payment deficits and surpluses. While there were surpluses in 2011 and 2013, there were deficits in 2012, 2014 and 2015.



Source: Based on Figures from the Central Bank Balance of Payments Quarterly Bulletin for the First Quarter of 2016.

The increasing price of petroleum contributed to the U.S.\$272.0 million surplus in the balance of payments in 2011. In 2012, an increase in Government investment contributed to a deficit of U.S.\$581.9 million. In 2013, an improvement in the financial account that was the result of an increase in bilateral debt and corresponding loan disbursements contributed to a balance of payments surplus of U.S.\$1,845.9 million. However, the current account deficit of U.S.\$930.5 million registered in 2013 represents a decrease compared to the U.S.\$165.3 million current account deficit registered in 2012. This deficit is the result of an increase in imports, particularly with respect to imported capital goods and raw materials.

In 2014, Ecuador had a balance of payment deficit of U.S.\$424.5 million as a result of a decrease in the capital and financial account. The capital and financial account decreased from U.S.\$2,921.7 million in 2013 to U.S.\$326.8 million in 2014 as a result of a decrease in investment for that year. However, the current account improved from a deficit of U.S.\$930.5 million in 2013 to a deficit of U.S.\$526.7 million in 2014. This improvement was due to the improvement in the trade balance from a deficit of U.S.\$528.6 million in 2013 to a deficit of U.S.\$63.5 million in 2014, which was due to an increase in non-petroleum exports in 2014, particularly banana and shrimp exports.

In 2015, Ecuador's balance of payment deficit grew to U.S.\$1,488.4 million as a result of a decrease in the current account. The current account decreased from a deficit of U.S.\$526.7 million in 2014 to a deficit of U.S.\$2,092.1 million in 2015. The expansion of the deficit in the current account was due to an increase in the deficit in the balance of trade from U.S.\$63.5 million in 2014 to a deficit of U.S.\$1,649.8 in 2015. The increase in the deficit was the result of a decline in the price of oil.

For the first quarter of 2016, there was a balance of payment deficit of U.S.\$90.7 million, a reduction of U.S.\$202 million compared to the U.S.\$292.7 million balance of payment deficit for the first quarter of 2015. Additionally, in the first quarter of 2016, the current account registered a deficit of U.S.\$32.9 million and the capital and financial account registered a deficit of U.S.\$169.3 million.

In the years from 2011 to 2015, the total balance of payments has heavily depended on petroleum exports. Although non-petroleum exports are increasingly becoming a larger portion of the Republic's GDP, there has been a non-petroleum trade balance deficit for the past from 2011 to 2015. Until the last quarter of 2014, increasing petroleum exports due to the increase in petroleum prices have offset this deficit and resulted in yearly trade balance surpluses or reduced deficits. The time period from 2011 to 2015 has also seen a decrease in remittances from U.S.\$2,672.4 million in 2011 to U.S.\$2,466.9 million in 2012 and U.S.\$2,449.5 million in 2013 to a slight increase to U.S.\$2,461.7 million in 2014 and a decrease to U.S.\$2,377.8 million in 2015. These decreases in remittances are currently continuing due to the recent weakening of the euro against the dollar and the ongoing economic recession in Spain, which represents a quarter of all remittances to Ecuador.

The following table sets forth information regarding the Republic's balance of payments for the periods indicated.

Balance of Payments⁽⁴⁾
(in millions of U.S.\$)

	For the Year Ended December 31,					For the Quarter Ended March 31,	
	2011	2012	2013	2014	2015	2015	2016
Current Account.....	-401.9	-165.3	-930.5	-526.7	-2,092.1	-892.2	-32.9
Trade balance	-302.6	49.9	-528.6	-63.5	-1,649.8	-775.4	20.3
Exports (FOB) ⁽¹⁾	23,082.3	24,568.9	25,586.8	26,596.5	19,048.7	5,063.5	3,786.4
Petroleum and derivatives	12,944.9	13,792.0	14,107.2	13,275.5	6,660.1	1,747.9	896.2
Non-petroleum	9,377.5	9,972.8	10,643.7	12,448.9	11,670.6	3,122.5	2,731.0
Non-registered commerce and other exports.....	759.9	804.1	835.9	872.1	718	193.2	159.2
Imports (FOB)	-23,384.9	-24,518.9	-26,115.3	-26,660.0	-20,698.5	-5,838.9	-3,766.0
Services	-1,562.7	-1,391.1	-1,422.8	-1,170.7	-774.0	-239.5	-145.6
Rendered services (credit)	1,587.5	1,807.2	2,038.1	2,346.3	2,422.5	632.2	566.3
Transportation	398.9	411.9	432.6	437.0	475.5	109.0	91.5
Travel	843.4	1,032.5	1,246.2	1,482.1	1,551.4	413.4	391.8
Other	345.2	362.8	359.4	427.1	395.7	109.8	82.9
Rendered services (debit)	-3,150.2	-3,198.4	-3,460.9	-3,517.0	-3,196.6	-871.8	-711.9
Transportation	-1,761.7	-1,708.4	-1,708.9	-1,743.9	-1,510.1	-420.7	-292.6
Travel	-593.7	-610.6	-622.5	-634.6	-638.6	-156.9	-162.1
Other	-794.9	-879.4	-1,129.5	-1,138.5	-1,047.8	-294.1	-257.1
Investment income	-1,259.0	-1,304.3	-1,378.0	-1,556.6	-1,746.1	-379.8	-455.2
Inflows (credit)	84.5	105.3	112.6	120.6	136.9	32.4	35.5
Outflows (debit)	-1,343.5	-1,409.6	-1,490.6	-1,677.3	-1,882.9	-412.2	-490.7
Employees' remuneration	-7.6	-8.4	-9.8	-11.4	-13.5	-3.4	-3.9
Direct investment income	-700.9	-677.4	-683.6	-666.2	-600.4	-167.6	-129.2
Portfolio investment income	-61.5	-64.0	-63.7	-143.2	-230.9	-0.1	-78.8
Other	-573.4	-659.8	-733.6	-856.4	-1,038.1	-241.0	-278.8
Net transfers	2,722.4	2,480.2	2,398.8	2,264.1	2,077.8	502.6	547.6
Emigrant remittances	2,672.4	2,466.9	2,449.5	2,461.7	2,377.8	530.4	594.7
Capital and financial account	452.7	-514.0	2,921.7	326.8	568.4	693.4	-169.3
Capital account.....	82.3	121.5	66.1	66.8	-69.1	18.3	-535.5
Financial account	370.4	-635.5	2,855.6	260.1	637.5	675.0	366.2
Direct Investment	643.7	567.0	726.5	772.9	1,298.7	183.2	153.8
Portfolio Investment	41.0	66.7	-909.8	1,500.4	1,473.4	611.2	-328.1
Other Investment	-314.3	-1,269.2	3,039.0	-2,013.2	-2,134.6	-119.4	540.4
Errors and omissions	221.1	97.4	-145.3	-224.6	35.2	-93.9	111.5
Total balance of payments	272.0	-581.9	1,845.9	-424.5	-1,488.4	-292.7	-90.7
Financing	-272.0	581.9	-1,845.9	424.5	1,488.4	292.7	90.7
International Reserves ⁽²⁾	-335.6	475.1	-1,878.0	411.5	1,453.1	281.3	-77.1
IMF loans	-	-	-	-	-	-	-
Exceptional Financing, net ⁽³⁾	63.6	106.8	32.1	13.0	35.3	11.4	167.9

Source: Based on Figures from the Central Bank Analytical Balance of Payments Quarterly Bulletin for the First Quarter of 2016.

- (1) Figures differ from "Exports-(FOB)" charts and "Real GDP by Expenditure" chart due to the inclusion of non-registered commerce and "other exports." "Non-registered commerce" includes goods, which for some reason are not registered by customs. Ecuadorian customs may not register commerce under various situations including, but not limited to, delays in the submission of export forms, false declarations, different statistical treatment in the country with which Ecuador has engaged in trade, sales of contraband, and arms trade. "Other exports" includes exports of goods for processing, repair of goods, goods acquired in ports through various transportation means and non-monetary gold.
- (2) Data corresponds to changes in International Reserves. Negative numbers indicate an increase in International Reserves and positive numbers indicate a reduction.
- (3) Data refers to the refinancing of existing debt, financing necessary for repayment of arrears, and loans procured for the purpose of financing the balance of payments.
- (4) Balance of payments data is published by the Central Bank on an annual and quarterly basis.

Current Account

Ecuador recorded a current account deficit of U.S.\$401.9 million in 2011. The 74.7% decrease in the deficit in 2011 from 2010 was due to the favorable performance of the balance of goods, particularly the increase in oil exports, which increased by 33.8%. In 2012, the oil exports continued to improve due to the increasing price of petroleum. Exports increased by 6.5% in 2012 and contributed to a reduced deficit of U.S.\$165.3 million, a 58.9% reduction compared to 2011.

In 2013, the current account registered a deficit of U.S.\$930.5 million, which was partly due to the result of lower services and investment income balances and primarily a result of a decrease in the trade balance due to an increase of imports. The current account deficits were financed by external debt, including Chinese bilateral credits. In 2014, the current account improved and registered a deficit of U.S.\$526.7 million, which was the result of an increase in non-petroleum exports. The current account for 2015 resulted in a deficit of U.S.\$2,092.1 million caused by the decrease in the price of petroleum exports. The current account for the first quarter of 2016 resulted in a deficit of U.S.\$32.9 million, an improvement compared to the U.S.\$892.2 million deficit in the first quarter of 2015.

Although the levels of imports increased from 2011 to 2014, the rate of increase has declined over this four year period due to the Republic's promotion of domestic production. In 2011, imports increased by 19.1% compared to the previous year, while the rate of increase declined to 4.8% in 2012, increased slightly to 6.5% in 2013 and declined to 2.1% in 2014. In 2015, imports totaled U.S.\$20,698.5 million, compared to U.S.\$26,660 million for 2014 registering the first decrease in the levels of imports in the past five years. This decrease in the level of imports was due to budget adjustments that limited the amount of investment to be used in the purchase of imports.

The trade balance registered a surplus of U.S.\$49.9 million in 2012, an increase from a deficit of U.S.\$302.6 million in 2011. The surplus was due to the increase in petroleum exports coupled with the reduced rate of growth in imports as compared to the previous year. The trade balance registered a deficit of U.S.\$528.6 million in 2013 due to the increase in imports from the previous year. In 2014, the trade balance registered a deficit of U.S.\$63.5 million. Increased shrimp exports for the period contributed to this reduction in the deficit. In 2015, the trade balance registered a deficit of U.S.\$1,649.8 million, which was the result of lower revenues from petroleum exports as a result of the decline in the price of oil. The trade balance for the first quarter of 2016 resulted in a surplus of U.S.\$20.3 million, an improvement compared to the U.S.\$775.4 million deficit in the first quarter of 2015.

The services balance registered a deficit of U.S.\$1,391.1 million in 2012, which was a decrease from the deficits of U.S.\$1,562.7 million in 2011. Although there has been a negative services balance from 2011 to 2015, general increases in travel and transportation services have contributed to a decrease in the deficit. The services balance registered a deficit of U.S.\$1,422.8 million in 2013, which is a U.S.\$31.7 million increase from 2012. This increase was the result of an increase in the amount of services that were contracted to work on domestic infrastructure projects. In 2014, the services balance registered a deficit of U.S.\$1,107.7 million. In 2015, the services balance improved to a deficit of U.S.\$774 million as a result of an improvement in the rendered services balance. The services balance for the first quarter of 2016 resulted in a surplus of U.S.\$1.0 million, an improvement compared to the U.S.\$239.5 million deficit in the first quarter of 2015.

The investment income balance registered a deficit of U.S.\$1,746.1 million in 2015, which was an increase from the deficits of U.S.\$1,556.6 million, U.S.\$1,378.0 million, U.S.\$1,304.3 million and U.S.\$1,259.0 million in 2014, 2013, 2012 and 2011, respectively. The increase in the investment income deficit is primarily due to the increased outflows as compared to the previous year and year-to-year fluctuations since 2011 generally reflect trends on returns and investment performance experience throughout the global economy. Further, the continued increases from 2011 to 2015 reflect an increase in interest payments related to the increase in bilateral debt and corresponding loan disbursements. For more information regarding the Republic's public debt, see "Public Debt–Debt Obligations." The investment income for the first quarter of 2016 resulted in a deficit of U.S.\$455.2 million, a decrease compared to the U.S.\$379.8 million deficit in the first quarter of 2015.

Remittances, which are primarily denominated in U.S dollars and Euros, are an important source of net transfers to Ecuador's current account. In 2011, remittances increased by 3.1%, but decreased by 7.7% and 0.7%, in 2012 and 2013, respectively. Remittances increased by 0.4% to U.S.\$2,461.7 million in 2014 and decreased by 3.4% to U.S.\$2,377.8 million in 2015. The year on year fluctuation in aggregate remittance levels reflect the economic situation of those countries from where the remittances are generated. In 2015, the majority of remittances came from the United States, Spain and Italy with 56.0%, 25.7% and 6.2%, respectively. The decrease in remittances for 2015 is primarily attributable to the economic situation in each of these countries as well as the depreciation of the euro relative to the dollar during this period. For the first quarter of 2016, remittances totaled U.S.\$594.7 million, an increase compared to the U.S.\$530.4 million total for the first quarter of 2015.

Capital and Financial Account

The capital and financial account measures valuations in Ecuador's assets and liabilities against those of the rest of the world (other than valuations from exceptional financings). In 2011, the capital and financial account showed a surplus of U.S.\$452.7 million. This surplus is due to the increase in direct investment explained below. In 2012, the capital and financial account registered a deficit of U.S.\$514.0 million due to the net flows of other investments such as trade credits, currency, and deposits. In 2013, the capital and financial account registered a large surplus of U.S.\$2,921.7 million primarily due to the net proceeds from the 2024 Bonds. In 2015, the capital and financial account registered U.S.\$568.4 million, an increase from a surplus of U.S.\$326.8 million in 2014. This increase was the result of increased foreign investment in 2015. The capital and financial account for the first quarter of 2016 resulted in a deficit of U.S.\$169.3 million, a decrease compared to the U.S.\$693.4 million deficit in the first quarter of 2015.

In Ecuador, direct investment totaled U.S.\$643.7 million in 2011 and decreased to U.S.\$567.0 million in 2012. Although this represents a decrease from 2011 Ecuador experienced an increase in direct investment for 2013, where direct investment totaled U.S.\$726.5 million, which represents a 28.1% increase from 2012. This increase was due to continuing investment in Ecuador's infrastructure, in particular, its electricity and water sector. In 2014 and 2015, total direct investment continued to increase to U.S.\$772.9 million and U.S.\$1,298.7 million, respectively. These increases were principally due to an increase in investment in the mining sector. For the first quarter of 2016, direct investment totaled U.S.\$153.8 million, a decrease compared to the U.S.\$183.2 million total for the first quarter of 2015.

The investment portfolio showed a surplus of U.S.\$41.0 million and U.S.\$66.7 million for the years 2011 and 2012, respectively. In 2013, the investment portfolio showed a deficit of U.S.\$909.8 million. In 2014 and 2015, the investment portfolio registered a surplus of U.S.\$1,500.4 million and U.S.\$1,497.1 million, respectively. The investment portfolio for the first quarter of 2016 registered a deficit of U.S.\$328.1 million, a decrease compared to the U.S.\$611.2 million registered in the first quarter of 2015.

International Reserves

Ecuador's International Reserves (defined herein), include, among other items, cash in foreign currency, gold reserves, reserves in international institutions, and deposits from Ecuador's financial institutions and non-financial public sector institutions. In 2011, 2012 and 2013, Ecuador's International Reserves totaled U.S.\$2,957.6 million, U.S.\$2,482.5 million and U.S.\$4,360.5 million, respectively. In 2015, Ecuador's International Reserves totaled U.S.\$2,496.0 million, a decrease from 2014, when International Reserves totaled U.S.\$3,949.1 million. This decrease was due to transfers to the Liquidity Fund for the purpose of strengthening the financial safety net.

On May 16, 2014, the Central Bank and Goldman Sachs International ("GSI") entered into a 3-year gold transaction in which the Central Bank transferred an initial amount of approximately 465,619 ounces of gold (valued at the date of the transaction at approximately U.S.\$604 million) and in return received a fixed rate on the value of the gold transferred to GSI. Under this transaction, upon maturity, the Central Bank is entitled to receive the return of the gold from GSI without payment by the Central Bank, provided that certain credit events relating to the Republic do not occur. Upon the occurrence of any applicable credit event, GSI will retain the gold unless the Central Bank pays its dollar value. In the event the price of gold declines and is worth less than U.S.\$470 million, the Central Bank must deliver an additional amount of gold to make up the difference subject to a limit of a total of

approximately 697,619 ounces of gold. Accordingly, the Republic's gold reserves could decrease in the event the price of gold declines or a credit event occurs. In certain limited circumstances some gold can be returned to Ecuador if the price increases above a certain threshold.

Foreign Trade

Merchandise and Services Trade

Ecuador has historically been an exporter of primary goods, and an importer of raw materials, capital, and intermediate goods, as well as manufactured products. The Republic's main exports are relatively limited in terms of sectors and export markets. Two of Ecuador's principal export markets, the United States and the European Union, have been significantly affected by the global recession that started in 2008-2009. From 2011 to 2015, the United States, the European Union and the Andean Community were the destinations for the majority of Ecuador's exports. Ecuador continues to seek to expand the types of goods it exports as well as its trading partners through engaging with, and obtaining funding from development banks and other strategic initiatives. Since 1972, petroleum and petroleum derivatives have comprised the majority of Ecuadorian export products. According to exports (FOB) data, in 2011, 2012, 2013, 2014 and 2015 exports of petroleum and petroleum derivatives accounted for approximately 58.0%, 58.0%, 57.0%, 51.6% and 36.3% of total exports, respectively. Between 2011 and 2014, non-petroleum exports, which include, among others, flowers, vehicles, manufactured textile products and seafood, increased an average of 10.0% per year, but decreased by 6.3% in 2015. Ecuador's total export trade has grown steadily during the period between 2011 and 2014, but decreased in 2015, due to a decrease in revenues from oil exports caused by the decrease in the price of oil in 2014 and 2015. According to exports (FOB) data, in 2015, total exports decreased to U.S.\$18,331 million, compared to U.S.\$25,724 million in 2014.

The following table shows the overall balance of trade for the periods indicated:

Overall Balance of Trade ⁽¹⁾
(in millions of U.S.\$)

	Exports	Imports	Balance
Year Ended December 31, 2011.....	23,082.3	-23,384.9	-302.6
Year Ended December 31, 2012.....	24,568.9	-24,518.9	49.9
Year Ended December 31, 2013.....	25,586.8	-26,115.3	-528.6
Year Ended December 31, 2014	26,596.5	-26,660.0	-63.5
Year Ended December 31, 2015.....	19,048.7	-20,698.5	-1,649.8
First Quarter of 2015	5,063.5	-5,838.9	-775.4
First Quarter of 2016	3,786.4	-3,766.0	20.3

Source: Based on Figures from the Central Bank Balance of Payments Quarterly Bulletin for the First Quarter of 2016.

(1) Data for exports and imports reflect figures from "Balance of Payments" chart.

Trade Policy

Ecuador's trade policy has focused on protecting dollarization, avoiding a decrease in the money supply, integrating into the international economy, as well as increasing the access of Ecuadorian goods and services to new markets and, until recently, reducing non-tariff barriers to trade.

Until the late 1980s, Ecuador used tariff barriers to protect its domestic industry against foreign competition. Import duties ranged from zero to 290%, with up to fourteen different rates.

In the early 1990s, the Government began to significantly liberalize its foreign trade policy. As a result of those reforms, the tariff structure was simplified and currently consists of a seven-tiered structure (0%, 3%, 5%, 10%, 15%, 20% and 35%), with levels of 5% for most raw materials and capital goods, 10% or 15% for intermediate goods, and 20% for most consumer goods. A small number of products, including planting seeds, are subject to a tariff rate of zero, and the 35% tariff is exclusively applied to the automobile industry. Average tariff levels were reduced from 29% in 1989 to 6% in 2004.

In 2007, Ecuador introduced an exit tax of 0.5% on any currency leaving the country (the “Currency Outflow Tax”), which was subject to a number of exemptions. Since December 2007, Ecuador has progressively increased the Currency Outflow Tax as a measure to support a positive balance of trade. The tax acts as a devaluation of the U.S. dollar in Ecuador, thereby making imports more expensive and fostering local production. In December 2007, Ecuador increased the Currency Outflow Tax to 1% and eliminated the applicable exemptions. In December 2009, the Currency Outflow Tax increased from 1% to 2% and included an exemption for the first U.S.\$500 per transaction. In November 2011, the Currency Outflow Tax increased from 2% to 5% and included an exemption for the first U.S.\$1,000 in a 15-day period as long as no debit or credit card is used in the transaction. Payments of external public debt and dividends paid to foreign shareholders are also exempt from this tax. In 2016, the exemption was raised to U.S.\$1,098 and U.S.\$5,000 if a debit card or credit card is used.

In January 2009, the Republic, through the *Consejo de Comercio Exterior e Inversiones* (“Foreign Commerce and Investment Council”) (now the Committee on Foreign Trade), imposed tariffs of general applicability on some consumer goods imports, including products imported from countries with which Ecuador has commercial treaties honoring preferential status. Ecuador enforced these tariffs for one year, in order to restore its trade balance.

On December 12, 2014, representatives from Ecuador’s Ministry of Foreign Commerce signed a trade agreement with the European Union, which requires approval of each of the Constitutional Court, the National Assembly, the European Parliament, and the legislatures of the 28 EU member countries in order to be effective. The agreement is intended to provide expanded access to the European market for Ecuadorian exports and lower tariff duties on European imports into the Ecuadorian market. As part of the agreement, Ecuador will be a beneficiary of the European Union’s Generalized Scheme of Preferences Plus program until 2016 or until the trade agreement is in place. This benefit allows Ecuador to not pay tariffs on exports of Ecuadorian products into the European Union.

On January 25, 2015, EPCN and Peru’s Cementos Yura S.A. signed a U.S.\$230 million contract for the construction of a clinker production plant. The plant will be built in the city of Riobamba and will produce an estimated 2,400 tons of clinker per day. As part of the agreement, Cementos Yura S.A. will hold a 63.5% stake in EPCN. The Government has stated that the domestic production of clinker through this agreement will reduce imports of cement products into the Republic.

In March 2015, the *Comité de Comercio Exterior* (“Committee on Foreign Trade”) issued a resolution imposing temporary and non-discriminatory tariff surcharges on various consumer goods imports, in order to regulate national imports and reduce the balance of payments deficit. The tariff surcharges are in addition to the ones currently in place and do not apply to certain imports, including those exported by less developed member countries of the *Asociación Latinoamericana de Integración* (“Latin American Integration Association”).

In January 2016, the Committee on Foreign Trade modified certain tariff surcharges set by the March 2015 resolution, from a 45% surcharge to a 40% surcharge. Additionally, on April 29, 2016, the Committee on Foreign Trade delayed the release of the tariff surcharges for an additional year.

There have also been other measures taken to increase local production, including the creation of the Ministry of Commerce and the enactment of the Production Code, see “The Ecuadorian Economy – Economic and Social Policies – Production Code.”

Regional Integration

Ecuador’s trade integration policy consists of entering new markets strategically, promoting the growth of non-traditional exports, and encouraging investment. Ecuador has intensified its efforts to strengthen trade arrangements with its primary partners, including:

- Removing regional trade restrictions as a member of ALADI (a regional external trade association that includes Ecuador, Argentina, Bolivia, Brazil, Chile, Colombia, Cuba, Mexico, Panama, Paraguay, Peru, Uruguay and Venezuela);

- Reducing or eliminating tariff barriers to trade, as a member of the Andean Community, except with respect to measures taken to increase the Republic's balance of payments in 2009 as a result of the global recession;
- Entering into bilateral trade agreements with Colombia, Venezuela and Bolivia that are aimed at levying uniform tariffs on goods from third parties;
- Entering into a bilateral trade agreement with Chile in 1994, which was expanded in 2008;
- Negotiating a bilateral association agreement with Paraguay;
- Maintaining preferential access to European Union through preferential trade status;
- Entering into the *Sistema Unitario de Compensación Regional* ("Regional Payment Compensation Unitary System" or "SUCRE"), with the governments of Bolivia, Ecuador, Cuba, Honduras, Nicaragua and Venezuela in 2009, which sets forth an account unit and function as a means of payment, intended to be used by national banks and to eliminate the use of currency for international trade transactions; and
- Signing a trade agreement with the European Union in July 2014 that expands access to the European market for Ecuadorian exports and lowers tariff duties on European imports into the Ecuadorian market.

Composition of Trade

In 2011, export activity increased, with total exports reaching U.S.\$22,322 million, an increase of 28% over 2010 levels. As in 2010, increases in both oil and non-oil exports resulted in overall export growth. Growth was particularly evident in crude oil (32%), petroleum derivatives (59%), coffee (109%), cacao (35%) and shrimp (39%).

In 2012, exports continued to grow, although at a slower pace than in 2011. Exports increased 6% in 2012, reaching a total of U.S.\$ 23,765 million. Growth in this year was primarily the result of the increase in crude oil exports (8%), shrimp exports (8%) and tuna (and other fish) exports (26%).

In 2013, exports increased to U.S.\$24,751 million, an increase of 4% compared to 2012. The increase was primarily due to improved banana (12%) and cacao (23%) production, a sharp increase in shrimp exports (40%), and an increase in crude oil exports (6%).

In 2014, despite a 3% decrease in crude oil exports, overall exports increased to U.S.\$25,724 million, an increase of 4%, compared to 2013. The increase was primarily due to improved banana (11%) and cacao (36%) production, as well as a sharp increase in shrimp exports (41%).

In 2015, overall exports decreased to U.S.\$18,331 million, a decrease of 29% compared to 2014. This decrease was primarily due to a decrease in crude oil exports (51%), as well as decreases in shrimp exports (9%) and exports of tuna and other fish (18%). The decrease in crude oil exports reflected the decrease in the price of crude oil in 2015.

In the first quarter of 2016, overall exports decreased to U.S.\$3,627 million, a decrease of 26% from U.S.\$4,870 million in the first quarter of 2015 primarily caused by a 50% decrease in crude oil exports.

The following table sets forth information regarding exports for the periods indicated.

Exports - (FOB) ⁽¹⁾

(in millions of U.S.\$ and as a % of total exports)

	For the Year Ended December 31,										For the Quarter Ended March 31,			
	2011		2012		2013		2014		2015		2015		2016	
	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%
Crude oil	11,800	52.9	12,711	53.5	13,412	54.2	13,016	50.6	6,355	34.7	1,662	34.1	837	23.1
Bananas and plantains.....	2,246	10.1	2,078	8.7	2,323	9.4	2,577	10.0	2,808	15.3	756	15.5	712	19.6
Petroleum derivatives	1,145	5.1	1,081	4.5	695	2.8	259	1.0	305	1.7	86	1.8	59	1.6
Shrimp	1,178	5.3	1,278	5.4	1,784	7.2	2,513	9.8	2,280	12.4	560	11.5	518	14.3
Cacao	474	2.1	345	1.5	423	1.7	576	2.2	693	3.8	200	4.1	171	4.7
Coffee	117	0.5	75	0.3	28	0.1	24	0.1	18	0.1	4	0.1	4	0.1
Tuna and other fish	257	1.2	324	1.4	265	1.1	281	1.1	231	1.3	76	1.6	57	1.6
Flowers	676	3.0	714	3.0	830	3.4	918	3.6	820	4.5	287	5.9	234	6.5
Metal Manufacturing.....	696	3.1	897	3.8	508	2.1	519	2.0	510	2.8	132	2.7	109	3.0
Other products ⁽²⁾	3,733	16.7	4,262	17.9	4,483	18.1	5,041	19.6	4,311	23.5	1,108	22.8	927	25.6
Total	22,322	100	23,765	100	24,751	100	25,724	100	18,331	100	4,870	100	3,627	100

Source: Based on figures from the Central Bank June 2016 Monthly Bulletin (Table 3.1.1).

- (1) Total export figures differ with export figures from “Balance of Payments” chart and “Real GDP by Expenditure” chart due to the exclusion of “non-registered commerce” and “other exports” figures in calculation of total exports in this chart. See footnote 1 of “Balance of Payment” chart.
- (2) “Other products” consist of non-traditional primary and manufactured products, including canned seafood, vehicles and chemicals.

The following table sets forth information regarding imports for the periods indicated.

Imports - (CIF)

(in millions of U.S.\$ and as a % of total imports)

	For the Year Ended December 31,										For the Quarter Ended March 31,			
	2011		2012		2013		2014		2015		2015		2016	
	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%
Consumer goods														
Non-durable goods	2,862	11.7	2,931	11.5	2,997	11.1	3,014	10.9	2,695	12.5	650	10.6	494	12.7
Durable goods.....	2,144	8.8	2,162	8.5	2,210	8.2	2,230	8.0	1,593	7.4	572	9.4	302	7.8
Postal traffic.....	152	0.6	173	0.7	240	0.9	208	0.8	131	0.6	29	0.5	30	0.8
Fuel and	5,369	22.0	5,612	22.0	6,110	22.6	6,617	23.9	4,171	19.4	1,162	19.0	594	15.3
Primary Materials														
Agriculture	1,011	4.1	1,059	4.2	1,124	4.2	1,351	4.9	1,199	5.6	328	5.4	245	6.3
Industrial	5,877	24.1	5,796	22.7	6,198	22.9	6,147	22.2	5,445	25.3	1,466	24.0	1,090	28.1
Construction	853	3.5	968	3.8	1,010	3.7	1,120	4.0	658	3.1	203	3.3	105	2.7
Capital Goods														
Agriculture	108	0.4	121	0.5	125	0.5	128	0.5	144	0.7	34	0.6	26	0.7
Industrial	4,209	17.2	4,642	18.2	5,077	18.8	4,898	17.7	3,948	18.3	1,130	18.5	754	19.4
Transportation	1,807	7.4	1,969	7.7	1,863	6.9	1,954	7.0	1,471	6.8	518	8.5	229	5.9
Other	45	0.2	46	0.2	67	0.2	60	0.2	63	0.3	12	0.2	11	0.3
Total	24,438	100	25,477	100	27,021	100	27,726	100	21,518	100	6,103	100	3,880	100

Source: Based on figures from the Central Bank June 2016 Monthly Bulletin (Table 3.1.7).

Ecuador's largest trading partners are the United States, the European Union, Peru, Chile, and Colombia. The following table sets forth information regarding the country of destination of the Republic's exports.

Exports - (FOB) by Destination Country⁽¹⁾

(in millions of U.S.\$, and as a % of total exports)

	2011		2012		2013		2014		2015	
	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%
Americas										
United States	9,771	43.8	10,617	44.7	11,043	44.6	11,240	43.7	7,226	39.4
Peru	1,766	7.9	1,991	8.4	1,901	7.7	1,582	6.1	934	5.1
Colombia	1,026	4.6	1,056	4.4	912	3.7	951	3.7	784	4.3
Chile.....	1,106	5.0	1,991	8.4	2,457	9.9	2,328	9.0	1,138	6.2
Other (Americas)	4,058	18.2	2,981	12.5	2,126	8.6	2,951	11.5	1,689	9.2
Total Americas.....	17,726	79.4	18,636	78.4	18,439	74.5	19,052	74.1	11,771	64.2
Europe										
European Union (EU).....	2,690	12.0	2,446	10.3	3,011	12.2	2,981	11.6	2,773	15.1
Italy	582	2.6	487	2.1	416	1.7	431	1.7	326	1.8
United Kingdom	139	0.6	164	0.7	170	0.7	176	0.7	166	0.9
Germany	493	2.2	377	1.6	411	1.7	526	2.0	549	3.0
Spain	468	2.1	442	1.9	777	3.1	525	2.0	484	2.6
Other (EU).....	1,007	4.5	975	4.1	1,237	5.0	1,323	5.2	1,248	6.8
Rest of Europe.....	923	4.1	947	4.0	1,097	4.4	1,072	4.2	903	5.0
Total Europe	3,613	16.2	3,392	14.3	4,108	16.6	4,053	15.8	3,676	20.1
Asia										
Taiwan	11	0.0	6	0.0	8	0.0	7	0.0	6	0.0
Japan	349	1.6	657	2.8	572	2.3	326	1.3	331	1.8
China.....	192	0.9	392	1.6	564	2.3	485	1.9	723	3.9
South Korea.....	29	0.1	40	0.2	45	0.2	57	0.2	173	0.9
Other countries.....	304	1.4	483	2.0	864	3.5	1,558	6.1	1,475	8.0
Total Asia.....	885	4.0	1,578	6.6	2,053	8.3	2,433	9.5	2,708	14.8
Africa.....	65	0.3	110	0.5	99	0.4	122	0.5	105	0.6
Oceania	31	0.1	31	0.1	39	0.2	45	0.2	51	0.3
Other countries	3	0.0	17	0.1	13	0.1	19	0.1	20	0.1
Total.....	22,322	100	23,765	100	24,751	100	25,724	100	18,331	100

Source: 2011 and 2012 figures based on figures from the Central Bank December 2015 Monthly Bulletin (Table 3.1.4); 2013, 2014 and 2015 figures based on figures from the Central Bank June 2016 Monthly Bulletin (Table 3.1.4).

- (1) Total export figures differ with export figures from "Balance of Payments" chart and "Real GDP by Expenditure" chart due to the exclusion of "non-registered commerce" and "other exports" figures in calculation of total exports in this chart. See footnote 1 of "Balance of Payment" chart.

The following table sets forth information regarding the country of origin of the Republic's imports for the periods presented.

Imports (CIF) by Country of Origin
(in millions of U.S.\$)

	For the Year Ended December 31,				
	2011	2012	2013	2014	2015
Americas⁽¹⁾					
Mexico.....	870	896	963	967	656
United States.....	6,120	6,802	7,755	8,751	5,806
Central America	89	94	107	104	96
South America and the Caribbean					
Argentina	544	480	415	501	235
Brazil.....	938	929	871	863	712
Bolivia	9	31	110	114	183
Colombia	2,221	2,198	2,288	2,201	1,766
Chile.....	619	628	628	583	551
Panama	-	1,601	1,765	1,442	1,022
Peru	1,142	1,130	1,118	1,024	789
Rest of Americas and Caribbean	3,598	1,091	676	678	520
TOTAL AMERICA	16,150	15,880	16,697	17,227	12,335
Europe					
Germany	568	592	578	578	497
Italy	284	284	292	326	344
Spain	325	613	738	618	430
UK.....	145	486	341	151	87
Rest of EU	996	939	961	1,315	1,126
Rest of Europe.....	295	361	301	302	313
TOTAL EUROPE	2,614	3,275	3,210	3,288	2,796
Asia					
China.....	2,290	2,829	3,476	3,613	3,266
Japan	661	732	599	574	478
Taiwan	195	193	205	213	182
South Korea	930	796	1,008	902	792
Rest of Asia	1,116	1,363	1,442	1,548	1,431
TOTAL ASIA.....	5,191	5,913	6,731	6,851	6,148
Postal Traffic and regions excluding the Americas, Europe and Asia.....	483	409	383	360	239
Total.....	24,438	25,477	27,021	27,726	21,518

Source: 2011 and 2012 figures based on figures from the Central Bank December 2015 Monthly Bulletin (Table 3.1.4); 2013, 2014 and 2015 figures based on figures from the Central Bank June 2016 Monthly Bulletin (Table 3.1.4).

(1) Canada included in Rest of Americas and Caribbean.

Foreign Direct Investment

Ecuador's foreign direct investment policy is governed largely by national implementing legislation for the Andean Community's Decisions 291 of 1991 and 292 of 1993. Generally, foreign investors enjoy the same rights

Ecuadorian national investors have to form companies. Foreign investors may own up to 100% of a business entity in most sectors without prior Government approval, and face the same tax regime.

Currency transfers overseas are unrestricted with respect to earnings and profits distributed abroad resulting from registered foreign investment provided that obligations relating to employee revenue sharing and relevant taxes, as well as other corresponding legal obligations, are met.

Certain sectors of the Ecuadorian economy are reserved for the state. All foreign investment in petroleum exploitation and development in Ecuador must be carried out under contracts with the Hydrocarbons Secretariat of Ecuador.

Direct foreign investment reached U.S.\$643.7 million, U.S.\$567.0 million, U.S.\$726.5 million, and U.S.\$772.9 million in 2011, 2012, 2013 and 2014, respectively. Direct foreign investment in 2015 reached U.S.\$1,298.7 million, which is the largest amount of direct foreign investment in the last five years. In 2015, the petroleum sector represented the largest percentage of direct foreign investment with 43% of all investment. Manufacturing and services rendered to businesses followed representing 20.3% and 17.3% of direct foreign investment, respectively. In the first quarter of 2016, direct foreign investment reached U.S.\$153.8 million, a decrease compared to the U.S.\$183.2 million in the first quarter of 2015.

The following table sets forth information regarding foreign direct investment by sector for the periods indicated.

Foreign Investment by Sector														
(in millions of U.S.\$, and as a % of total foreign investment)														
	For the Year Ended December 31,										For the Quarter Ended March 31,			
	2011		2012		2013		2014		2015		2015		2016	
	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%
Agriculture, forestry, hunting and fishing.....	0.5	0.1	17.8	3.1	20.8	2.9	38.9	5.0	67.6	5.2	1.4	0.8	7.5	4.9
Commerce ⁽¹⁾	77.8	12.1	83.3	14.7	110.2	15.2	148.4	19.2	172.2	13.3	90.9	49.6	13.6	8.9
Construction	50.1	7.8	31.1	5.5	68.7	9.5	4.3	0.6	4.0	0.3	2.0	1.1	5.3	3.4
Electricity and water ...	-10.8	-1.7	46.4	8.2	29.2	4.0	-4.7	-0.6	61.8	4.8	0.3	0.2	-5.7	-3.7
Petroleum ⁽²⁾	379.2	58.9	224.9	39.7	252.9	34.8	685.6	88.7	559.8	43.1	44.8	24.5	105.5	68.6
Manufacturing	121.9	18.9	135.6	23.9	137.9	19.0	107.7	13.9	263.6	20.3	41.7	22.7	25.9	16.8
Social and personal services.....	27.8	4.3	1.7	0.3	-2.3	-0.3	14.1	1.8	-10.8	-0.8	-2.4	-1.3	-4.0	-2.6
Services rendered to businesses	44.7	6.9	39.5	16.2	117.7	16.2	25.6	3.3	224.1	17.3	16.4	9.0	2.6	1.7
Transportation, storage and telecommunications	-47.4	-7.4	-13.4	-2.4	-8.5	-7.4	-247.0	-32.0	-43.6	-3.4	-12.0	-6.5	3.0	2.0
Total	643.7	100	567.0	100	726.5	100	772.9	100	1,298.7	100	183.2	100	153.8	100

Source: Based on Figures from the Central Bank Balance of Payments Quarterly Bulletin for the First Quarter of 2016.

(1) Commerce includes investment in commercial infrastructure and real estate.

(2) Includes mining and natural gas.

The 2008 Constitution contains certain principles relating to foreign investment, including promoting national and international investment, with priority being given to national investment and a complementary role being attributed to international investment; subjecting foreign investment to Ecuador's national legal framework and regulations; prohibiting expropriation without indemnification; limiting access to strategic sectors, which will remain under state control; providing for disputes relating to international agreements to be resolved in a regional (Latin American) forum; and preventing disputes between the Republic and private companies from becoming

disputes between sovereigns. These principles are materialized in the enactment of the Production Code, (see “Economic and Social Policies – Production Code”), the creation of the MICSE and Strategic Ecuador in the procurement of foreign investment (see “The Ecuadorian Economy – Strategic Sectors of the Economy”), and Article 422 of the Constitution, which sets parameters for disputes relating to international agreements.

MONETARY SYSTEM

The Central Bank

The role of the Central Bank is to promote and contribute to the economic stability of the country. It acts as the manager of the public sector's accounts and provides financial services to all public sector institutions that are required to hold their deposit accounts in the Central Bank. Management of these accounts primarily involves transfer operations between entities, including from the Government to other entities, and transfers to accounts in other banks, both foreign and domestic. The Central Bank is also the central coordinator of the payment system. All domestic banks conduct their clearing operations through the Central Bank, and also use the bank to hold their liquidity reserves. In addition, the Central Bank monitors economic growth and economic trends. To accomplish this task, it has developed statistical and research methodologies to conduct analyses and policy recommendations on various economic issues.

The functions of the Central Bank were sharply reduced as a result of the Dollarization Program. It no longer sets monetary policy or exchange rate policy for Ecuador. Instead, the Ecuadorian economy is currently directly affected by the monetary policy of the United States, including U.S. interest rate policy. The Ecuadorian Economic Transformation Law, which made the U.S. dollar legal tender in Ecuador, provided for the Central Bank to exchange, on demand, sucres at a rate of 25,000 sucres per U.S.\$1. The law also prohibited the Central Bank from incurring any additional sucre-denominated liabilities, and required that the Central Bank redeem sucre coins and bank notes for U.S. dollars.

Pursuant to the 2008 Constitution, the role of the Central Bank has changed further in that its authority and autonomy have decreased. Currently, the main functions of the Central Bank are to execute Ecuador's monetary policy, which involves managing the system of payments, investing International Reserves, managing the liquidity reserve, and acting as depository of public funds and as a fiscal and financial agent for the Republic. The Central Bank also sets policy and strategy design for national development, executes the Republic's macroeconomic program, and maintains financial statistics, which it publishes in monthly bulletins.

On January 16, 2013, the Central Bank named Diego Martínez as its new president. On August 12, 2015, after the Monetary and Financial Law abolished the position of president of the Central Bank, the Central Bank named Diego Martínez as its General Manager. According to the Monetary and Financial Law, the Committee of Monetary and Financial Policy Regulation is comprised of delegates from Ecuador's Ministry of Finance, the Ministry of Production and Industrialization, the National Secretary of Planning and Development, the Ministry of Economic Policy, and a delegate appointed by the President. The Superintendent of Banks and the General Manager of the Central Bank may attend committee meetings but have no right to vote. Under the supervision of this committee, the General Manager oversees operations of the Central Bank, which operates through the office of the Vice General Manager in Quito and two other branches in Cuenca and Guayaquil.

The Monetary and Financial Law also establishes the role and structure of public banks, including the Government-owned *Banco de Desarrollo del Ecuador B.P.* (the "Development Bank"), formerly denominated, *Banco del Estado*. Since 1979, the role of the Development Bank has been to finance Government investment and infrastructure projects through loans to municipalities and provinces and to grant loans to municipalities and provinces. As of December 31, 2015, the Development Bank made a total of U.S.\$319 million in disbursements to Ecuador's Autonomous Decentralized Governments.

The Republic is not currently under a structural agreement, such as a stand-by or similar agreement, with the IMF or similar international multilateral institutions. On September 25, 2015, the Executive Board of the IMF concluded its annual Article IV consultation with Ecuador. The consultation took place in Washington D.C. through discussions with officials, and via video and telephone conferences with individuals in the public and private sector in Ecuador. In its published report, the IMF noted the significant improvements in Ecuador's social and economic indicators over the past decade, but also noted that since the fourth quarter of 2014, the economy of Ecuador has been hit by external shocks, including the international decline in oil prices and real exchange rate appreciation. The IMF commended Ecuadorian authorities for adjustment efforts to contain the fiscal debt. The

results of the consultation were announced in an October 21, 2015 press release by the IMF which is available on the IMF website.

On January 8, 2016, the Central Bank issued U.S.\$200 million in bonds governed by Ecuadorian law. The bonds were issued to several of Ecuador's municipalities as payment for value added tax amounts owed to the municipalities by the Government.

Financial Sector

Supervision of the Financial System

The financial sector consists of various financial institutions, insurance companies, and the securities markets, in accordance with the Monetary and Financial Law. In accordance with the Monetary and Financial Law, the Committee of Monetary and Financial Policy Regulation regulates (1) all private sector financial institutions including banks and credit card issuers, (2) public sector and private financial institutions, with respect to their solvency, liquidation, financial prudence and other administrative matters, (3) insurance and re-insurance companies, and (4) the securities markets. In addition, the Committee of Monetary and Financial Policy Regulation provides general oversight and regulation for the financial system, including the Central Bank, the Superintendent of Banks, the COSEDE (defined herein), the Liquidity Fund, and private banks.

The Ecuadorian financial system is composed of the Central Bank, private commercial banks, cooperative banks, and several state development and state-owned banks.

The Monetary and Financial Law permits the establishment of universal banks (banks that can offer all types of banking services), and provides for equal treatment of foreign and domestic financial institutions. Ecuadorian financial institutions may establish foreign offices and invest in foreign financial institutions, with authorization from the Superintendent of Banks. Foreign subsidiaries of Ecuadorian financial institutions must also conform to the guidelines established by the Monetary and Financial Law, in order to promote prudent banking and investment policies, and ensure financial solvency. Each year, external auditors must provide opinions regarding capital adequacy, concentration of loans, interested debtors, and asset classifications on both unconsolidated and consolidated bases for all banks. The Republic has structured its guidelines under the Monetary and Financial Law so as to be consistent with the banking supervision guidelines established by the Basel Committee on Banking Supervision.

The Monetary and Financial Law designates the Superintendent of Banks as the principal regulatory authority for the Republic's financial system. The Superintendent of Banks is tasked primarily with prudential matters including capital adequacy, liquidity earnings, management risks, and the solvency and risk asset quality of financial institutions.

The Monetary and Financial Law creates the Committee of Monetary and Financial Policy Regulation to oversee and regulate the execution of monetary, foreign exchange, financial, insurance, and securities policies of the country. The committee replaces existing regulatory bodies, and also serves as an overall supervisory body to oversee the activities of the Republic's financial entities, including supervisory agencies such as the Superintendent of Banks. The committee is comprised of delegates from Ecuador's Ministry of Finance, the Ministry of Production and Industrialization, the National Secretary of Planning and Development, the Ministry of Economic Policy, and a delegate appointed by the President. Among the principal functions of the committee are:

- the oversight and monitoring of the liquidity requirements of Ecuador's financial system, with the objective of ensuring that liquidity remains above certain levels (to be determined by the Committee of Monetary and Financial Policy Regulation);
- the auditing and supervision of the Central Bank and Superintendent of Banks;
- the establishment of regulations for the Republic's electronic payment system; and
- the oversight of borrowing requirements for private loans.

Since the crisis of the banking system in the late 1990s, during which a number of banks became insolvent, the Superintendent of Banks has worked to improve banking supervision standards. Since 2001, the Superintendent of Banks reformed the regulatory framework for banking supervision.

As part of the reforms, the Superintendent of Banks implemented measures that included the following:

- Programs for regulatory on-site audits and periodic reporting requirements. These are published in national newspapers, with the intention to ensure that banks comply with regulatory standards;
- Uniform accounting risks for the financial system;
- Liquidity risk, which derives from the incapacity of financial institutions to cover their liabilities and other obligations when due, in both local and foreign currency;
- Evaluation of market risk based on interest rate risk, which refers to the potential losses of net income or in the capital base, due to the incapacity of the institution to adjust the return on its productive assets (loan portfolio and financial investment) with the fluctuations in the cost of its resources produced by changes in interest rates; and
- Evaluation of credit risk based on a detailed method for classifying financial assets in terms of risk.

This method increased the amounts which financial institutions are required to reserve in order to mitigate potential losses arising from their loans (“Loan-loss Reserve”). With respect to Loan-loss Reserve, current regulations impose reserve requirements based on risk categories and type of financial assets. These requirements have been introduced to bring them in line with international standards, and to increase the average quality of the financial system’s loan portfolio. As of December 31, 2015, the majority of banks in Ecuador are in compliance with Basel II, and all banks are expected to be in compliance within two years. Compliance with Basel II is mandatory for all banks by 2017.

The following table sets forth information regarding the risk categories and Loan-loss Reserve requirements currently in force pursuant to Resolution No. 209-2016-F, of February 12, 2016, promulgated by the Committee of Monetary and Financial Policy.

Risk Categories and Required Loan-loss Reserve⁽¹⁾ (in number of days past due, except for percentages)					
Category ⁽²⁾	Commercial ⁽³⁾	Consumer	Mortgage	Small Business ⁽⁴⁾	Loan-loss Reserve
A	0-30	0-15	0-60	0-15	1%-5%
B	31-90	16-45	61-180	16-45	6%-19%
C	91-180	46-90	181-270	46-90	20%-59%
D	181-360	91-120	271-450	91-120	60%-99%
E	>360	>120	>450	>120	100%

Source: Superintendent of Banks as of December 2015.

- (1) Circular SB-IG-2016-0066-C of the Superintendent of Banks provides for a transitional period before these new risk categories must be reflected in financial statements on June 30, 2016.
- (2) Ecuador subdivides Categories A, B, and C into sub-categories. However, categories in chart are simplified for ease of presentation.
- (3) For commercial loans, in addition to the number of days due, three factors are considered for classification among risk categories: (a) debtor payment capacity and financial situation; (b) experience of payment (risk information from the system, debtor’s credit history); and (c) risk of the economic environment.
- (4) Classified, with respect to (a) retail microcredit, as loans up to U.S.\$1,000, (b) microcredit simple accumulation, as loans from U.S.\$ U.S.\$1,000 to U.S.\$10,000, and (c) microcredit extended accumulation, as loans in excess of U.S.\$10,000. Persons with annual sales equal to or less than U.S.\$100,000, or groups of lenders guaranteeing or financing small scale production or commercialization are eligible for microcredit loans.

The following table sets forth information regarding loans of the banking system by risk category as of December 31, 2015.

Classification of Aggregate Assets of the Ecuadorian Private Financial System ⁽¹⁾

(as a % of total loans)
As of December 31, 2015

Category	Commercial loans	Consumer loans	Mortgage loans	Small business
A	80.63	92.63	97.18	93.64
B	13.21	2.47	1.55	2.25
C	5.56	1.67	0.34	1.34
D	0.31	0.98	0.46	0.70
E	0.29	2.25	0.47	2.07
Total	100	100	100	100

Source: Superintendent of Banks as of December 2015.

(1) Banks must hold 60% of deposits in Ecuador.

The Financial Safety Net

President Correa's administration determined that the financial safety net in place when he took office was insufficient, as there was no lender of last resort. In many countries, the central bank acts as the lender of last resort. Due to the Ecuador's Dollarization Program, however, the Republic's lending capacity was limited to the *Fondo de Liquidez del Sistema Financiero Ecuatoriano* ("Liquidity Fund"). President Correa's administration believed that the lack of a strong lender of last resort increased the risks to the financial system, and decreased liquidity within the system.

In light of these perceived deficiencies, the Government passed the Financial Safety Net Law in December 2008. The new law created a four-tiered framework for the banking sector. These four tiers are described below.

Lender of Last Resort

In accordance with the Financial Safety Net Law, which was designed to strengthen the Liquidity Fund, the Liquidity Fund acts as the lender of last resort for private financial institutions. As of December 31, 2015, the Liquidity Fund consisted of approximately U.S.\$2,233.26 million, an increase compared to December 31, 2014, when the Liquidity Fund consisted of U.S.\$ 2,114.93 million. This increase is due to a resolution by the Government, which increased the contributions of entities of the financial system to the Liquidity Fund. The Liquidity Fund is overseen by the Superintendent of the Banks and administered by the Central Bank. The assets of the Liquidity Fund are subject to sovereign immunity and cannot be subject to attachment of any kind.

Banking Resolution System

The second tier of the Financial Safety Net Law is the creation of a banking resolution scheme called *Exclusión y Transferencia de Activos y Pasivos* ("Exclusion and Transfer of Assets and Liabilities" or "ETAP"). Under ETAP, healthier labor contingencies, deposits and assets can be excluded from the balance sheet of a troubled banking institution and transferred to a newly created entity or to one or more healthier banking institutions. This policy is intended to separate good assets from non-performing assets and create an efficient and orderly banking resolution process.

Deposit Insurance

The third tier of the Financial Safety Law consists of the *Corporación de Seguro de Depósitos* ("Deposit Insurance Corporation" or "COSEDE"). The COSEDE is the successor to the *Agencia de Garantía de Depósitos* ("Deposit Guarantee Agency" or "AGD"), which was previously responsible for insuring the accounts of depositors in Ecuador's banking systems. In December 1998, the AGD was created as a response to the banking crisis by the *Ley de Reordenamiento en Materia Económica en el Área Tributario-Financiera* ("Law Reorganizing Economic Matters in the Tax and Finance Areas"). The AGD had a dual role: to oversee the amounts the Republic deposited with the Central Bank in order to protect depositors, and to help restructure banks in liquidation.

In December 2009, the AGD closed. The net assets of the AGD were then temporarily transferred to the Ministry of Finance and to COSEDE and thereafter transferred to the *Corporación Financiera Nacional* (“CFN”), a separate Government institution. COSEDE had assets of U.S.\$453 million, U.S.\$622 million, U.S.\$800 million, and U.S.\$1,012 million as of December 31, 2011, December 31, 2012, and December 31, 2013, and December 31, 2014, respectively. As of December 31, 2015, COSEDE had assets of U.S.\$1,271 million.

In accordance with the Financial Safety Net Law, and Resolution JB-2009-1280, COSEDE administers the private financial institutions insurance deposit system, which does not include any public banking institution. COSEDE insures deposits of up to U.S.\$32,000 per account, whereas the AGD could only guarantee up to U.S.\$12,000 per account. Pursuant to the Financial Safety Net Law, banks are required to contribute to COSEDE an amount determined annually in accordance with the total amount of deposits held. Under the Monetary and Financial Law, deposits in the COSEDE are subject to sovereign immunity and cannot be subject to attachment of any kind.

Superintendent of Banks

Under the fourth tier of the Financial Safety Law, the Superintendent of Banks is authorized to increase the capital and reserves requirement of banking institutions.

The Financial System

The following table sets forth, by type, the number of financial institutions in the Ecuadorian financial system for the periods indicated.

Number of Financial Institutions

(As of December 31)

	2011	2012	2013	2014	2015
Banks	26	26	26	24	22
National banks	25	25	25	23	21
Private.....	24	24	24	22	20
Government-owned banks	1	1	1	1	1
Foreign banks	1	1	1	1	1
Other financial entities.....	58	57	57	54	41
Savings and loans associations ⁽¹⁾	40	39	39	37	24
Small lending institutions	4	4	4	4	4
Financial institutions	10	10	10	9	10
Foreign banks	4	4	4	4	3
Insurance companies	45	44	44	40	39
Insurance companies	43	42	42	38	37
Reinsurance companies.....	2	2	2	2	2
Credit-card issuing entities	2	2	2	2	1
Total	131	129	129	120	103

Source: Superintendent of Banks as of December 2015.

- (1) Savings and Loans Associations include the *Cooperativas de Ahorro y Credito de Primer Piso, del Segmento 1*. On February 13, 2015, the Committee of Monetary and Financial Policy passed Resolution 038-2015-F, which set out parameters for the division of savings and loans associations into five categories, setting the minimum threshold for inclusion in Category 1 at entities with assets above U.S.\$80 million. This threshold will be reviewed by the Committee of Monetary and Financial Policy Regulation on an annual basis.

Banking System

Overview

As of December 31, 2015, the Ecuadorian banking system had a total of 22 banking institutions, of which one was a foreign-owned bank and one was a state-owned bank. The decrease in the total amount of financial

institutions from 120 in 2014 to 103 in 2015 in the above chart reflects a decrease in the number of savings and loans associations included in Category 1, which are entities with assets above U.S.\$80 million. Total assets of the banking system increased from U.S.\$23.9 billion in 2011 to U.S.\$33.6 billion in 2014. As of December 31, 2015, total assets for the banking system totaled U.S.\$30.9 billion, a decrease of 8.2% since December 31, 2014. This decrease in total assets is due to the decrease in deposits in 2015. As of June 30, 2016, the total assets of the banking system increased to U.S.\$32.4 billion, an increase of 4.8% compared to December 31, 2015. This increase was due to the increase in time and demand deposits for the first half of 2016.

The following table sets forth the total assets of the Ecuadorian private banking sector and the percentage of non-performing loans over total loans.

Banking System

	As of December 31,				
	2011	2012	2013	2014	2015
Total assets (in billions of U.S. dollars)	23.9	27.9	30.7	33.6	30.9
Non-performing loans ⁽¹⁾ (as % of total loans)....	0.99%	1.24%	1.18%	1.18%	1.45%

Source: Superintendent of Banks as of December 2015.

- (1) Non-performing loans are classified by economic sector. Commercial non-performing loans are classified as loans 31 days overdue, consumer non-performing loans are classified as loans 16 days overdue, real estate non-performing loans are classified as loans 61 days overdue, and microcredit non-performing loans are classified as loans 16 days overdue.

The following table sets forth deposit information for the private banking system on the dates indicated.

Private Bank Deposits

(in millions of U.S.\$, except for percentages)

	As of December 31,			Annual growth rate of Time and Demand Deposits
	Demand Deposits	Time Deposits	Total Time and Demand Deposits ⁽¹⁾	
2011	13,360.0	5,198.0	18,557.9	14%
2012	15,991.8	5,920.8	21,912.7	18%
2013	17,619.0	6,631.1	24,250.5	11%
2014	19,013.5	7,861.0	26,874.5	11%
2015	15,888.9	7,402.2	23,291.1	-13%

Source: Superintendent of Banks as of December 2015.

- (1) Total does not include reported operations, guarantee deposits and restricted deposits.

Banking deposits, primarily composed of demand deposits and time deposits, constitute the principal source of financing for the banking system. From December 31, 2011 through December 31, 2014, total time and demand deposits increased 44.8%, from U.S.\$18,557.9 million to U.S.\$26,874.5 million. As of December 31, 2015, time and demand deposits totaled U.S.\$23,291.1 million, a decrease of 13% since December 31, 2014. This decrease is due to the decrease in economic activity during this period. The majority of funding for the Ecuadorian banking system is comprised of demand deposits, which increased 42.3% from U.S.\$13,360 million in 2011 to U.S.\$19,013.5 million in 2014. As of December 31, 2015, demand deposits totaled U.S.\$15,888.9 million, a decrease of 16.4% since December 31, 2014. Time deposits increased 51.2% from U.S.\$5,198 million in 2011 to U.S.\$7,861 million in 2014. As of December 31, 2015, time deposits totaled U.S.\$7,402.2 million, a decrease of 5.8% since December 31, 2014. As of June 30, 2016, total time and demand deposits increased to U.S.\$24,595.3 million, an increase of 5.6% compared to December 31, 2015. This increase was due to the increase of non-interest generating demand deposits in the first half of 2016.

Foreign banks and financial institutions are also a source of liquidity in the Ecuadorian banking system. As of December 31, 2015 the balance of foreign liabilities in the banking sector amounted to approximately

U.S.\$433.79 million, which is an increase from the balance of foreign liabilities in December 31, 2014, which was U.S.\$557.52 million.

The following table sets forth information regarding the principal sources of financing with respect to total liabilities as of the dates indicated.

Classification of the Main Financing Accounts with Respect to Liabilities
(as % of total liabilities)

	As of December 31,		
	Demand deposits	Time deposits	Foreign financing
2011	62	24	3
2012	63	24	2
2013	63	22	2
2014	62	26	2
2015	58	37	5

Source: Superintendent of Banks as of December 2015.

The following table sets forth information regarding the allocation of principal asset accounts, with respect to total assets of the banking system as of the dates indicated.

Allocation of the Principal Asset Accounts with Respect to Total Assets of the Banking System
(as a % of total assets)

	As of December 31,	
	Portfolio of current loans	Investments
2011	53.9	13.0
2012	52.8	11.5
2013	52.6	12.7
2014	54.7	14.0
2015	56.7	14.4

Source: Superintendent of Banks as of December 2015.

As of December 31, 2015, the banking system represented 92.6 % of the total assets of the private financial system. The banking system, for the year ended December 31, 2015, made a profit of U.S.\$271 million, which according to data from the Superintendent of Banks represented 0.27% of Ecuador's nominal GDP and an increase compared to U.S.\$334 million as of December 31, 2014. The banking system weakened between 2014 and 2015, and its assets contracted by 8.2% due to a 13% decrease in time and demand deposits.

Ecuador's banks use their resources primarily to extend loans. Between 2011 and 2015, the Ecuadorian banking system's total loan portfolio increased by U.S.\$37.26 billion (37.26% and 257.19% as a percentage of capital requirement) and past due loans increased by U.S.\$381.07 million (124.44% and 19.23% as a percentage of capital requirement). Regulations require that banks have a legal lending limit equal to 10% of their net worth for uncollateralized loans and up to 20% of their net worth if the excess over the first 10% is 140% collateralized.

The following table identifies the loans made to the private sector from the private banking sector, and the deposits of the private banking sector as of the dates indicated.

Loans to the Private Sector and Private Bank Deposits

(in millions of U.S.\$)
As of December 31, 2015

Loans		Deposits	
Commercial, Productive and Consumer Loans ...	15,065	Demand Deposits.....	15,888.9
Microenterprise Loans.....	1,475	Time Deposits	7,402.1
Education Loans.....	427	Guarantee Deposits.....	0.9
Real Estate and Public Housing Loans	1,806	Others	1,122.1
Total	18,773	Total	24,414.1

Source: Superintendent of Banks as of December 2015.

The following table sets forth information regarding the banking system's loan portfolio as of the dates indicated.

Banking System Loan Portfolio Balances

(in millions of U.S.\$, except for percentages)

	As of December 31,				
	Current loans	Past-due loans ⁽¹⁾	Total loan portfolio	Current loans as a percentage of the total loan portfolio	Past-due loans as a percentage of the total loan portfolio
2011.....	13,371	306	13,677	97.8%	2.2%
2012.....	15,332	442	15,774	97.2%	2.8%
2013.....	16,808	449	17,257	97.4%	2.6%
2014.....	19,087	565	19,652	97.1%	2.9%
2015.....	18,086	687	18,773	96.3%	3.7%

Source: Superintendent of Banks as of December 2015.

- (1) Past-due loans are classified by economic sector. Commercial past-due loans are classified as loans 31 days overdue, consumer past-due loans are classified as loans 16 days overdue, real estate past-due loans are classified as loans 61 overdue, and microcredit past-due loans are classified as loans 16 overdue.

The delinquency rate increased to 2.8% in 2012 from 2.2% in 2011 as a result of an increase in consumer past-due loans which increased from U.S.\$175 million in 2011 to U.S.\$293 million in 2012. However the rate decreased to 2.6% in 2013 due to reduction in past-due loans of the commercial sector, which decreased to U.S.\$284 million. In 2014, the delinquency rate increased to 2.9%, as a result of the increase in delinquency rates in consumer credits from 4.7% to 5.5%. In 2015, the delinquency rate increased to 3.7% due to the increase in delinquency rates in commercial credits from 12.7% to 14.3% as well as the decrease in the total loan portfolio. As of June 30, 2016, the delinquency rate continued to increase to 4.3% due to an increase in delinquency rates in commercial and consumer loans.

As of December 31, 2015, 47.13% of all current loans were commercial, 32.58% were consumer, 10.40% were housing, 7.66% were microcredit and 2.24% were education related.

The following table sets forth information regarding the number of past-due loans in different sectors of the economy as of the dates indicated.

Past due loans by sector of the economy
(in millions of U.S.\$, and as a percentage of past due loans)

	2011		2012		2013		2014		2015	
	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%
Commercial	68	22.3	62	14.0	65	14.5	72	12.7	99	14.3
Consumer	175	57.2	293	66.3	284	63.4	383	68.0	438	63.7
Real estate	23	7.5	25	5.7	27	6.0	30	5.3	39	5.6
Microcredit.....	39	12.9	62	14.0	72	16.1	78	13.8	90	13.1
Education ⁽¹⁾	-	-	-	-	-	-	-	-	22	3.2
Total	306	100	442	100	448	100	563	100	687	100

Source: Superintendent of Banks as of December 2015.

- (1) The education loan portfolio that was previously administered by the *Instituto Ecuatoriano de Crédito Educativo y Becas* (IECE) was transferred to the banking system in February of 2015.

Banking Sector

The first, second and third largest banks in Ecuador are Banco del Pichincha, Banco de Guayaquil and Banco del Pacífico in that order. As of December 31, 2015, the three banks accounted for about 57.69% of the reported combined income and 54.36% of Ecuador's banking assets. Return on equity for these three banks averaged 8.66% for 2015, a decrease of 3.26% compared to 2014, while net profit decreased from U.S.\$179 million in 2014 to U.S.\$142 million in 2015.

Banco del Pacífico is 100% owned by the Republic, having been taken over from private shareholders during the banking crisis in 1999 and its shares transferred to the Central Bank. During 2010 and 2011 there had been discussions relating to the re-privatization of Banco del Pacífico, however, these plans were abandoned in 2011 when ownership was transferred from the Central Bank to CFN. As of December 31, 2015, Banco del Pacífico had approximately U.S.\$4.294 million in assets. Its profits increased in 2015 when compared to 2014 from U.S.\$48.1 million in 2014 to U.S.\$50.86 million in 2015.

Pacific National Bank was Banco del Pacífico's U.S. subsidiary, based in Miami. Pacific National Bank had approximately U.S.\$355 million in assets, including U.S.\$154 million in loans (mostly commercial real estate), \$163 million in securities and \$3.6 million in repossessed property. In 2011, the bank was fined U.S.\$7 million by U.S. banking regulators for violations of the U.S. Bank Secrecy Act ("BSA") and anti-money laundering laws. In 2012, the Federal Reserve Bank of the United States placed Banco del Pacífico's shares in Pacific National Bank under the control of a trustee and ordered the sale of the shares to a third party. According to the regulatory consent order transferring the shares to the trustee, the share transfer to the trustee and sale are not related to the violations of the BSA, but due to the transfer of ownership of Banco del Pacífico from the Central Bank to CFN in 2011, which according to U.S. banking regulations does not qualify as a holding company for a U.S. chartered bank. In October 21, 2013, the shares were sold to a group of private investors.

As of December 31, 2015, approximately 1.4% of the profits in the banking sector came from Citibank N.A. Ecuador Branch, which is the only foreign bank operating in Ecuador.

In March 2013, Banco Territorial S.A, one of the oldest banks in Ecuador with assets of U.S.\$135 million, entered a liquidation process one week after its operations were suspended. Banco Territorial primarily provided services to small and medium companies in Guayaquil and had approximately 79,000 depositors, with total deposits of approximately U.S.\$122 million, or less than 1% of the total deposits in the private banking sector in Ecuador. As of December 31, 2015, COSEDE paid U.S.\$54.4 million to depositors, which represented the total amount owed to depositors.

In August 2014, the Superintendent of Banks formally announced that Banco Sudamericano S.A. will undergo a forced liquidation process due to a failure to meet adequate solvency and liquidity requirements. As of the date of this Offering Circular, the Superintendent of Banks, along with COSEDE, have not announced a formal

restructuring plan for the bank's assets. Banco Sudamericano S.A. owned 0.55% of the total assets in the Ecuadorian banking system. As of December 31, 2015, COSEDE paid U.S.\$1.77 million to depositors and a formal liquidator was appointed.

On October 11, 2014, Promerica Financial Corporation, a Nicaraguan banking conglomerate with operations in Ecuador, acquired Banco de la Producción Produbanco S.A., an Ecuadorian banking entity. At the time of the merger, Banco de la Producción Produbanco S.A. represented 9.5% of the Ecuadorian banking system, with U.S.\$3,028 million in assets, while Promerica Financial Corporation represented 2.8% of the banking system with assets of U.S.\$843.5 million.

In June 2016, the Superintendent of Banks announced that Proinco Sociedad Financiera S.A., a financial institution focusing on mortgage lending and micro-loans with approximately U.S.\$42 million dollars in assets, would be liquidated as a result of its failure to comply with the relevant laws and regulations, including certain solvency requirements.

Cooperative Banks

In 2008, the Correa administration created the *Programa de Finanzas Populares* (“Program for Public Finance”) to expand lending to smaller financial cooperatives, in order that they could increase lending to small businesses. These cooperatives extend micro-loans to individuals and businesses that could otherwise not attain a loan at commercial banks. In January 2008, co-operative loans were at 11.1% of total non-publicly owned bank lending. As of December 31, 2015, the percentage had increased to 17.2%, or U.S.\$4,301 million.

On February 13, 2015, the Committee of Monetary and Financial Policy passed Resolution 038-2015-F, which sets forth rules relating to the division of the savings and loan association sector as follows:

- Category 1: entities with assets above U.S.\$80 million;
- Category 2: entities with assets between U.S.\$20 million to U.S.\$80 million;
- Category 3: entities with assets between U.S.\$5 million to U.S.\$20 million;
- Category 4: entities with assets between U.S.\$1 million to U.S.\$5 million; and
- Category 5: entities with assets below U.S.\$1 million.

The threshold for Category 1 will be reviewed by the Committee of Monetary and Financial Policy Regulation on an annual basis. The additional four categories are set without further review by the Committee of Monetary and Financial Policy Regulation. Additional regulations applicable to each segment will be promulgated by the *Superintendencia de Economía Popular y Solidaria* (the Superintendent of the Popular Economy, or “SEPS”).

Capital Markets

Retail trading of debt and equity securities of private Ecuadorian issuers has remained relatively limited in the five years ending in 2015. Most of the trading on Ecuador’s capital markets involves the purchase and sale of bank securities and fixed income Government securities. In the last five years, Ecuador has experienced an increase in the issuance of corporate bonds. They have become an important financing alternative for companies and issuers that want longer terms than those available through bank loans. The Ecuadorian capital markets consist of the Quito Stock Exchange and the Guayaquil Stock Exchange (the “Ecuadorian Stock Exchanges”), both opened in 1969. As of December 31, 2015, the Ecuadorian Stock Exchanges combined listed the securities of approximately 425 issuers. Issuers that subscribe to one exchange automatically become listed on the other exchange.

The Ecuadorian capital markets are regulated by the *Ley de Mercado de Valores* (“Capital Markets Law”) and the Law to Strengthen and Optimize the Corporate and Securities Sector. Under these laws, the Ecuadorian Stock Exchanges are supervised by the *Superintendencia de Compañías Valores y Seguros* (the “Superintendent of Companies and Securities and Insurance”) while the Committee of Monetary and Financial Policy is responsible for formulating the general securities policies of the Ecuadorian capital markets and for providing general oversight of

the securities markets.

As of December 31, 2015, U.S.\$1,074 million worth of securities were traded in the secondary market, representing 21% of the Ecuadorian securities market. Repo trading represented 10% of the total market. The following table shows aggregate amounts of traded securities for the periods listed.

Aggregate Amounts of Traded Securities
(in millions of U.S. dollars)

	For the Year Ended December 31,				
	2011	2012	2013	2014	2015
Repos	42.2	54.1	168.1	203.3	34.8
Other ⁽¹⁾	3,718.7	3,695.6	3,554.2	7,340.8	3,350.3
Total	3,760.9	3,749.7	3,722.3	7,544.1	3,385.1

Source: *Bolsa de Valores de Quito* ("Quito Stock Exchange").

(1) Includes Government securities, bank securities, and commercial paper, among others.

In 2015, U.S.\$3,385.1 million worth of securities were traded on the Ecuadorian Stock Exchanges, representing a decrease compared to the U.S.\$7,544.1 million of the securities traded in 2014. This decrease is due to a decrease in investment by BIESS.

Interest Rates and Money Supply

In July 2007, the *Ley del Costo Máximo Efectivo del Crédito* ("Maximum Actual Credit Cost Law") went into effect to establish a new system for calculation of interest rates. The principal aspects of this law are:

- the prohibition on charging commissions for credit operations and pre-payments;
- the prohibition on imposing any fee that is not in the nature of compensation for the rendering of a service; and
- in December 2007, a change in the methodology for calculating the maximum interest rate of the Central Bank, whose methodology has since been declared unconstitutional, and has been further amended so that the maximum rate equals interest rates of credit operations of private financial institutions in each relevant sector, multiplied by an amount determined by the Central Bank.

In April 2015, Resolution 043-2015-F was published in the Official Gazette and became effective, establishing new categories of credits in the financial system, totaling 10. The purpose of this Resolution is to promote socially and environmentally responsible consumption, to encourage value generating investment and improve the efficiency of the financial system. The new categories of credit in the financial system include: productive credits, ordinary commercial credits, priority commercial credits, ordinary consumption credits, priority consumption credits, education credits, public interest housing credit, real estate credits, microcredits and public investment credits. Changes from the prior categorization include the following:

- "productive credits" are defined as those credits for which at least 90% of funds are dedicated to acquisition of capital goods, construction of infrastructure project and the purchase of industrial property rights;
- "consumer credits" are divided into "ordinary consumer loans," for the acquisition or commercialization of light fossil fuel vehicles and "priority consumer loans," dedicated to the purchase of goods or services or expenses not related to productive activity or ordinary commercial activity;
- "commercial credits" are defined as "ordinary commercial credits," which are available to persons whose annual sales are higher than U.S.\$100,000.00 that acquire or commercialize light fossil fuel vehicles and

“priority commercial credits,” which are available for the acquisition of goods and services for commercial and productive activities to persons whose annual sales are higher than U.S\$100,000.00; and

- “education credits,” which are available to individuals and accredited institutions to finance education and vocational or technical training, were introduced.

In addition to the new categorization of credit, the Committee of Monetary and Financial Policy Regulation fixed the maximum interest rates for each of these categories through Resolution No. 044-2015-F.

The following table sets forth average deposit interest rates for the economy as a whole and average lending interest rates per sector for the periods shown.

Interest Rates
(in percentages)

	2011 ⁽¹⁰⁾	2012 ⁽¹¹⁾	2013 ⁽¹²⁾	2014 ⁽¹²⁾	2015
Deposit interest rate	4.5	4.5	4.5	5.2	5.1
Lending interest rate	8.2	8.2	8.2	8.2	9.1
Corporate productive lending interest rate ⁽¹⁾	8.2	8.2	8.2	8.2	9.2
Maximum corporate productive interest rate	9.3	9.3	9.3	9.3	9.3
Business productive lending interest rate ⁽²⁾	9.5	9.5	9.5	9.6	9.8
Maximum business productive interest rate	10.2	10.2	10.2	10.2	10.2
Medium and small business productive lending interest rate ⁽³⁾	11.2	11.2	11.2	11.2	10.3
Maximum medium and small business productive interest rate	11.8	11.8	11.8	11.8	11.8
Ordinary commercial lending interest rate ⁽⁴⁾	n/a	n/a	n/a	n/a	9.0
Maximum commercial interest rate	n/a	n/a	n/a	n/a	11.8
Corporate commercial priority lending interest rate ⁽¹⁾	n/a	n/a	n/a	n/a	9.1
Maximum corporate commercial interest rate	n/a	n/a	n/a	n/a	9.3
Business commercial priority lending interest rate ⁽²⁾	n/a	n/a	n/a	n/a	9.9
Maximum business commercial interest rate	n/a	n/a	n/a	n/a	10.2
Medium and small business commercial priority lending interest rate ⁽³⁾	n/a	n/a	n/a	n/a	11.1
Maximum medium and small business commercial interest rate	n/a	n/a	n/a	n/a	11.8
Consumer lending interest rate ⁽⁵⁾	15.9	15.9	15.9	16.0	n/a
Maximum consumer interest rate	16.3	16.3	16.3	16.3	n/a
Ordinary consumer lending interest rate ⁽⁵⁾	n/a	n/a	n/a	n/a	16.2
Maximum consumer interest rate	n/a	n/a	n/a	n/a	17.3
Priority consumer lending interest rate ⁽⁵⁾	n/a	n/a	n/a	n/a	16.0
Maximum priority consumer interest rate	n/a	n/a	n/a	n/a	17.3
Education lending interest rate ⁽⁶⁾	n/a	n/a	n/a	n/a	7.1
Maximum education interest rate	n/a	n/a	n/a	n/a	9.5
Housing lending interest rate	10.6	10.6	10.6	10.7	10.9
Maximum housing interest rate	11.3	11.3	11.3	11.3	11.3
Microcredit increased accumulation lending interest rate ⁽⁷⁾	22.4	22.4	22.4	22.3	24.3
Maximum microcredit increased accumulation interest rate	25.5	25.5	25.5	25.5	25.5
Microcredit simple accumulation lending interest rate ⁽⁸⁾	25.2	25.2	25.2	25.2	26.9
Maximum microcredit simple accumulation interest rate	27.5	27.5	27.5	27.5	27.5
Microcredit subsistence accumulation lending interest rate ⁽⁹⁾	28.8	28.8	28.8	28.6	29.0
Maximum microcredit subsistence accumulation interest rate	30.5	30.5	30.5	30.5	30.5

Source: 2015 deposit and lending interest rates based on Central Bank June 2016 Monthly Bulletin (Table 1.10.1). Other 2015 figures based on Central Bank June 2016 Monthly Bulletin (Table 1.10.2).

- (1) "Corporate lending rate" is the rate provided to businesses whose annual sales exceed U.S.\$5,000,000.00.
- (2) "Business lending rate" is the rate provided to businesses whose annual sales equal or exceed U.S.\$1,000,000 up to U.S.\$5,000,000.00.
- (3) "Medium and small business lending rate" is the rate provided to businesses whose annual sales equal or exceed U.S.\$1,000,000 up to U.S.\$5,000,000.00.
- (4) "Ordinary commercial lending rate" is the rate provided to businesses whose annual sales exceed U.S.\$100,000.00 that acquire or commercialize light fossil fuel vehicles.
- (5) In 2015 consumer credits were divided into "ordinary consumer credits," for the acquisition or commercialization of light fossil fuel vehicles and "priority consumer credits," dedicated to the purchase of goods or services or expenses not related to productive activity or ordinary commercial activity.

- (6) "Education lending rate" is the rate provided to individuals for development of human capital by accredited institutions.
- (7) "Microcredit increased accumulation lending rate" refers to credit transactions whose amount per trade and balance due to microcredit financial institutions exceed U.S.\$10,000. This is the rate granted to entrepreneurs who register annual sales of less than U.S.\$100,000.
- (8) "Microcredit simple accumulation lending rate" refers to credit transactions whose amount per transaction and balance due to microcredit financial institutions is larger than U.S.\$1,000, but smaller than U.S.\$10,000. This is the rate provided to entrepreneurs who register a sales level or annual income of less than U.S.\$100,000 and to self-employed individuals.
- (9) "Microcredit subsistence accumulation lending rate" refers to credit transactions that are less than or equal to U.S.\$1,000. This is the rate provided to micro entrepreneurs who recorded a level of annual sales less than U.S.\$100,000 and to self-employed, individuals or a group of borrowers with joint liability.
- (10) 2011 deposit and lending interest rates based on Central Bank November 2013 Monthly Bulletin (Table 1.10.1). Other 2011 figures based on Central Bank November 2013 Monthly Bulletin (Table 1.10.2).
- (11) 2012 deposit and lending interest rates based on Central Bank September 2014 Monthly Bulletin (Table 1.10.1). Other 2012 figures based on Central Bank September 2014 Monthly Bulletin (Table 1.10.2).
- (12) 2014 and 2013 deposit and lending interest rates based on Central Bank March 2016 Monthly Bulletin (Table 1.10.1). Other 2014 and 2013 figures based on Central Bank March 2016 Monthly Bulletin (Table 1.10.2).

Average loan interest rates on short-term and long-term loans increased from 8.2% in 2011 to 9.1% in 2015 primarily due to the effect of the rise in interest rates by the United States Federal Reserve. During the same period, the average interest rates on deposits increased from 4.5% in 2011 to 5.1% in 2015 due to the increase in demand deposits with high interest rates.

With respect to the various sectors, most loan interest rates remained stable during the period from 2011 through 2014 with the corporate productive lending interest rate remaining at 8.2%, and consumer lending rates remained at approximately 15.9% from 2011 to 2013 increasing slightly to 16.0% in 2014.

The following table sets forth the principal monetary indicators for the periods presented.

Principal Monetary Indicators					
(in millions of U.S. dollars)					
	2011	2012	2013	2014	2015
Currency in circulation	5,290.98	6,326.74	7,367.06	9,539.90	11,753.67
Demand deposits	6,718.79	8,100.37	8,818.04	9,068.76	7,200.79
Fractional Currency	83.20	84.52	87.33	86.58	86.26
M1	12,092.97	14,511.62	16,272.43	18,695.32	19,041.49
Savings.....	1,594.78	2,360.24	3,898.14	3,506.05	3,053.45
Term deposits	14,464.01	16,393.88	18,778.71	21,409.05	20,596.23
M2 (M1 plus term deposits)	26,556.98	30,905.50	35,051.14	40,104.37	39,637.72

Source: Based on figures from the Central Bank June 2016 Monthly Bulletin (Table 1.1.1). Figures from 2010 and 2011 based on March 2013 Monthly Bulletin, figures from 2012 based on the March 2014.

In January 2000, following several weeks of severe exchange-rate depreciation, the Republic announced that it would dollarize the economy. On March 1, 2000, the National Assembly approved the Ecuadorian Economic Transformation Law which made the U.S. dollar legal tender in Ecuador. Further, pursuant to the Ecuadorian Economic Transformation Law, all sucre-denominated deposits were converted into U.S. dollars effective January 1, 2000, and the U.S. dollar became the unit of account in the financial system. As a result, U.S. dollar deposits that in prior periods were classified as deposits in foreign currency are for periods from and after January 1, 2000 classified as demand deposits, savings or term deposits, as applicable.

Inflation

Ecuador measures the inflation rate by the percentage change between two periods in the consumer price index ("CPI"). The CPI is computed by INEC based on a standard basket of 299 items of goods and services that reflects the pattern of consumption of urban Ecuadorian households in eight cities. The price for each good or service that makes up the basket is weighted according to its relative importance in an average urban household's consumption pattern in order to calculate the CPI.

Prior to the adoption of the Dollarization Program, Ecuador was plagued by high inflation. From 1994 to 1999, the inflation rate ranged from a 22.8% low in 1995 to a 60.7% high in 1999. In 1999 and early 2000, the sharp devaluation of the sucre contributed to an increase in the Republic's inflation rate, which became one of the highest in Latin America at 96.1% in 2000.

The restrictions imposed by the Dollarization Program brought this to an end. The inflation rate was 2.7% in 2004, 2.2% in 2005, 2.8% in 2006, 3.3% in 2007 and 8.8% in 2008. The increase in inflation in 2008 was primarily caused by increases in food prices, due to climatic changes that affected the agricultural sector. In addition, international prices of fertilizer and agricultural commodities also increased. As a result of these increases, Ecuador fixed prices for some of these goods and limited the export of various agricultural products. During 2011, 2012, 2013 and 2014 the inflation rate was 5.4%, 4.2%, 2.7% and 3.7%, respectively. The decrease in the inflation rate from 4.2% in 2012 to 2.7% in 2013 was due to the imposition of price controls intended to curb price speculation on basic foodstuffs including, meats, various fruits and vegetables, and milk.

At the end of 2014, the inflation rate was 3.7%. This increase is due to an increase in the prices of housing, water and electricity services during the period. For the twelve-month period ending December 31, 2015, the inflation rate decreased to 3.4%. This decrease is due to a decrease in the price of certain foods, primarily shrimp and chicken. For the twelve-month period ended June 30, 2016, the inflation rate was 1.6%, compared to 4.9% for the twelve-month period ended June 30, 2015.

Given the constraints of dollarization, and Ecuador's inability to mint currency, the Republic is more vulnerable than other countries to external factors such as global recessions, the volatility of commodity and raw material prices and natural disasters affecting the agricultural sector. The relative strength or weakness of the dollar, relative to the currencies of Ecuador's Andean trading partners, has also affected Ecuador's inflation rate during those periods.

The following table sets forth inflation rates in the Republic as measured by the CPI for the periods presented.

Inflation	
% Change in CPI from Previous Year at Period End ⁽¹⁾	
December 2011.....	5.4
December 2012.....	4.2
December 2013.....	2.7
December 2014.....	3.7
December 2015.....	3.4
June 2015	4.9
June 2016	1.6

Source: Based on figures from the Central Bank June 2016 Monthly Bulletin Table (4.2.1) and (4.2.1a).

(1) Data reflect percentage change in consumer prices in urban areas over the prior 12 month period.

PUBLIC SECTOR FINANCES

Overview

Budget Process

The 2008 Constitution and the Public Planning and Finance Code set forth the public sector's budget process. According to Article 292 of the 2008 Constitution, the General State Budget (the "General State Budget") is the instrument for establishing and managing Government income and spending, and includes all public sector income and expenses, with the exception of those belonging to social security, public banks, public companies and the Autonomous Decentralized Governments. The drafting and implementation of the General State Budget adheres to the National Development Plan, while the budgets of the Autonomous Decentralized Governments and those of other public entities adhere to regional and provincial plans, with the framework of the National Development Plan. This plan is published by the Government every four years, and lays out the goals and priorities of the Government for the time period. The National Development Plan for 2013 to 2017 was released in August of 2013.

The executive branch formulates the annual budget estimate, and the four-year budgetary schedule, and presents both to the National Assembly for approval. The levels of revenue, expenditure, and debt are based on the macroeconomic projections and targets of the Ministry of Finance and the Central Bank. The Ministry of Finance is primarily responsible for the preparation of the public sector's annual budget, based on guidelines issued by various planning agencies and other ministries.

The executive branch submits the draft annual budget and the four-year budgetary schedule to the National Assembly within the first 90 days of its initial term and, in subsequent years, 60 days before the start of the relevant fiscal year. The National Assembly must adopt or object to the draft budget within 30 days. The objections of the National Assembly are limited to the areas of revenue and spending and cannot alter the overall amount of the draft budget. If the National Assembly objects to the draft budget or schedule, the executive branch may, within ten days, accept the objection and submit a new proposal to the National Assembly for approval. If the National Assembly does not object within 30 days, the draft annual budget and the four-year budgetary schedule become effective.

The 2008 Constitution also establishes predetermined budget allocations for the Autonomous Decentralized Governments, the health sector, the education sector, and for research, science, technology and innovation. The creation of any other predetermined budget allocations is forbidden.

The Ministry of Finance has the authority to modify the budget during its execution phase in an amount up to 15% of any approved allocation. These adjustments must be made in accordance with the priorities and goals established in the National Development Plan and the constitutional limits established in Article 126 of the Public Planning and Finance Code. For more information regarding the National Development Plan and constitutional limits, see "Public Debt – General."

Income and expenses belonging to social security, state banks, public companies and the Autonomous Decentralized Governments are not considered part of the General State Budget. As such, Autonomous Decentralized Governments prepare their budgets in accordance with the non-binding guidelines prepared by the *Secretaría Nacional de Planificación y Desarrollo* (the "National Secretary of Planning and Development" or "SENPLADES"). The executive branch of each Autonomous Decentralized Government is responsible for drafting the budget and submitting it for approval before the corresponding legislative bodies. The General State Budget and local budgets, upon approval, are implemented and made public, as is the General State Budget, and are implemented by the respective local governments.

In 2002, in response to increasing Government expenditures, the National Assembly enacted the Law to Promote Responsibility, Stabilization and Fiscal Transparency, which was aimed at reducing public indebtedness and establishing greater transparency in the Government's use of public funds. During the second half of 2005, the Government, with the support of the National Assembly, replaced the *Fondo de Estabilización, Inversión Social, y*

Reducción del Endeudamiento Público (the “Stabilization, Social Investment and Public Indebtedness Reduction Fund” or “FEIREP”) that was previously created by the 2002 law. FEIREP was replaced by CEREPS. This resulted in an increase in Government investment in social and productive sectors of the economy to strengthen the economic performance while limiting the current expenses.

In 2008, CEREPS was eliminated due to the 2008 Constitution and the enactment of LOREYTF. The Republic believes that the new law enhances transparency and flexibility to the budget process by providing enhanced management of state resources and prioritizing social investments. The law also eliminated all predetermined use of resources; currently all of the Republic’s resources go directly to a single system of accounts in the Central Bank. Title 3 of the Public Planning and Finance Code also provides transparency by providing unrestricted access to all budget and financial information of the Republic and annual financial statements of public companies.

In accordance with the terms of the 2008 Constitution, the macroeconomic rules and the restrictions on the assumption of public debt were changed as follows:

- permanent expenditures must be financed by permanent income; expenditures related to health, education and justice will be treated as preferential and may be, under exceptional circumstances, financed by non-permanent income; and
- public debt or income from petroleum products may not be used for current Government expenditures.

Under the 2008 Constitution, each of the following is subject to the National Development Plan:

- policies
- programs and public projects;
- scheduling and execution of the state budget; and
- investment and allocation of public resources.

Pursuant to the Public Planning and Finance Code, each of the following is also subject to the National Development Plan:

- public actions, programs and projects;
- public debt;
- international cooperation;
- scheduling, formulation, approval and execution of the general state budget;
- state banks’ budgets;
- national-level public companies; and
- social security.

At the request of the Ministry of Finance, or on its own, the Office of the Comptroller General can perform an audit of all public sector entities that administer public funds for compliance with proposed budgets and compliance under the law.

Fiscal Policy

In October 2010, the National Assembly approved the Public Planning and Finance Code, which regulates the state planning process and coordinates planning with fiscal policy. This law establishes guidelines for fiscal management, including rules that:

- allow for more flexibility for the Ministry of Finance to reallocate and reassign expenditures up to 15% of the approved Government budget;
- set an explicit total public debt ceiling of 40% of GDP including Central Government, non-financial public sector and the Autonomous Decentralized Governments;
- allow the Ministry of Finance to issue *Certificados de Tesorería* (“short-term treasury notes” or “CETES”), at its discretion, without having to undergo the same approval process required for long-term internal and external sovereign debt;
- allow for the establishment of citizen committees for financial public policy consultations;
- determine that all excess cash not spent during a fiscal year will be accounted for as initial cash for the following fiscal year; and
- establish the functions and responsibilities of the Debt and Finance Committee. See “Public Debt – General.”

The non-financial public sector deficit is primarily financed by the issuance of CETES and bonds placed with IESS. There is no maximum amount of CETES that may be issued per year nor is there a requirement to place a certain percentage in the public or private sector. However, IESS may only hold 75% of the value of its total portfolio in CETES. Towards the end of 2012, the Government drew on its International Reserves with the Central Bank to cover its liquidity. This led to a decrease in reserve levels in December 2012. As of December 31, 2015, International Reserves (defined herein) cover 9.5% of current account payments. For more information regarding International Reserves, please see “Balance of Payments – International Reserves.” The Government received external funding from FLAR, which in September 2012 disbursed a balance-of-payments back-up credit of U.S.\$514.6 million. The China Development Bank also disbursed U.S.\$500 million. In the first several months of 2013, the Government received U.S.\$1.4 billion from China Development Bank under a new line of credit that was negotiated in December 2012. These funds were used to restore Ecuador’s International Reserves.

Non-Financial Public Sector Revenues and Expenditures

The following table sets forth actual revenues and expenditures for the consolidated non-financial public sector for the periods presented.

Summary of Consolidated Non-financial Public Sector Revenues and Expenditures
(in millions of U.S.\$ and as a % of GDP)

	For the Year Ended December 31,										For the Quarter Ended March 31,			
	2011	% of GDP	2012	% of GDP	2013	% of GDP	2014	% of GDP	2015	% of GDP	2015	% of GDP	2016	% of GDP
Revenue														
Petroleum Revenue														
Exports ⁽¹⁾	12,935	16.3	12,220	13.9	11,433	12.1	10,906	10.8	6,346	6.4	1,507	6.0	1,276	5.2
Domestic Sales.....	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Petroleum Revenue (a).....	12,935	16.3	12,220	13.9	11,433	12.1	10,906	10.8	6,346	6.4	1,507	6.0	1,276	5.2
Non-petroleum revenue														
Income Tax	3,030	3.8	3,313	3.8	3,847	4.1	4,161	4.1	4,734	4.8	920	3.7	859	3.5
Value-added Tax.....	4,200	5.3	5,415	6.2	6,056	6.4	6,376	6.3	6,352	6.4	1,803	7.2	1,458	6.0
Specific consumption taxes	618	0.8	685	0.8	744	0.8	803	0.8	840	0.9	217	0.9	185	0.8
International trade taxes.....	1,156	1.5	1,261	1.4	1,352	1.4	1,357	1.3	2,026	2.0	407	1.6	452	1.9
Social Security Contributions.....	3,971	5.0	4,756	5.4	4,547	4.8	4,718	4.7	5,055	5.1	1,185	4.7	1,294	5.3
Other ⁽²⁾	3,514	4.4	4,353	5.0	6,084	6.4	6,524	6.5	6,935	7.0	1,868	7.5	1,735	7.1
Total non-petroleum revenue (b).....	16,489	20.8	19,783	22.5	22,630	23.9	23,939	23.7	25,942	26.2	6,399	25.6	5,983	24.5
Operating Income of Public Companies (c)....	1,766	2.2	2,567	2.9	3,196	3.4	4,187	4.2	1,298	1.3	407	1.6	71	0.3
Total Revenue (a+b+c).....	31,190	39.3	34,570	39.3	37,260	39.3	39,032	38.7	33,586	33.9	8,313	33.3	7,331	30.0
Expenses														
Current Expenditures														
Interest	502	0.6	652	0.7	971	1.0	1,024	1.0	1,368	1.4	318	1.3	361	1.5
Foreign	452	0.6	533	0.6	714	0.8	829	0.8	1,143	1.2	273	1.1	314	1.3
Domestic	50	0.1	119	0.1	257	0.3	195	0.2	224	0.2	45	0.2	46	0.2
Wages and salaries	7,265	9.2	8,345	9.5	8,896	9.4	9,478	9.4	9,904	10.0	2,223	8.9	2,350	9.6
Purchases of goods and services.....	2,543	3.2	3,473	3.9	4,435	4.7	5,328	5.3	5,112	5.2	767	3.1	700	2.9
Social Security.....	3,205	4.0	3,335	3.8	3,410	3.6	3,665	3.6	4,215	4.3	957	3.8	1,075	4.4
Others	8,428	10.6	8,626	9.8	9,265	9.9	9,497	9.4	6,884	7.0	1,680	6.7	1,488	6.1
Total Current Expenditure.....	21,943	27.7	24,431	27.8	26,977	28.5	28,992	28.7	27,482	27.7	5,945	23.8	5,973	24.5
Capital Expenditure and net lending														
Gross capital formation	9,014	11.4	10,312	11.7	14,039	14.8	13,980	13.9	10,345	10.4	2,201	8.8	1,708	7.0
Central Government.....	5,297	6.7	6,191	7.0	8,506	9.0	8,290	8.2	5,542	5.6	1,035	4.1	704	2.9
Public Companies.....	2,152	2.7	2,497	2.8	3,988	4.2	4,218	4.2	3,285	3.3	835	3.3	602	2.5
Rest of General Government.....	1,566	2.0	1,624	1.9	1,545	1.6	1,472	1.5	1,518	1.5	331	1.3	403	1.6
Other Capital Expenditure.....	334	0.4	650	0.7	592	0.6	1,375	1.4	850	0.9	297	1.2	78	0.3
Total Capital Expenditure.....	9,348	11.8	10,963	12.5	14,631	15.4	15,354	15.2	11,195	11.3	2,498	10.0	1,786	7.3
Total Expenditure	31,290	39.5	35,394	40.3	41,607	43.9	44,346	43.9	38,676	39.0	8,444	33.8	7,759	31.8
Surplus/Deficit.....	-100	-0.1	-824	-0.9	-4,348	-4.6	-5,314	-5.3	-5,091	-5.1	-131	-0.5	-428	-1.8

Source: Based on figures from the Central Bank June 2016 Monthly Bulletin (Table 2.1 and Table 2.2).

- (1) This figure is different than the crude oil exports figure in the Exports FOB table in that it includes derivate revenues, as opposed to only crude oil, and measures revenues from petroleum exports for the non-financial public sector, only.
- (2) Includes other taxes and revenue.

For the five-year period from 2011 to 2015, the amount of total revenues totaled approximately 89% of the budgeted targeted amount. The increase in the year to year deficit from 2011 to 2015 was due to increased Government spending during each year, particularly in wages and salaries and interest payments in connection with debt obligation, and in 2015 was also due to the decline in oil prices.

In 2011, the non-financial public sector registered a deficit of U.S.\$100 million (equivalent to less than 0.1% of GDP). In 2011, total expenditures totaled U.S.\$31,290 million (equivalent to 39.5% of GDP) and total revenues totaled U.S.\$31,190 million (equivalent to 39.3% of GDP).

In 2012, the non-financial public sector registered a deficit of U.S.\$824 million (equivalent to -0.9% of GDP). In 2012, total expenditures totaled U.S.\$35,394 million (equivalent to 40.3% of GDP) and total revenues totaled U.S.\$34,570 million (equivalent to 39.3% of GDP).

In 2013, the non-financial public sector registered a deficit of U.S.\$4,348 million (equivalent to -4.6% of GDP). This deficit was due to an increase in public sector investment, primarily in infrastructure projects financed by bilateral debt. The increase in spending on infrastructure projects is due to a number of projects that had been in the planning or initial stages in previous years and that reached or accelerated the construction phase in 2013 (including the Coca Codo Sinclair hydroelectric project, the Sopladora hydroelectric project, the Minas San Francisco hydroelectric project and the Cañar-Naranjal flood control project) and therefore required increased expenditures as construction began or accelerated. Total expenditures totaled U.S.\$41,607 million (equivalent to 43.9% of GDP) and total revenues totaled U.S.\$37,260 million (equivalent to 39.3% of GDP).

In 2014, the non-financial public sector registered a deficit of U.S.\$5,314 million, equivalent to -5.3% of GDP. This deficit was the result of increases in wages and salaries and current expenses. Total expenditures totaled U.S.\$44,346 million (equivalent to 43.9% of GDP) and total revenues totaled U.S.\$39,032 million (equivalent to 38.7% of GDP) in 2014.

In 2015, the non-financial public sector registered a deficit of U.S.\$5,091 million, equivalent to -5.1% of GDP. This deficit, while smaller than the deficit in 2014, was the result of decreased petroleum revenue. Total expenditures totaled U.S.\$38,676 million (equivalent to 39% of GDP) and total revenues totaled U.S.\$33,586 million (equivalent to 33.9% of GDP) in 2015.

For the first quarter of 2016, the non-financial public sector registered a deficit of U.S.\$428 million compared to a deficit of U.S.\$131 million for the first quarter of 2015. This increase in the deficit was the result of decreased petroleum revenue. Total expenditures totaled U.S.\$7,759 million for the first quarter of 2016, a decrease from U.S.\$8,444 million for the first quarter of 2015. Total revenues totaled U.S.\$7,331 million for the first quarter of 2016, a decrease from U.S.\$8,313 million for the first quarter of 2015.

Central Government Revenues and Expenditures

The Government derives its revenues primarily from sales of petroleum, tax collection and import duties, and other revenue, including transfers. The following table shows the actual Central Government revenues and expenditures for the periods presented. The Central Government ("Central Government") includes the Republic's ministries, supervising entities, and other Government entities.

Consolidated Central Government Sector Revenue and Expenditure
(in millions of U.S.\$, and as % of GDP)

	For the Year Ended December 31,										For the Quarter Ended March 31,			
	2011	% of GDP	2012	% of GDP	2013	% of GDP	2014	% of GDP	2015	% of GDP	2015	% of GDP	2016	% of GDP
Revenue⁽¹⁾														
Petroleum revenue	5,971	7.5	6,086	6.9	4,677	4.9	3,765	3.7	2,264	2.0	511	2.0	416	1.7
Non-petroleum revenue	11,227	14.2	13,437	15.3	15,723	16.6	16,616	16.5	18,081	17.9	4,548	18.2	4,063	16.6
Tax revenue														
Taxes on goods and Services														
Value-added tax	4,200	5.3	5,415	6.2	6,056	6.4	6,376	6.3	6,352	6.3	1,803	7.2	1,458	6.0
Selected excise taxes	618	0.8	685	0.8	744	0.8	803	0.8	840	0.8	217	0.9	185	0.8
Total taxes on goods and services	4,818	6.1	6,100	6.9	6,800	7.2	7,179	7.1	7,192	7.1	2,019	8.1	1,643	6.7
Taxes on income and profits	3,030	3.8	3,313	3.8	3,847	4.1	4,161	4.1	4,734	4.7	920	3.7	859	3.5
Taxes on International Trade														
Import duties	1,156	1.5	1,261	1.4	1,352	1.4	1,357	1.3	2,026	2.0	407	1.6	452	1.9
Exit tax ⁽²⁾	558	0.7	1,275	1.5	1,322	1.4	1,406	1.4	1,278	1.3	373	1.5	250	1.0
Total taxes on international trade	1,714	2.2	2,536	2.9	2,675	2.8	2,763	2.7	3,304	3.3	780	3.1	701	2.9
Vehicle tax	174	0.2	195	0.2	214	0.2	228	0.2	223	0.2	70	0.3	53	0.2
Other taxes	28	0.0	111	0.1	132	0.1	129	0.1	135	0.1	41	0.2	147	0.6
Total tax revenue	9,765	12.3	12,255	13.9	13,668	14.4	14,460	14.3	15,588	15.5	3,829	15.3	3,404	13.9
Non-tax revenue	1,210	1.5	1,128	1.3	1,961	2.1	2,061	2.0	2,021	2.0	427	1.7	585	2.4
Transfers	252	0.3	54	0.1	95	0.1	95	0.1	471	0.5	292	1.8	75	0.3
Total revenues	17,198	21.7	19,523	22.2	20,400	21.5	20,381	20.2	20,344	20.2	5,060	20.3	4,480	18.3
Current expenditure														
Interest accrual:														
Foreign	357	0.4	465	0.5	652	0.7	715	0.7	971	1.0	230	0.9	276	1.1
Domestic	316	0.4	363	0.4	516	0.5	682	0.7	789	0.8	106	0.4	121	0.5
Total interest accrual	673	0.8	828	0.9	1,169	1.2	1,397	1.4	1,759	1.7	336	1.3	397	1.6
Wages and salaries	6,466	8.2	7,353	8.4	7,897	8.3	8,359	8.3	8,761	8.7	1,969	7.9	2,085	8.5
Purchase of goods and services	1,279	1.6	1,658	1.9	2,035	2.1	2,490	2.5	2,409	2.4	423	1.7	298	1.2
Other current expenditures	983	1.2	900	1.0	1,696	1.8	998	1.0	691	0.7	180	0.7	159	0.7
Transfers	998	1.3	1,258	1.4	1,511	1.6	1,737	1.7	863	0.9	441	1.8	179	0.7
Total current expenditure	10,399	13.1	11,996	13.6	14,308	15.1	14,981	14.8	14,484	14.4	3,350	13.4	3,119	12.8
Capital expenditure														
Fixed capital expenditure	5,174	6.6	6,191	7.1	8,506	9.0	8,290	8.2	5,542	5.5	1,035	4.1	704	2.9
Other	159	0.2	328	0.4	-	-	22	-	16	-	5	0.0	64	0.3
Capital Transfers	2,703	3.4	2,724	3.1	3,048	3.2	3,501	3.5	4,108	4.1	967	3.9	951	3.9
Total capital expenditure	8,035	10.1	9,244	10.5	11,554	12.2	11,812	11.7	9,665	9.6	2,007	8.0	1,719	7.0
Total Expenditure⁽²⁾	18,435	23.3	21,240	24.2	25,861	27.3	26,794	26.6	24,149	23.9	5,357	21.5	4,837	19.8
Adjustment on treasury accounts	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Overall surplus or deficit	-1,236	-1.6	-1,717	-2.0	-5,461	-5.8	-6,413	-6.4	-3,805	-3.8	-297	-1.2	-358	-1.5

Source: Based on figures from the Central Bank June 2016 Monthly Bulletin (Table 2.2.1).

(1) Revenues are cash, expenditures are accrued.

(2) Includes all interest payments under foreign debt obligations.

Taxation and Customs

In 2011, Central Government revenues totaled U.S.\$17,198 million (equivalent to 21.7% of GDP), of which U.S.\$5,971 million (equivalent to 7.5% of GDP) corresponds to petroleum revenue, U.S.\$9,765 million (equivalent to 12.3% of GDP) corresponds to tax revenue, U.S.\$1,210 million (equivalent to 1.5% of GDP) corresponds to non-tax revenue and U.S.\$252 million (equivalent to approximately 0.3% of GDP) is in respect of transfers received.

In 2012, Central Government revenues totaled U.S.\$19,523 million (equivalent to 22.2% of GDP), of which U.S.\$6,086 million (equivalent to 6.9% of GDP) corresponds to petroleum revenue, U.S.\$12,255 million (equivalent to 13.9% of GDP) corresponds to tax revenue, U.S.\$1,128 million (equivalent to 1.3% of GDP) corresponds to non-tax revenue and U.S.\$54 million (equivalent to approximately 0.1% of GDP) is in respect of transfers received.

In 2013, Central Government revenues totaled U.S.\$20,400 million (equivalent to 21.5% of GDP), of which U.S.\$4,677 million (equivalent to 4.9% of GDP) corresponds to petroleum revenue, U.S.\$13,668 million (equivalent to 14.4% of GDP) corresponds to tax revenue, U.S.\$1,961 million (equivalent to 2.1% of GDP) corresponds to non-tax revenue and U.S.\$95 million (equivalent to approximately 0.1% of GDP) is in respect of transfers received.

In 2014, Central Government revenues totaled U.S.\$20,381 million (equivalent to 20.2% of GDP), of which U.S.\$3,765 million (equivalent to 3.7% of GDP) corresponds to petroleum revenue, U.S.\$14,460 million (equivalent to 14.3% of GDP) corresponds to tax revenue, U.S.\$2,061 million (equivalent to 2.0% of GDP) corresponds to non-tax revenue and U.S.\$95 million (equivalent to approximately 0.1% of GDP) is in respect of transfers received.

In 2015, Central Government revenues totaled U.S.\$20,344 million (equivalent to 20.2% of GDP), of which U.S.\$2,264 million (equivalent to 2.2% of GDP) corresponds to petroleum revenue, U.S.\$15,588 million (equivalent to 15.5% of GDP) corresponds to tax revenue, U.S.\$2,021 million (equivalent to 2.0% of GDP) corresponds to non-tax revenue and U.S.\$471 million (equivalent to approximately 0.5% of GDP) is in respect of transfers received.

Total Revenues of the Central Government in the first quarter of 2016 were U.S.\$4,480 million, while total expenditures were U.S.\$4,837 million, resulting in a deficit of U.S.\$358 million. Ecuador's deficit for the first quarter of 2016 exceeded the deficit of U.S.\$297 million in the corresponding period in 2015.

The 2008 Constitution grants the National Assembly the authority to create, amend or eliminate taxes by means of the law, without detriment to the attributions granted to Autonomous Decentralized Governments. Pursuant to the 2008 Constitution, only the President may submit bills that levy, amend or eliminate taxes. Municipal governments may also levy taxes. The 2008 Constitution provides that tax policy shall promote redistribution and shall stimulate employment, the production of goods and services, as well as ecologically, socially and economically responsible conduct. Furthermore, the 2008 Constitution expressly prioritizes direct and progressive taxes.

The value added tax applies to most sales of tangible assets as well as most services, except for educational, public transportation, public services, childcare services and others. The value added tax has been the largest component of tax revenues in the past five years, generating U.S.\$6,352 million of total tax revenues in 2015 and steadily increasing since 2011. This increase is not due to an increased rate, which has held steady at 12% for the past eight years. Instead, the increase in revenues is due to the Government's increased capacity to collect this tax due to an improved administrative system and the tax reforms described in further detail below. For the first quarter of 2016 the value added tax generated U.S.\$1,458 million, a decrease from U.S.\$1,803 million generated from the value added tax for the first quarter of 2015.

The second largest component of tax revenues is income tax, which accounted for U.S.\$4,734 million of tax revenues in 2015. For the first quarter of 2016, income tax revenues accounted for U.S.\$859 million, a decrease from U.S.\$920 million generated by income taxes for the first quarter of 2015. Effective personal income tax rates

for residents and non-residents who file tax returns in Ecuador range from 0% to 35%. The standard corporate tax rate in 2014 was 22%, down from 25% in 2012. However, a tax reform enacted in December 2014 increased the corporate tax rate to 25% for profits on distributions from Ecuadorian entities to residents domiciled in tax havens. Non-resident individuals are also subject to a flat income tax of 22% in 2013 (down from 24% in 2011 and 23% in 2012). The standard corporate tax rate for 2015 was 22% but increased to 25% for 2016 due to the 3% increase established by the Law of Solidarity. However, the standard corporate tax rate is planned to decrease to back to 22% for 2017.

Despite the decrease in revenues due to the fall of the price of oil in 2015 and 2016, revenues from income taxes have also steadily increased in the past six years. This increase is due to several tax reforms implemented during this period.

Tax Reforms

Historically, many individuals and companies did not pay taxes in Ecuador. Upon taking office, President Correa aimed to change this behavior and institute a culture of paying taxes among citizens and companies. To that end, the Ministry of Education established the *Día de la Cultura Tributaria* (“Tax Culture Day”) to be commemorated every April 27 and ran multiple television advertisements concerning the importance of tax payments. Ecuador completed these cultural efforts with legal reforms. Two of the most important reforms include the Reform Act to the Internal Tax Regime Law and the Reform Act for Tax Equity in Ecuador, which were enacted on December 23, 2009 and include the following measures:

- a 1% to 2% Currency Outflow tax, which was subsequently amended in November of 2011 to a 5% Currency Outflow Tax with an exemption, established in 2016, for the first U.S.\$1,098 and U.S.\$5,000 if a debit card or credit card is used (for more information regarding the Currency Outflow Tax, see “Balance of Payments and Foreign Trade – Foreign Trade–Trade Policy”);
- taxation on dividends received by company shareholders as profits;
- changes in the manner in which the *Impuesto a los Consumos Especiales* (“Special Consumer Good Tax” or “ICE”) calculates taxes on certain items for products such as cigarettes, alcoholic beverages and soft drinks. See “The Ecuadorian Economy–Economic and Social Policies– Environmental Improvement and State Resources Optimization Law;”
- incentives for the production sector, such as a proposal to return the value added tax (“VAT”) for certain tourism activities, and exemptions on tax for reinvestment in science and technology; and
- a refund of the 12% VAT (increased to 14% for 2016) for the public sector.

Other measures include the institution of numerous new individual tax deductions that encouraged the participation in payment of taxes. Taxpayers can apply these new deductions prior to the end of the tax year. Ecuador believes that the deductions and the advance payment system encourage participation and decreased the rate of tax evasion in the country. Ecuador has also improved its tax administration system to more easily identify tax evasion. Also, Ecuador believes that the decrease in the corporate tax rate to 22% in 2013, compared to 25% in 2012, has encouraged business growth and allowed for a larger corporate tax base.

In December 2012, the National Assembly enacted the Comprehensive Law of Redistribution of Income for Social Expenditures, which went into effect on January 1, 2013. This law expands the scope of the VAT to certain financial services provided by credit card administrators and private financial entities that were previously exempt.

In August 2014, the Ministry of Production and Industrialization introduced a U.S.\$42 flat tax rate on all international online purchases under U.S.\$400 and up to 4 kilograms. Before the introduction of this tax only international online purchases in excess of \$400 and 4 kilograms were subject to tax. This tax is intended to encourage local market consumption by discouraging small online purchases made outside the country. The tax will

be imposed on shipping companies for each package that enters the country. Packages shipped through certain state-owned postal services subject to international treaties will be exempt from the tax. Books for students for educational purposes are also exempt.

Foreign Aid

As of 2012, Ecuador is no longer listed as a country in need of foreign aid based on revenue per capita requirements from the World Bank.

Central Government Expenditures

In 2011, Central Government expenditure as a percentage of GDP was 23.3%. Overall expenses in 2011 constituted U.S.\$18,435 million. Since then, the amount of Central Government expenditures has steadily increased to U.S.\$26,794 million in 2014 before decreasing to U.S.\$24,149 million in 2015. The increases in Central Government spending from 2011 through 2014 can be primarily attributed to increases in (1) wages and salaries, which have increased, in absolute terms, from U.S.\$6,466 million in 2011 (when they constituted 35% of Central Government spending and 8.2% of total GDP) to U.S.\$8,359 million in 2014 (when they constituted 31.2% of Central Government spending and 8.3% of total GDP) and (2) fixed capital expenditures, which have increased from U.S.\$5,174 million in 2011 (when they constituted 28% of Central Government spending and 6.6% of total GDP) to U.S.\$8,290 million in 2014 (when they constituted 31% of Central Government spending and 8.2% of total GDP). The Government increased the amount of investment in infrastructure projects, especially highways, bridges, and hydroelectric plants during this period. For more information see “The Ecuadorian Economy – Strategic Sectors of the Economy.” In 2015, while wages and salaries, increased by 4.8% from 2014 to U.S.\$ 8,761 million (constituting 36% of Central Government spending and 8.7% of total GDP), fixed capital expenditures, decreased by 33.1% from 2014 to U.S.\$ 5,542 million (constituting 23% of Central Government spending and 5.5% of total GDP). This decrease in capital expenditure is primarily due to decreased investment in Government projects as a result of budget adjustment, with the previously budgeted capital expenditure being deferred to later years. For more information, see “The Ecuadorian Economy – Strategic Sectors of the Economy.”

For the first quarter of 2016, overall expenses of the Central Government were U.S.\$4,837 million, compared to U.S.\$5,357 million for the first quarter of 2015. In the first quarter of 2016, while wages and salaries, increased by 5.9% from U.S.\$1,969 million in the first quarter of 2015 to U.S.\$ 2,085 million, fixed capital expenditures decreased by 32.0% from U.S.\$1,035 million in the first quarter of 2015 to U.S.\$704 million.

2015 and 2016 Budgets

On October 31, 2014, the executive branch presented the 2015 draft budget to the National Assembly, which proposed a budget of U.S.\$36.3 billion for the year, a 5.8% increase from the U.S.\$34.3 billion budget for 2014. The draft budget, as presented, was approved by the National Assembly on November 20, 2014 and became effective on January 1, 2015.

In January 2015, in response to the decline of oil prices in the last quarter of 2014, Ecuador reduced its 2015 budget by U.S.\$1.4 billion, resulting in a modified budget of U.S.\$34.9 billion for 2015. The 2015 budget, as modified in January 2015, assumed an average crude oil price of U.S.\$60 per barrel. The adjustments included a reduction of U.S.\$839.8 million in investment expenditures and U.S.\$580 million in current expenditures. The reductions were made primarily in the following sectors: national treasury (U.S.\$276 million), education (U.S.\$255 million), communications (U.S.\$229 million), health (U.S.\$169 million), agriculture and fishing (U.S.\$100 million).

In August 2015, in response to the continuing decline of oil prices, Ecuador further reduced its 2015 budget by U.S.\$800 million, resulting in a modified budget of U.S.\$34.1 billion. The adjustments reduced current expenses by U.S.\$100 million and investment costs by U.S.\$700 million. According to a statement by the Minister of Finance on August 19, 2015, the reduction in investment costs were for projects that could be deferred for later years and whose deferment will not affect the growth of the economy.

On October 31, 2015, the executive branch presented the 2016 draft budget to the National Assembly which proposed a budget of U.S.\$29.8 billion for the year, a 17.9% decrease from the U.S.\$36.3 billion originally proposed for the 2015 budget and a 12.4% decrease from the U.S.\$34.1 billion adjusted budget for 2015. It assumes an average crude oil price of U.S.\$35.00 per barrel, which represents a 56% decrease from the U.S.\$79.70 per barrel assumption of the original 2015 budget. The draft budget also estimates that there will be a budget deficit equivalent to 2.4% of GDP and a GDP growth of 1%. Excluding financing, the initial draft budget provides for U.S.\$25.7 billion in expenses, comprised of U.S.\$8.8 billion in salaries and wages, U.S.\$4.7 billion in consumer goods and services, U.S.\$3.4 billion in capital transfers and donations, U.S.\$4.4 billion in other investment expenses and U.S.\$4.5 billion in other expenses. Total revenues under the draft budget are U.S.\$23.2 billion, including U.S.\$17.3 billion in taxes, rates and contributions, U.S.\$4.8 billion in current transfers and donations and U.S.\$1.2 billion in other revenues. The draft budget, as presented, was approved by the National Assembly on November 24, 2015 and became effective on January 1, 2016.

From time to time, the Ministry of Finance revises and adjusts the sources and uses of funds initially provided for in the draft budget. On March 3, 2016, the Minister of Finance announced that the 2016 Budget would be adjusted by approximately U.S.\$800 million. The Minister specified that approximately U.S.\$400 million would be reduced from investment and current expenses and that there would also be reductions to the budgets of the Autonomous Decentralized Governments. As of the date of this Offering Circular, the Ministry of Finance has made reductions in their estimates of revenue forecasts for non-petroleum revenue by U.S.\$780 million, income tax by U.S.\$507 million, value added tax by U.S.\$818 million, and the Currency Outflow Tax by U.S.\$209 million as compared to the original 2016 Budget revenue forecasts. In addition, while making reductions to permanent expenses by U.S.\$203 million and wages and salaries by U.S.\$284 million, the Ministry of Finance has increased its projected expenses for the provision of goods and services by U.S.\$137 million and other non-permanent costs by U.S.\$965 million, both as compared to the original 2016 Budget revenue forecasts. The Ministry of Finance has also increased its estimated projection for financing needs from U.S.\$6,602 million to approximately U.S.\$10,985 million. These adjustments are expected to increase the deficit by approximately U.S.\$1.5 billion.

PUBLIC DEBT

General

Public sector debt, including internal and external debt of the financial and non-financial public sector and the external Central Bank debt balance, was U.S.\$32,771.2 as of December 31, 2015, compared to U.S.\$30,140.2 million as of December 31, 2014, U.S.\$22,846.7 million as of December 31, 2013, U.S.\$18,652.3 million as of December 31, 2012 and U.S.\$14,561.8 million as of December 31, 2011. The increase in public sector debt in 2015 was mainly due to the issuance of the 2020 Bonds. The ratio of total public sector debt to GDP increased from 29.9% as of December 31, 2014 to 32.5% as of December 31, 2015. Interest payments on all debt obligations represent approximately 1.8% of GDP.

Since President Correa was elected in 2007, Ecuador has changed the focus of its public debt. Ecuador has focused on its relationships with Latin American-based multilateral entities and new bilateral partners, such as China. Ecuador has executed several loan agreements with China in the past five years and continues to collaborate with long-time partners such as Spain and Brazil. In Latin America, Ecuador has strengthened ties with IDB, CAF, and FLAR.

Under the 2008 Constitution, the National Assembly has the power to adopt legislation governing the issuance of public debt and to appropriate funds required for debt service. Acting pursuant to this constitutional mandate, the National Assembly approved the Public Planning and Finance Code, which governs the procedures that must be observed in all public debt matters. The Public Planning and Finance Code rules concerning public debt apply to the Ministry of Finance, which is the only Government institution allowed to contract for the issuance of sovereign debt by the Republic of Ecuador, as well as obligations of the municipalities guaranteed by the Government.

Because all public debt governed by the Public Planning and Finance Code must comply with the public indebtedness policies adopted by the executive branch, the Ministry of Finance must obtain the approval of the Debt and Finance Committee of the Republic of Ecuador before signing any agreement with respect to sovereign debt including the Notes. See “Monetary System – Fiscal Policy.” This requirement is established by Article 289 of the 2008 Constitution and Article 139 of the Public Planning and Finance Code. Approval is not required for any obligation that is less than 0.15% of the General State Budget and does not have a sovereign guarantee. Any contract executed by the Ministry of Finance that required, but did not obtain the approval of the Debt and Finance Committee is null and void and unenforceable and may give rise to civil and criminal liability for the individuals involved. Approval of the Debt and Finance Committee is evidenced by a signed memorandum signed by each member of the Debt and Finance Committee. Once the Ministry of Finance obtains approval of the Debt and Finance Committee, it may sign the agreement incurring debt obligations, provided that the Attorney General of Ecuador has approved any clauses providing for foreign applicable law and/or arbitration in a foreign jurisdiction. Loan proceeds are disbursed to the Ministry of Finance, which in turn, transfers such proceeds to the ultimate borrower.

The use of proceeds for public debt is limited by Article 126 of the Public Planning and Finance Code. Under the Public Planning and Finance Code, proceeds of public debt transactions may only be used to: (1) finance Government programs, (2) finance infrastructure projects that have the capacity to repay the debt obligation and (3) refinance an existing external debt obligation on more favorable terms. The Public Planning and Finance Code prohibits public transactions for the purpose of paying ongoing expenses, with the exception of expenses related to health, education, and justice, under exceptional circumstances as determined by the President.

Although public debt service is the primary responsibility of the entity for whose benefit the loan was received, debt governed by the Public Planning and Finance Code is an obligation of the Government. Accordingly, transfers from the Government to any entity pursuant to the annual budget take into account debt service obligations for the following year.

This external debt process is in place as a mechanism to ensure that Ecuador does not reach the high levels of debt it had incurred before the Correa administration. The system of authorization through the Constitution and

the Debt and Finance Committee, plus the 40% of GDP debt limit and other provisions from the Public Planning and Finance Code seek to maintain a stable external debt and have resulted in a low debt to GDP ratio as compared to other countries. Upon the issuance of the Notes, the ratio of total public sector debt to GDP (including this issuance) will be 35.6%.

External Debt

The total external debt of the public sector in Ecuador was U.S.\$20.23 billion as of December 31, 2015, compared to U.S.\$17.58 billion as of December 31, 2014, U.S.\$12.92 billion as of December 31, 2013, U.S.\$10.87 billion as of December 31, 2012, and U.S.\$10.06 billion as of December 31, 2011. The increase in public sector external debt since December 31, 2011 was primarily the result of the disbursements of loans to develop various major infrastructure projects, mostly related to hydroelectric energy in Ecuador, to promote energy independence and reduce reliance on non-renewable energy sources, and the issuance of the 2020 and 2024 Bonds. The total external debt of the public sector in Ecuador as of June 30, 2016 was U.S.\$22.57 billion.

The following table sets forth information regarding Ecuador's public sector external debt as of dates indicated.

Public Sector External Debt

(by debtor, in billions of U.S. dollars at the end of the year, except percentages)

	As of December 31,					As of June 30,
	2011	2012	2013	2014 ⁽¹⁾	2015 ⁽²⁾	2016
Central Government.....	9.18	9.88	11.86	15.43	18.18	19.86
Public financial and non-financial entities	0.88	0.99	1.06	2.15	2.04	2.71
Total.....	10.06	10.87	12.92	17.58	20.23	22.57
External public debt as a percentage of nominal GDP ⁽³⁾ ...	12.7%	12.4%	13.6%	17.4%	20.1%	22.0%

Source: Ministry of Finance June 2016 Bulletin.

(1) Includes the 2024 Bonds.

(2) Includes the 2020 Bonds.

(3) Calculated using Central Bank GDP data, except for June 2016 percentage which is calculated using estimates from the Ministry of Finance and the Central Bank.

The following table shows the composition of the Republic's external public debt by type of creditor for the periods presented. Provincial governments and municipalities may incur debt through the Ministry of Finance if they follow certain requirements established by law, and certain provincial and municipal governments have issued external debt, which is included in the table above under the heading of "Public financial and non-financial entities."

Public Sector External Debt by Type of Creditor

(in billions of U.S. dollars)

	As of December 31,					As of June 30,
	2011	2012	2013	2014	2015	2016
Multilateral	5.29	5.87	6.01	6.56	7.93	7.98
Bilateral	3.62	3.87	5.75	6.15	6.42	7.82
Commercial and Bonds	1.14	1.13	1.16	4.88	5.87	6.76
Total Public Sector External Debt	10.06	10.87	12.92	17.58	20.23	22.57

Source: Ministry of Finance June 2016 Bulletin.

The increase in bilateral debt of the Government and public financial and non-financial entities from December 31, 2011 to December 31, 2015 was due mainly to new debt being obtained from bilateral lenders rather than from the international bond markets, following the repurchase by the Government of the 2012 and 2030 Bonds. For more information see "Public Debt – Debt Obligations – 2012 and 2030 Bonds and tender offer."

Total indebtedness owed to multilateral institutions was U.S.\$7.93 billion as of December 31, 2015 and U.S.\$7.98 billion as of June 30, 2016. The Government is current on all its obligations to multilateral institutions.

As of December 31, 2014, the top three bilateral lenders to Ecuador were China, Brazil and Spain, with debt levels of U.S.\$5,074.4 million (63.7% of the total bilateral debt), U.S.\$302.8 million (3.8% of the total bilateral debt) and U.S.\$158.1 million (1.9% of the total bilateral debt), respectively.

As of December 31, 2015, the top three bilateral lenders to Ecuador continued to be China, Brazil and Spain, with debt levels of U.S.\$5,295.4 million (85.4% of the total bilateral debt), U.S.\$295.5 million (4.5% of the total bilateral debt) and U.S.\$140.6 million (2.2% of the total bilateral debt), respectively. The Government is current on all of its obligations to bilateral lenders.

As of June 30, 2016, the top three bilateral lenders to Ecuador were China, Brazil and Spain, with debt levels of U.S.\$6,743.0 million (86.2% of the total bilateral debt), U.S.\$257.2 million (3.3% of the total bilateral debt) and U.S.\$139.9 million (1.8% of the total bilateral debt), respectively. The Government is current on all of its obligations to bilateral lenders.

From 2010 to 2014, Ecuador has entered into three separate loan agreements with China Development Bank totaling U.S.\$5 billion, which are related to a multi-party contractual structure that involves crude oil delivery contracts entered into with PetroChina and Unipetec. Deliveries under these contracts are based upon international spot prices, such as WTI plus or minus a spread, plus a premium paid due to the term of the contracts. The spread is calculated using Argus, a crude oil price assessment publication ("Argus") and the quality of crude oil as measured by the American Petroleum Institute. Under these agreements, Ecuador is required to invest the loaned amounts in specific infrastructure projects or programs in Ecuador. The first loan agreement, signed in 2010, totaling U.S.\$1 billion, was repaid in its entirety, at the end of its original four-year term. The second loan agreement, signed in 2011, totaling U.S.\$2 billion, has an eight-year term. The third loan agreement, signed in 2012, totaling U.S.\$1 billion, has an eight-year term.

On January 7, 2015, Ecuador entered into a memorandum of understanding with China Development Bank in connection with a loan of up to U.S.\$1.5 billion. The proceeds of the loan under the memorandum of understanding were to be used for eligible infrastructure and development projects in Ecuador.

On April 29, 2016, Ecuador entered into a fourth loan agreement with China Development Bank for U.S.\$2 billion with a maturity of eight years. The agreement was related to a multi-party contractual structure involving a crude oil delivery contract entered into with PetroChina.

The following table lists current material bilateral and multilateral indebtedness by agreement and lender.

Material Public External Debt

(in millions U.S.\$)

Creditor	Interest Rate Type	Currency	Date Issued	Maturity	As of June 30, 2016
Multilateral					
IBD.....	Variable	U.S.\$	1966- 2015	2016-2050	4,293.6
CAF.....	Variable	U.S.\$	2005- 2015	2016-2030	3,016.9
FLAR.....	Variable	U.S.\$	2014	2017	386.0
Others ⁽¹⁾	Fixed, Variable	Euro, U.S.\$	1996- 2016	2016-2051	284.5
Total Multilateral Debt.....					7,981.0
Bilateral					
China.....	Fixed, Variable	RMB, U.S.\$	2010-2016	2019-2036	6,743.0
Brazil.....	Variable	U.S.\$	2000-2013	2018-2023	257.2
Spain.....	Fixed	U.S.\$	1987-2016	2016-2041	139.9
Italy.....	Fixed	Euro	1995-2015	2025-2047	88.5
Japan.....	Fixed, Variable	Yen	1988-2014	2018-2026	75.7
Others ^{(2) (3)}	Fixed, Variable	DEG, Won, Libra, Chf	1985-2015	2016-2053	517.9
Total Bilateral Debt.....					7,822.3
Other Debt ⁽⁴⁾.....					6,768.8
Total External Debt.....					22,572.1

Source: Ministry of Finance as of June 2016.

- (1) Other multilateral loans include loans with the International Fund for Agricultural Development and the *Banco Internacional de Reconstrucción y Fomento*.
- (2) Includes amounts from loans to Paris Club members.
- (3) Other bilateral lenders include South Korea, Germany, France, and the United States, among others.
- (4) "Other debt" includes commercial debt and amounts owed under the 2030 Bonds, the 2020 Bonds, the 2024 Bonds and the Brady Bonds.

The following table shows the rates of interest applicable to the outstanding principal balance of the Republic's public external debt at the dates indicated.

	Interest on Public Sector External Debt					
	At December 31, 2014		At December 31, 2015		At June 30, 2015	
	Amount (in millions of U.S. dollars, except percentages)	Percent age	Amount (in millions of U.S. dollars, except percentages)	Percentage	Amount (in millions of U.S. dollars, except percentages)	Percentage
Fixed Rate						
0-3%.....	697.0	3.9%	844.9	4.2%	837.1	3.7%
3-5%.....	336.7	1.9%	249.0	1.2%	178.8	0.8%
5-8% ⁽¹⁾	8,063.2	45.9%	8,005.0	39.6%	9,320.8	41.3%
More than 8% ⁽²⁾	994.2	5.6%	1,859.2	9.2%	1,866.7	8.3%
Floating Rate	7,490.9	42.6%	9,267.1	45.8%	10,368.9	45.9%
Total	17,581.3	100%	20,225.2	100%	22,572.2	100%

Source: 2014 Figures from Ministry of Finance December 2014 Bulletin; 2015 Figures from Ministry of Finance December 2015 Bulletin. 2016 Figures from Ministry of Finance June 2016 Bulletin.

- (1) Reflect the amounts under the 2024 Bonds and 2020 Bonds.
- (2) Reflects the amounts under the 2030 and the 2015 Bonds.

The following table sets forth scheduled debt service for the Republic's total public external debt for the periods presented.

Public Sector External Debt Service Maturity 2016-2026
(in millions of dollars)

	For the Year Ending December 31,										
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Central Government	2,507	3,377	2,805	2,319	3,570	1,564	1,422	1,309	3,137	1,053	743
Principal.....	1,540	2,451	1,977	1,578	2,978	1,116	1,018	944	2,889	922	644
Interest.....	967	926	829	741	592	448	404	364	248	131	99
Rest of Public Sector	458	431	419	356	185	189	169	147	135	124	111
Principal.....	335	331	336	290	130	140	127	110	102	96	87
Interest.....	123	99	83	66	55	49	42	37	33	28	24
Total Debt Service	2,965	3,808	3,225	2,675	3,756	1,753	1,591	1,456	3,272	1,177	854

Source: Ministry of Finance as of June 2016.

Internal Debt

The Government's internal debt consists of obligations to both public sector and private entities. Public sector internal debt increased from U.S.\$4.51 billion as of December 31, 2011 to U.S.\$12.55 billion as of December 31, 2015, due primarily to increased issuances of long and short term government notes.

The following table sets forth the public sector internal debt for the periods presented.

Public Sector Internal Debt
(in billions of U.S. dollars, except percentage)

	As of December 31,					As of June 30,
	2011	2012	2013	2014	2015	2016
Central Government Notes.....	3.66	6.95	9.12	11.78	11.78	12.14
Governmental Entities ⁽¹⁾	0.85	0.83	0.80	0.78	0.77	0.76
Total	4.51	7.78	9.93	12.56	12.55	12.91
Internal public debt as a percentage of nominal GDP ⁽²⁾	5.7%	8.8%	10.5%	12.4%	12.4%	12.6%

Source: Ministry of Finance June 2016 Bulletin.

- (1) Direct issuances backed by IESS and the Development Bank. Government is the debtor under all internal debt issuances.
(2) Calculated using Central Bank GDP data.

As of December 31, 2015, approximately 93.9% of Ecuador's internal public indebtedness consists of long-term originally issued dollar-denominated notes. Currently, all internal debt obligations are issued through the Ministry of Finance. As of December 31, 2015, approximately 6.5% of Ecuador's internal public indebtedness is held by Governmental Entities, such as IESS and the Development Bank.

The Ministry of Finance and COSEDE, acting as trustees, temporarily assumed the debts and assets of AGD. They were then permanently transferred to CFN. For further information on these transfers, see "Monetary System - The Financial Safety Net- Deposit Insurance." Notes issued by the AGD matured and were fully paid off by the Government in December 2014.

Public Sector Internal Debt
(in millions of U.S.\$, except percentages)

	As of December 31, 2015										As of June 30,	
	2011		2012		2013		2014		2015		2016	
	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%
Short-term notes	—	—	—	—	—	—	—	—	—	—	—	—
Long-term notes ⁽¹⁾	3,525	78.2	6,817	87.6	8,992	90.6	11,779	93.8	11,780	93.9	12,143	94.1
AGD notes ⁽²⁾	133	3.0	133	1.7	133	1.3	—	—	—	—	—	—
CFN notes ⁽³⁾	—	—	—	—	—	—	—	—	—	—	—	—
Total notes	3,659	81.2	6,950	89.3	9,125	91.9	11,779	93.8	11,780	93.9	12,143	94.1
Governmental Entities ⁽⁴⁾	848	18.8	830	10.7	802	8.1	780	6.2	767	6.1	763	5.9
Total internal debt	4,507	100	7,781	100	9,927	100	12,558	100	12,546	100	12,906	100

Source: Ministry of Finance June 2016 Bulletin.

- (1) Securities placed by Ecuador according to decrees and resolutions issued to finance projects from the state budget and annual investment plan.
(2) Law 98-17 of November 26, 1998, published in Official Gazette No. 78 of December 1, 1998 ("Law 98-17") authorized the issuance of government bonds as part of the resources for the operations of the Deposit Guarantee Agency. These bonds were issued for a term of 15 years, payment of principal at maturity and annual interest payments at a rate of 12%.
(3) These bonds issued under Law 98-17 as a capital contribution to the National Finance Corporation. The value of these bonds was U.S.\$424.9 million and they had 7 and 11-year terms with semi-annual payments of principal and interest at Libor plus 180 days margin.
(4) Direct issuances backed by IESS and the Development Bank.

Ecuador has not issued any short-term debt (maturity equal to or less than one year), and it does not intend to issue such debt in the future. Ecuador's medium-term and short-term obligations have generally been issued to finance development projects and to restructure or provide for revenue shortfalls in the Government's budget for a given year. Notes issued for development projects are generally privately held by entities contracted to undertake these development projects. Notes issued for budget restructuring, which generally have a maturity greater than one year, are placed on the Quito and Guayaquil stock exchanges, and are currently held by both public and private holders.

Debt Obligations

Brady Bonds and Eurobonds

In May 1994, the Government reached an agreement with its commercial bank creditors to restructure the Republic's medium and long-term commercial bank debt (the "Brady Plan"). The Brady Plan offered creditors the opportunity to exchange existing principal for either: (i) 30-year notes of the same face amount (the "Par Notes"), with interest initially fixed at three percent (3%) incrementally increased over the first 10 years up to a rate of five percent (5%) or (ii) 30-year notes with a face amount equal to 55% of the face value of the debt exchanged (the "Discount Notes" together with the Par Notes, the "Brady Bonds") and bearing interest at the London Interbank Offered Rate ("LIBOR") plus 13-16%. The principal of Par Notes and Discount Notes was fully collateralized by 30-year U.S. Treasury notes and interest on those Notes was collateralized on a 12-month rolling basis. The Brady Plan also offered creditors the opportunity to exchange accrued and unpaid interest for two instruments: (i) 20-year notes bearing interest at LIBOR plus 13-16% (the "PDI Notes") and (ii) 10-year notes bearing interest at LIBOR plus 13-16% and representing certain accrued and unpaid past due interest under the Consolidation Agreement (the "IE Notes").

On December 21, 1994, the Republic issued U.S.\$191.0 million of IE Notes. On February 28, 1995, the Republic issued U.S.\$1.9 billion, U.S.\$1.4 billion and U.S.\$2.4 billion of Par Notes, Discount Notes and PDI Notes, respectively. The Republic also agreed to make certain additional cash payments in respect of past due interest.

On April 25, 1997, the Republic issued U.S.\$350 million of its 11.25% Fixed Rate Eurobonds due 2002 and U.S.\$150 million of its Floating Rate Eurobonds due 2004 (together, the "Eurobonds"). In late 1999 and early 2000, the Republic defaulted on its Par Bonds, Discount Bonds, 11.25% Fixed Rate Eurobonds due 2002, Floating Rate Eurobonds due 2004, IE Notes and PDI Notes (together, the "Old Notes"). In June 2000, the Republic launched a global exchange offer whereby it offered U.S. dollar Denominated Global Bonds due 2012 (the "2012 Bonds") and U.S. dollar Denominated Step-Up Global Bonds due 2030 (the "2030 Bonds" together with the 2012 Bonds, the "2012 and 2030 Bonds") together with a cash payment for any and all of the Old Notes.

In December 2005, the Republic successfully launched an issuance of the 2015 Bonds. The use of the proceeds of the 2015 Bonds was to buy back certain of the 2012 Bonds in accordance with their terms. The Republic successfully repaid all principal and interest on the 2015 Bonds on December 15, 2015.

2012 and 2030 Bonds and tender offer

In 2008, Ecuador defaulted on its interest payments for the 2012 and 2030 Bonds in the aggregate amount of approximately U.S.\$157 million and principal payments of approximately U.S.\$3,200 million. The 2012 and 2030 Bonds were originally issued in exchange for prior debt offerings of the Republic in order to extend the maturity dates of those prior obligations. This default followed the publication of a report in 2008 by the Commission of Integral Audit of Public Credit ("CAIC"), a committee composed of representatives from both the Ecuadorian government and private sector organizations and members of civil society. CAIC reviewed Ecuador's debt obligations from 1976 to 2006 and in its report made a number of findings regarding the legitimacy of Ecuador's debt obligations (including the 2012 and 2030 Bonds), in particular relating to concerns involving the public assumption of private debt, appropriate authorizations, sovereign immunity, and the relevant economic terms of the debt obligations incurred. After the default, which occurred during the first term of President Correa's administration, Ecuador offered to repurchase the 2012 and 2030 Bonds. In April 2009 and November 2009, the Republic launched tender offers, in cash, to holders of the 2012 and 2030 Bonds. Approximately 93.22% of the bonds were tendered in the April 2009 and the November 2009 tender offers and were bought out at 35 cents on the dollar. Although some holders continue to hold the defaulted 2012 and 2030 Bonds, Ecuador has successfully repurchased additional 2012 and 2030 Bonds from remaining holders from 2009 onwards. As of the date hereof, the total aggregate amount of outstanding principal on the 2012 and 2030 Bonds is U.S.\$70.3 million, which represents 2.2% of the original aggregate principal amount of the 2012 and 2030 Bonds.

On December 12, 2014, GMO Trust issued proceedings against the Republic in respect of an alleged U.S.\$15,876,000 holding of the 2030 Bonds. GMO voluntarily withdrew its complaint pursuant to a settlement

agreement between the parties. A stipulation dismissing the complaint was filed on March 16, 2015; under that stipulation, the case cannot be re-filed.

On January 30, 2015, Daniel Penades issued proceedings against the Republic in respect of an alleged U.S.\$455,000 holding of the 2030 Bonds in the United States District Court for the Southern District of New York. Ecuador was served with a notification of the claim on September 16, 2015. On January 15, 2016, Ecuador filed a motion to dismiss. As of the date of this Offering Circular, the District Court continues to consider Ecuador's motion to dismiss.

2024 Bonds

On June 17, 2014, the Republic successfully issued U.S.\$2 billion of Bonds due June 2024 (the "2024 Bonds") with a coupon of 7.95% at 100% of the purchase price. The most recent interest payment on the 2024 Bonds, which was due on June 20, 2016, was paid by the Republic in accordance with the relevant indenture. The Republic is current on its financial obligations under the 2024 Bonds and intends to make all payments as they become due and payable. The Republic used the proceeds of the 2024 Bonds to finance its various hydroelectric projects and other infrastructure projects contemplated in its National Development Plan.

2020 Bonds

On March 24, 2015, the Republic successfully issued U.S.\$750 million of Bonds due March 2020 with a coupon of 10.50% (the "Original 2020 Issuance") at 100% of the purchase price. The Republic re-opened the Original 2020 Issuance on May 19, 2015 and successfully issued an additional U.S.\$750 million of Bonds at a price of 107.789%, also due 2020 (together with the Original 2020 Issuance, the "2020 Bonds"). The most recent interest payment on the 2020 Bonds, which was due on March 24, 2016, was paid by the Republic in accordance with the relevant indenture. The Republic is current on its financial obligations under the 2020 Bonds and intends to make all payments as they become due and payable. The Republic used the proceeds of the 2020 Bonds to finance its various hydroelectric projects and other infrastructure projects contemplated in its National Development Plan.

Other obligations

In June 2003, the Republic agreed with its Paris Club creditors to reschedule U.S.\$81 million of bilateral debt. Payments due on official development aid loans were rescheduled over a period of 20 years and those on other credits were rescheduled over a period of eighteen years. As of the date of this Offering Circular, the Republic was in compliance with all of the terms of its Paris Club loans. Further, in recent years, the Republic has launched successful debt exchanges in Germany, Spain and Italy.

On January 7, 2015, Ecuador entered into a memorandum of understanding with China Development Bank in connection with a loan of up to U.S.\$1.5 billion. The proceeds of the loan under the memorandum of understanding were to be used for eligible infrastructure and development projects in Ecuador. On the same date, Ecuador entered into a framework agreement for future cooperation with China Exim Bank. This agreement allows the Ministry of Finance to regularly submit priority lists of projects which it proposes to be financed by China Exim Bank, within three years of the date of the agreement. The initial priority list includes six projects to be financed at a total cost of U.S.\$5.3 billion. The rights and obligations of the parties will be stipulated in relevant loan agreements to finance specific projects.

On February 26, 2015, Ecuador entered into a Foreign Purchase Credit Agreement with Deutsche Bank, Sociedad Anónima Española. The loan is to be used to purchase radar equipment and other equipment for the air defense of Ecuador. This agreement provides for a U.S.\$88 million facility to be repaid in a term of nine years.

On March 31, 2015, Ecuador entered into a thirteen year, U.S.\$85.7 million facility agreement with the Bank of China Limited, Panama Branch (U.S.\$60.0 million commitment) and Deutsche Bank AG, Hong Kong Branch (U.S.\$25.7 million commitment). The proceeds of this facility are to be used for the restoration and improvement of the Sigchos-Chugchilán and Buena Vista-Vega Rivera-Paccha-Zaruma Highways.

In January 2016, Petroecuador entered into a credit agreement for a facility of up to U.S.\$970 million from a consortium of banks led by Industrial and Commercial Bank of China Limited, China Exim Bank, and China Minsheng Banking Corp., Ltd. The first tranche of U.S.\$820 million was disbursed in February 2016. The facility was related to a multi-party contractual structure involving a crude oil delivery contract entered into with PetroChina. The credit has an interest rate of three-month Libor plus 6.2% and has a term of five years.

In February 2016, the Republic entered into a U.S.\$198 million loan agreement with China Exim Bank, to finance the first phase of Yachay. The loan agreement has a 3% interest rate and a term of 20 years.

On April 29, 2016, Ecuador entered into a fourth loan agreement with China Development Bank for U.S.\$2 billion with a maturity of eight years. The agreement was related to a multi-party contractual structure involving a crude oil delivery contract entered into with PetroChina.

DESCRIPTION OF THE NOTES

Ecuador will issue Notes (as defined below) under an indenture between Ecuador and The Bank of New York Mellon (the “Trustee”), dated July 28, 2016 (the “Indenture”). The following description summarizes the material provisions of the Notes and the Indenture. This summary does not contain all of the information that may be important to you as a potential investor in the Notes. You should read the Indenture and the forms of Notes before making your investment decision.

General

Authorization

The issue of the Notes was authorized by the Republic's Debt and Finance Committee under Acta Resolutiva No.013 dated June 20, 2016.

Basic Terms

The Notes will:

- be general, direct, unsecured, unsubordinated and unconditional obligations of Ecuador, will be backed by the full faith and credit of Ecuador and will rank equally in terms of priority with Ecuador's External Indebtedness (other than Excluded Indebtedness), provided, that, such ranking is in terms of priority only and does not require that Ecuador make ratable payments on the Notes with payments made on its other External Indebtedness;
- be initially issued in an aggregate principal amount of U.S.\$1,000,000,000 of 10.750% Notes due March 28, 2022 (the “Notes”);
- mature at par on March 28, 2022 (subject to any Optional Redemption, prepayment or repurchase);
- be issued in denominations of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof;
- be represented in the form of global notes, without coupons, registered in the nominee name of the common depositary for Euroclear and Clearstream for the accounts of its participants; and
- be redeemable at the option of Ecuador (see “–Optional Redemption”).

Interest

Interest on the Notes will:

- accrue at the rate of 10.750% per annum;
- accrue from and including the date of issuance or the most recent payment date;
- be payable semi-annually in arrears on March 28 and September 28 of each year, commencing on March 28, 2017;
- be payable to the holders of record at the end of the Business Day immediately preceding the related interest payment date; and
- be computed on the basis of a 360-day year comprised of twelve 30-day months.

Payment

Ecuador will make payments of principal of, interest (including Additional Amounts (as defined below), if any) on and premiums, if any, on the Notes by wire transfer of immediately available funds to the London Paying Agent on the Business Day prior to each scheduled payment date. The London Paying Agent, will apply the amounts it receives from Ecuador towards the payment of principal, interest (including Additional Amounts, if any) and premiums, if any, then due. While the Notes are held in global form, the London Paying Agent will make such payments to Euroclear or Clearstream or its nominee, as the registered owner of the Notes, by check or wire transfer in immediately available funds. Euroclear or Clearstream will distribute the funds it receives from the London Paying Agent to beneficial holders of the Notes having accounts at Euroclear or Clearstream, in accordance with Euroclear's or Clearstream's records and operating procedures. To hold a beneficial interest in the Notes you must hold an account at Euroclear or Clearstream directly or through a financial or other institution that has a direct or indirect account with Euroclear or Clearstream.

None of Clearstream or Euroclear is an agent of Ecuador. The Trustee is a fiduciary of the holders of the Notes and any monies it receives from Ecuador will, pending payment, be held by it in trust for the exclusive benefit of the holders of the Notes. Euroclear and Clearstream are clearing agencies. The manner in which each of Euroclear and Clearstream maintains records of beneficial interest in the Notes and how it distributes payments made by Ecuador on account of such interest are within its sole discretion. None of Ecuador, the Trustee, the London Paying Agent or the initial purchasers shall have any responsibility or liability for any aspect of the records of, or payments made by, Euroclear or Clearstream or their nominees or direct participants, or for any failure on the part of Euroclear or Clearstream or their direct participants in making payments to holders of the Notes from the funds they receive. Ecuador's obligations to make payments of principal of and interest on the Notes shall be satisfied when such payments are received by the Trustee.

If Ecuador issues definitive Notes, the London Paying Agent will make payments by check mailed to the holder's registered address or, upon application by the holder of at least U.S.\$1,000,000 in principal amount of definitive Notes delivered to the Trustee not later than the relevant record date, by wire transfer to an account designated by such holder.

If any date for an interest or principal payment on the Notes is not a Business Day, Ecuador will make the payment on the next Business Day. No interest on the Notes will accrue as a result of this delay in payment.

If any money that Ecuador pays to the London Paying Agent for the purpose of making payments on any Notes is not claimed at the end of two years after the applicable payment was due and payable, then the money will be repaid to Ecuador. Ecuador will hold the money in trust for the relevant holders until six years from the date on which the payment first became due or a shorter period of time provided by law. Before any such repayment, the Trustee may mail or publish in an authorized newspaper notice that such money remains unclaimed. After any such repayment, holders entitled to receive payment from such monies may look only to Ecuador for such payment, and neither the Trustee nor any paying agent will be liable for such payment.

Additional Amounts

Unless otherwise required by law, Ecuador will make all principal and interest payments on the Notes without withholding or deducting any present or future taxes imposed by Ecuador or any of its political subdivisions or taxing authorities. If Ecuador is required by law to deduct or withhold taxes, Ecuador will pay the holders of the Notes such additional amounts as may be necessary to ensure that they receive the same amount as they would have received without any withholding or deduction. Any such amounts to be paid by Ecuador in accordance with this paragraph shall be "Additional Amounts".

Ecuador will not, however, pay any Additional Amounts in respect of any tax, assessment or other Governmental charge that is imposed due to any of the following:

- the holder or beneficial owner has or had some connection with Ecuador other than merely holding the Note or the receipt of any payment of principal of or interest on that Note;

- the holder has failed to present, where presentation is required, its Note for payment within 30 days after the payment first became due or, if the full amount of such payment is not received by the London Paying Agent on or prior to such due date, the date on which notice is given to the holder that such payment has been received and is available to the holder except to the extent that holder thereof would have been entitled to Additional Amounts on presenting the same for payment as on the last day of such period of 30 days;
- the holder or beneficial owner has failed to comply with any certification or other reporting requirement concerning its nationality, residence, identity or connection with Ecuador or any of its political subdivisions or taxing authorities, and Ecuador or any of its political subdivisions or taxing authorities requires compliance with these reporting requirements as a precondition to exemption from all or any portion of any tax withholding or deduction and has notified the holder or beneficial owner, as applicable, in writing at least 60 days prior to the first scheduled payment date for which compliance will be required;
- where the withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC (as amended from time to time) or any other directive implementing the conclusions of the ECOFIN Council meeting of November 26-27, 2002 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- a Note has been presented for payment by or on behalf of a holder who would have been able to avoid the withholding or deduction by presenting the relevant Note to another paying agent in a member state of the European Union.

Ecuador will pay any present or future stamp, court or documentary taxes or any other excise or property taxes, charges or similar levies that arise in Ecuador or any of its political subdivisions or taxing authorities in respect of the creation, issue, execution, delivery or registration of the Notes. Ecuador will also indemnify the holder and the Trustee from and against any stamp, court or documentary taxes or any other excise or property taxes, charges or similar levies in connection with the enforcement of Ecuador's obligations under the Notes following an event of default.

Repurchase

Ecuador may at any time, in accordance with applicable laws, tender for or repurchase the Notes at any price in the open market or otherwise. Any Notes so purchased (including upon any redemption) shall not be re-issued or resold except in compliance with the Securities Act and other applicable law. Ecuador may hold Notes it purchases or may surrender them to the Trustee for cancellation.

Optional Redemption

Ecuador will have the right at its option, upon giving not less than 30 days nor more than 60 days' notice to the holders of the Notes, to redeem the Notes, in whole or in part, at any time or from time to time prior to their maturity, at a redemption price equal to the greater of (i) 100% of the principal amount of such Notes and (ii) the sum of the present value of each remaining scheduled payment of principal and interest thereon (exclusive of interest accrued to the date of redemption) discounted to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate (as defined below) plus 50 basis points (the "Make-Whole Amount"), plus in each case accrued and unpaid interest to the redemption date on the Notes to be redeemed on such date (an "Optional Redemption").

On and after the redemption date, unless there is a default in the payment of amounts due, interest will cease to accrue on the Notes or any portion of the Notes called for redemption. If less than all of the Notes are to be redeemed, the Notes to be redeemed shall be selected on a *pro rata* basis, selected by lot or by such method as the Trustee shall deem fair and appropriate (subject to the procedures of Euroclear and Clearstream).

“Comparable Treasury Issue” means the United States of America Treasury security or securities selected by an Independent Investment Banker (as defined below) as having an actual or interpolated maturity comparable to the period from the redemption date to the maturity date of the Notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of comparable debt securities of a comparable maturity to the period from the redemption date to the maturity date of such Notes.

“Comparable Treasury Price” means, with respect to any redemption date, (i) the average of the Reference Treasury Dealer Quotations (as defined below) for such redemption date, after excluding the highest and lowest such Reference Treasury Dealer Quotations or (ii) if Ecuador obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such quotations. When obtaining a Comparable Treasury Price, Ecuador must consult at least three Reference Treasury Dealers.

“Independent Investment Banker” means one of the Reference Treasury Dealers (as defined below) appointed by Ecuador.

“Reference Treasury Dealer” means a dealer selected by Ecuador that is a primary United States government securities dealer.

“Reference Treasury Dealer Quotation” means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Independent Investment Banker (after consultation with the Republic), of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to Ecuador by such Reference Treasury Dealer at 3:30 p.m., New York time on the third Business Day preceding such redemption date.

“Treasury Rate” means, with respect to any redemption date, the rate per annum equal to the semi-annual equivalent yield to maturity or interpolated maturity of the Comparable Treasury Issue (as defined below), assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

Certain Covenants

Ecuador has agreed that as long as any of the Notes remain outstanding or any amount payable by Ecuador under the Indenture remains unpaid, Ecuador will:

1. obtain and maintain in full force and effect all Ecuadorian Authorizations, necessary under the laws of Ecuador for the execution and delivery of, and performance by Ecuador under, the Notes and the Indenture or for their validity or enforceability, and take all necessary and appropriate Governmental and administrative action in Ecuador in order to be able to make all payments to be made by it under the Notes and the Indenture;
2. ensure that at all times its obligations under the Notes are general, direct, unsecured, unsubordinated and unconditional obligations of Ecuador and shall be backed by the full faith and credit of Ecuador and ensure that the Notes shall rank equally in terms of priority with Ecuador's External Indebtedness (other than Excluded Indebtedness), provided, that, such ranking is in terms of priority only and does not require that Ecuador make ratable payments on the Notes with payments made on its other External Indebtedness;
3. use its reasonable best efforts to list and thereafter to maintain the listing of the Notes on the Luxembourg Stock Exchange; and
4. not create or suffer to exist, or permit the Central Bank to create or suffer to exist, any Lien upon any of its present or future assets or revenues to secure or otherwise provide for the payment of any External Indebtedness of Ecuador or the Central Bank unless, on or prior to the date such Lien is created or comes into existence, the obligations of the Republic under the Notes and the Indenture are secured equally and ratably with such External Indebtedness.

Ecuador may, however, create or permit to subsist the following Liens (“Permitted Liens”):

- any Lien on property to secure External Indebtedness arising in the ordinary course of business to finance export, import or other trade transactions, which matures (after giving effect to renewals and refinancings) no more than one year after it was originally incurred;
- any Lien upon property to secure the purchase price of such property or to secure any External Indebtedness incurred solely for the purpose of financing the acquisition of such property;
- any Lien on property arising by operation of law (or pursuant to any agreement establishing a Lien equivalent to one which would otherwise exist under relevant local law), including without limitation any right of set-off with respect to demand or time deposits with financial institutions and bankers' liens with respect to property held by financial institutions (in each case deposited with or delivered to such financial institutions in the ordinary course of the depositor's activities);
- any Lien existing on such property at the time of its acquisition;
- any Lien in existence as of the date of issuance of the Notes;
- any Lien securing External Indebtedness issued upon surrender or cancellation of the principal amount of any of the Excluded Indebtedness, as defined under “—Certain Defined Terms” below, to the extent the Lien is created to secure the External Indebtedness;
- any Lien created in connection with any Project Financing, as defined under “—Certain Defined Terms” below, provided that the properties to which any such Lien applies are solely with respect to (A) properties which are the subject of such Project Financing or (B) revenues or claims which arise from the operation, failure to meet specifications, failure to complete, exploitation, sale or loss of, or damage to, such properties;
- additional Liens created in any calendar year upon assets, revenues or receivables of Ecuador having, when encumbered, a fair market value not exceeding an aggregate amount equal to U.S.\$50,000,000 (or the equivalent in other currencies) to collateralize, or to purchase collateral, guarantees or other credit support in respect of, new borrowings by Ecuador, provided that, to the extent that in any calendar year U.S.\$50,000,000 (or the equivalent in other currencies) exceeds such aggregate fair market value of the assets, revenues or receivables so encumbered during that year, the aggregate fair market value of assets, revenues and receivables which may be encumbered in subsequent calendar years shall be increased by the amount of such excess; provided, however, that the fair market value of the assets, revenues or receivables so encumbered in any calendar year shall in no event exceed U.S.\$150,000,000 (or the equivalent in other currencies); and
- any renewal or extension of any of the Liens described above; provided, that no renewal or extension of any permitted Lien shall (A) extend to or cover any property other than the property then subject to the Lien being extended or renewed or (B) increase the amount of financing secured by that Lien.

Events of Default

Each of the following is an event of default under the Notes:

1. *Non-Payment*: Ecuador fails, after the applicable payment date, to (i) make any payment of principal or Make-Whole Amount on the Notes (unless such non-payment is due to an administrative or technical error and is remedied within five Business Days of the date when such payment is due) or (ii) make any payment of an interest amount or Additional Amount on the Notes within 30 days of the date when such payment is due;

2. *Breach of Other Obligations:* Ecuador fails to perform or comply with any other obligation under the Notes or under the Indenture and Ecuador does not or cannot cure that failure within 30 days after it receives written notice from the Trustee or holders of at least 25% of the aggregate principal amount of the Notes then outstanding regarding that default;
3. *Cross Default:*
 - Ecuador fails to make any payment in respect of any External Indebtedness (other than Excluded Indebtedness) in an aggregate principal amount in excess of U.S.\$50,000,000 (or its equivalent in any other currency) when due (as such date may be extended by virtue of any applicable grace period or waiver);
 - The holders of at least 25% of the aggregate outstanding principal amount of any External Indebtedness (other than Excluded Indebtedness) having an aggregate principal amount in excess of U.S.\$50,000,000 (or its equivalent in any other currency), accelerate or declare such External Indebtedness to be due and payable, or required to be prepaid (other than by a regularly scheduled prepayment), prior to its stated maturity, as a result of Ecuador's failure to pay the principal or interest on such External Indebtedness, and such acceleration, declaration or prepayment is not annulled or rescinded within 30 days;
4. *Moratorium:* Ecuador, or a court of proper jurisdiction, declares a moratorium with respect to the payment of principal of, or interest on, Ecuador's External Indebtedness (other than Excluded Indebtedness);
5. *Validity:* Ecuador denies, repudiates or contests any of its payment obligations under the Notes or the Indenture in a formal administrative, legislative, judicial or arbitral proceeding; or any constitutional provision, treaty, law, regulation, decree, or other official pronouncement of Ecuador, or any final decision by any court in Ecuador having jurisdiction, renders it unlawful for Ecuador to pay any amount due on the Notes or to perform any of its obligations under the Notes or the Indenture;
6. *IMF Membership:* Ecuador fails to maintain its membership in the IMF or ceases to be eligible to use resources of IMF;
7. *CAF, FLAR, and IDB Membership:* The Republic fails to maintain its membership in, or its eligibility to use the general resources or equivalent of, any of CAF, FLAR and IDB;
8. *Judgment:* There shall have been entered against Ecuador or the Central Bank in a matter related to External Indebtedness (other than Excluded Indebtedness) a final judgment, decree or order by a court of competent jurisdiction from which no appeal may be made, or is made within the time limit for doing so, for the payment of money in excess of U.S.\$50,000,000 (or its equivalent in another currency) and 120 days shall have passed since the entry of any such order without Ecuador having satisfied such judgment; or
9. *Arbitral award:* There shall be made against the Republic or the Central Bank in a matter related to External Indebtedness (other than Excluded Indebtedness) an arbitral award by a tribunal of competent jurisdiction from which no appeal or application to a tribunal or court of competent jurisdiction to set aside may be made, or is made within the time limit for doing so, for the payment of money in excess of U.S.\$50,000,000 (or its equivalent in another currency) and 120 days shall have passed since the making of any such award without the Republic having satisfied the award.

If any of the above events of default occurs and is continuing, the Trustee may, and at the written direction of holders of at least 25% of the aggregate principal amount of the then-outstanding Notes, will declare the principal amount of all the Notes to be immediately due and payable by notifying Ecuador in writing. The Notes will become due and payable on the date such written notice is received by or on behalf of Ecuador, unless prior to such date all

events of default in respect of all of the Notes have been cured or waived by the holders of not less than a majority of the principal amount of the outstanding Notes as provided in the Notes or in the Indenture.

The Trustee will, on behalf of the holders of all of the Notes, by written notice to Ecuador, rescind and annul such declaration of acceleration and its consequences, if:

- all events of default (other than the non-payment of principal that became due solely as a result of such acceleration) have been cured, waived by the holders of not less than a majority of the principal amount of the outstanding Notes or remedied; and
- the Trustee will have been reimbursed or otherwise compensated by Ecuador for all documented costs, expenses and liabilities reasonably incurred by the Trustee as a result of any such event of default.

Limitation on Time for Claims

Claims against Ecuador for the payment of principal of or interest on the Notes (including Additional Amounts and Make-Whole Amounts, if any) must be made within six years after the date on which such payment first became due, or such shorter period provided by applicable law.

Modifications – Collective Action

Any Modification of the Indenture or the terms and conditions of the Notes may be made or given pursuant to a written or other action of the holders of the Notes in accordance with the applicable provisions of the Indenture or the Notes.

The Notes contain collective action clauses regarding future Modifications, as defined under “—Certain Defined Terms” below, of the terms and conditions of the Notes or the Indenture as described below:

In the case of any Modification of the terms and conditions of the Notes or of the Indenture which constitutes a Non-Reserved Matter, as defined under “—Certain Defined Terms” below, such Modification may be made with the consent of Ecuador and of holders of at least 66 2/3% in aggregate principal amount of the Notes then outstanding.

In the case of any Modification of the terms and conditions of the Notes or of the Indenture which constitutes a Reserved Matter, as defined under “—Certain Defined Terms” below, such Modification may be made with the consent of Ecuador and of holders of at least 75% in aggregate principal amount of the Notes then outstanding.

Additionally, the Notes allow Ecuador to make Reserved Matter Modifications affecting two or more series of debt securities.

If the Republic proposes any Reserved Matter Modification (i) to the terms and conditions of the Notes and the terms and conditions of at least one other series of debt securities issued by the Republic, and/or (ii) to the Indenture insofar as it affects the Notes and to any other indenture(s), fiscal agency agreement(s) or similar issuance documentation relating to at least one other series of debt securities insofar as it affects such debt securities, (in each case, containing multiple series modification provisions in substantially the same form as in the Indenture), any modification to the terms and conditions of two or more series may be made, and, in each case, further compliance therewith may be waived, with the consent of the Republic, and (x) the holders of at least 66⅔% of the aggregate principal amount of the outstanding debt securities of all series that would be affected by that reserved matter modification (taken in aggregate); and (y) the holders of more than 50% of the aggregate principal amount of the outstanding debt securities of each affected series (taken individually).

Any such proposed Reserved Matter Modification may be made in respect of some series of debt securities only and may be used for different groups of two or more series of debt securities, containing multiple series modification provisions substantially in the same form as in the Indenture, simultaneously.

If the Republic proposes any Reserved Matter Modification (i) to the terms and conditions of the Notes and the terms and conditions of at least one other series of debt securities issued by the Republic, and/or (ii) to the Indenture insofar as it affects the Notes and to any other indenture(s), fiscal agency agreement(s) or similar issuance documentation relating to at least one other series of debt securities insofar as it affects such debt securities, (in each case, containing multiple series modification provisions in substantially the same form as in the Indenture), any modification to the terms and conditions of two or more series may be made, and, in each case, further compliance therewith may be waived, with the consent of the Republic, and the holders of at least 75% of the aggregate principal amount of the outstanding debt securities of all series that would be affected by that Reserved Matter Modification (taken in aggregate), provided that the Uniformly Applicable condition is satisfied.

Any such proposed Reserved Matter Modification may be made in respect of some series of debt securities only and may be used for different groups of two or more series of debt securities, containing multiple series modification provisions substantially in the same form as in the Indenture, simultaneously.

The “Uniformly Applicable” condition will be satisfied if:

- (a) the holders of all the affected series of debt securities are invited to exchange, convert, or substitute their debt securities, on the same terms, for (i) the same new instrument or other consideration or (ii) a new instrument, new instruments or other consideration from an identical menu of instruments or other consideration; or
- (b) amendments proposed to the terms and conditions of each affected series of debt securities would, following implementation of such amendments, result in the amended instruments having identical provisions (other than provisions which are necessarily different, having regard to different currency of issuance),

and, for the purposes of establishing whether the Uniformly Applicable condition has been satisfied:

- (c) the “same terms” is to be construed as meaning the same offer on principal, the same offer on all interest accrued but unpaid prior to an exchange or event of default and the same offer on past due interest (or other relevant financial features of the applicable debt securities), but any such offer may contain differences as between different series of affected debt securities which are necessary having regard to the currency of denomination; and
- (d) the Republic shall promptly furnish one or more officer's certificate(s) to the Trustee, certifying that the Uniformly Applicable condition has been satisfied, and the Trustee shall be entitled to accept such officer's certificate(s) as conclusive evidence of the facts therein set forth.

Any debt securities owned or controlled, directly or indirectly, by the Republic or any Public Sector Instrumentality, which would be disregarded for the purposes of a vote (or written action) under the series of debt securities of which they form part, shall also be disregarded for the purposes of this calculation.

For the purpose of calculating the par value of the Notes and any affected series of debt securities which are to be aggregated with the Notes, the Republic may appoint a calculation agent (the “Calculation Agent”). The Republic shall, with the approval of the Calculation Agent, promulgate the methodology in accordance with which the par value of the Notes and such affected series of debt securities will be calculated. In any such case where a Calculation Agent is appointed, the same person will be appointed as the Calculation Agent for the Notes and each other affected series of debt securities for these purposes, and the same methodology will be promulgated for each affected series of debt securities. If any series of affected debt securities are denominated in a currency other than U.S. dollars, the Republic shall appoint a single Calculation Agent who shall specify a commercially reasonable method for determining the U.S. dollar equivalent of such debt securities for purposes of voting.

The Republic shall appoint an Aggregation Agent (who may also be the Calculation Agent), which shall be independent of the Issuer, to calculate whether a Reserved Matter Modification has been approved by the required principal amount of the outstanding debt securities of the affected series of debt securities.

If any Reserved Matter Modification is sought in the context of a simultaneous offer to exchange the debt securities of one or more series for new debt instruments of Ecuador or any other person, Ecuador shall ensure that the relevant provisions of the Notes, as amended by such Modification, are no less favorable to the holders of the Notes than the provisions of the new instrument being offered in the exchange, or if more than one debt instrument is offered, no less favorable than the new debt instrument issued having the largest aggregate principal amount.

Ecuador agrees that it will not issue new Notes with the intention of placing such Notes with holders expected to support any Modification proposed by Ecuador (or that Ecuador plans to propose) for approval pursuant to the Modification provisions of the Indenture or of the terms and conditions of the Notes.

Any Modification consented to or approved by the holders of the Notes pursuant to the Modification provisions of the Indenture or of the terms and conditions of the Notes will be conclusive and binding on all holders of the Notes, whether or not they have given such consent or were present at a meeting of holders at which such action was taken, and on all future holders of the Notes (whether or not notation of such Modification is made upon the Notes). Any instrument given by or on behalf of any holder of a Note in connection with any consent to or approval of any such Modification will be conclusive and binding on all subsequent holders of such Note.

Before seeking the consent of any holder of a Note to a Reserved Matter Modification, Ecuador will provide the Trustee (for onward distribution to the holders of the Notes) the following information:

- a description of the economic or financial circumstances that, in Ecuador's view, explain the request for the proposed Reserved Matter Modification;
- if Ecuador has entered into a standby, extended funds or similar program with the IMF, CAF, FLAR, or IDB, a copy of that program (including any related technical memorandum);
- a description of Ecuador's proposed treatment of its other major creditor groups (including, where appropriate, Paris Club creditors, other bilateral creditors and internal debt holders) in connection with Ecuador's efforts to address the situation giving rise to the requested Reserved Matter Modification; and
- if any proposed Reserved Matter Modification contemplates debt securities being aggregated in more than one group of debt securities, a description of the proposed treatment of each such group.

For purposes of determining whether the required percentage of holders has consented to or voted in favor of any Modification, any Notes owned or controlled, directly or indirectly, by Ecuador or any Public Sector Instrumentality, as defined under “—Certain Defined Terms” below, shall be disregarded and deemed not to be outstanding. In determining whether the Trustee shall be protected in relying upon any Modification, only Notes that the Trustee knows to be so owned shall be so disregarded. Upon request of the Trustee, and together with any request for any Modification of the Indenture by Ecuador, Ecuador shall deliver to the Trustee a certificate signed by an authorized representative of Ecuador listing all Notes, if any, known by Ecuador to be owned or held by or for the account of Ecuador or any Public Sector Instrumentality.

Ecuador and the Trustee may, without the vote or consent of any holder of the Notes, amend the Notes or the Indenture for the purpose of:

- adding to Ecuador's covenants for the benefit of the holders of the Notes;
- surrendering any of Ecuador's rights or powers;
- securing the Notes pursuant to the requirements of the Notes or otherwise;
- curing any ambiguity, or curing, correcting or supplementing any proven error in the terms and conditions of the Notes or in the Indenture;
- making any formal, minor or technical change; or

- amending the terms and conditions of the Notes or the Indenture in any manner which Ecuador and the Trustee may determine shall not adversely affect the interests of any holder of the Notes.

The Notes will clear and settle through Euroclear and Clearstream and will be issued in global book-entry form and registered in the nominee name of a common depositary for Euroclear and Clearstream. Beneficial interests in the Notes may be held through Euroclear and Clearstream and their direct and indirect participants. See “Settlement and Clearance” for a description of the procedures applicable to book-entry securities.

The Trustee shall not be required to sign any amendment that adversely affects its rights, duties, liabilities or immunities.

Definitive Notes

Ecuador will issue Notes in definitive form (i.e. not in book-entry but physical form) only if:

- the depositary notifies Ecuador that it is unwilling or unable to continue as depositary, is ineligible to act as depositary or, ceases to be a clearing agency registered under the US Securities Exchange Act of 1934, as amended and Ecuador does not appoint a successor depositary or clearing agency within 90 days;
- Ecuador decides that it no longer wishes to have all or part of the Notes represented by global notes;
- the Trustee has instituted or been directed in writing by the requisite holders to institute any judicial proceeding to enforce the rights of the holders under the Notes and has been advised by its legal counsel that it should obtain possession of the Notes for purposes of the proceeding;
- an event of default has occurred and is continuing and (A) any holder requests the Trustee to exchange its interest in the Note in the form of a Global Note for a Definitive Note, or (B) 25% of all outstanding holders direct the Trustee to exchange all of Notes represented by global notes for Notes in definitive form; or
- certain other events provided in the Indenture occur.

In the event Ecuador issues Notes in definitive form, the beneficial owners receiving those Notes should review their terms and conditions, and in particular the restrictions on transfers of the Notes, set forth in the Note certificates.

Trustee, London Paying Agent, Luxembourg Listing Agent, Transfer Agents; Registrar

The Bank of New York Mellon, London Branch will serve as the London paying agent and the Trustee will serve as the transfer agent and registrar for the benefit of the holders of Notes. The Republic, acting for the exclusive benefit of the holders of the Notes, may also appoint, one or more paying agents in London, England for the purpose of facilitating Ecuador's payment of amounts due on the Notes. Ecuador may at any time instruct the Trustee to terminate the appointment of any paying agent and instruct the Trustee to appoint other paying agents. So long as any of the Notes remain outstanding, there shall be maintained, at Ecuador's expense, (1) in London, England in an office or agency where the Notes may be presented for payment, (2) in New York, New York in an office or agency where the Notes may be presented for exchange, transfer and registration of transfer as provided in the Indenture and, (3) in New York, New York in an office or agency where notices and demands in respect of the Notes or the Indenture may be served. A paying agent will also be maintained in a Member State of the European Union that is not obliged to deduct or withhold tax pursuant to European Council Directive 2003/48/EC (as amended from time to time) or any other European Council Directive implementing the conclusions of the ECOFIN Council meeting of November 26-27, 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to, conform to such Directive. In addition, so long as the Notes are listed on the Luxembourg Stock Exchange and trade on the Euro MTF Market, and the rules of such exchange so require, a paying agent and a transfer agent will be maintained in Luxembourg. Ecuador will provide prompt notice of the termination, appointment or change in the office of any paying agent, transfer agent or registrar acting in connection with the Notes.

Notices

All notices to the holders of Notes will be published, at the expense of Ecuador, in the Wall Street Journal of New York, New York, the Financial Times of London, England, and, if and so long as the Notes are listed on the Luxembourg Stock Exchange (and, if applicable, traded on the Euro MTF Market of the Luxembourg Stock Exchange), the Luxemburger Wort of Luxembourg. If any of such newspapers shall cease to be published, the Trustee upon consultation with Ecuador, will substitute for it another newspaper customarily published in New York, London or Luxembourg, as the case may be. If, because of temporary suspension of publication or general circulation of any newspaper or for any other reason, it is impossible to make any publication of any notice in the manner provided above, any other publication or other notice which is acceptable to the Trustee shall constitute a sufficient publication of such notice. Notices will also be published on the website of the Luxembourg Stock Exchange. Notices shall be deemed to have been given on the date of publication or, if published on different dates, on the date of the first such publication. Notices will also be delivered to holders at their registered addresses or sent in accordance with the clearing system's then applicable procedures. Notices to holders of Global Notes shall be given in accordance with the Depositary procedures.

So long as a clearing system, or its nominee, is the registered holder of a global note, each person owning a beneficial interest in that global note must rely on the procedures of that clearing system to receive notices in connection with the Notes. Each person owning a beneficial interest in a global note who is not a direct participant in a clearing system must rely on the procedures of the participant through which the person owns its interest in the global note to receive notices provided to the clearing system. Ecuador will consider mailed notice to have been given three Business Days after it has been sent.

Further Issues of Securities

Ecuador may, from time to time, without the consent of the holders of the Notes, create and issue additional Notes with the same terms and conditions as the Notes in all respects (or in all respects except for the amount of the first interest payment and the issue price) so long as the additional Notes are consolidated and form a single series with the outstanding Notes, provided that such additional Notes do not have, for purposes of US federal income taxation, a greater amount of original issue discount than the outstanding Notes have as of the date of the issue of such additional Notes (regardless of whether any holders of such Notes are subject to US federal income taxation).

Submission to Arbitration

- (a) Any dispute, controversy or claim of any nature arising out of, relating to or having any connection with the Indenture, including any dispute as to the existence, validity, interpretation, performance, breach, termination or consequences of the nullity of the Indenture (a "Dispute") where the Republic is either a party, claimant, respondent or otherwise is necessary thereto, will not be referred to a court of any jurisdiction and will instead be referred to and finally resolved by arbitration under the Rules of the LCIA ("LCIA Rules") as at present in force as modified by the Indenture, which LCIA Rules are deemed to be incorporated by reference. In particular:
 - (i) There will be three arbitrators.
 - (ii) Each arbitrator will be an English or New York qualified lawyer of at least 15 years' standing with experience in relation to international banking or capital markets disputes. At least one of those arbitrators will be a lawyer qualified in New York.
 - (iii) If there are two parties to the Dispute, each party will be entitled to nominate one arbitrator. If there are multiple claimants and/or multiple respondents, all claimants and/or all respondents shall attempt to agree upon their respective nomination(s) such that the claimants shall together be entitled to nominate one arbitrator and the respondents will together be entitled to nominate one arbitrator. If any such party or multiple parties fail to nominate an arbitrator within thirty (30) days from and including the date of receipt of the relevant request for arbitration, an arbitrator will be appointed on their behalf by the LCIA Court in accordance with the LCIA Rules and applying the criteria at

clause (ii) above. In such circumstances, any existing nomination or confirmation of the arbitrator chosen by the party or parties on the other side of the proposed arbitration will be unaffected, and the remaining arbitrator(s) will be appointed in accordance with the LCIA Rules.

- (b) The third arbitrator and chairman of the arbitral tribunal will be appointed by the LCIA Court in accordance with the LCIA Rules and applying the criteria at clause (ii) above.
- (c) The seat, or legal place, of arbitration will be London, England.
- (d) The language to be used in the arbitration shall be English. The arbitration provisions of the Indenture shall be governed by English law.
- (e) Without prejudice to any other mode of service allowed by law, the Republic hereby appoints Law Debenture Corporate Services Limited, with its registered office at 5/F, 100 Wood Street, EC2V 7EX, London, England (the "Process Agent") as its agent under the Indenture for service of process in relation to any proceedings before the English courts in relation to any arbitration contemplated by the Indenture or in relation to recognition or enforcement of any such arbitral award obtained in accordance with the Indenture.

If the Process Agent is unable to act as the Republic's agent under the Indenture for the service of process, the Republic must immediately (and in any event within ten (10) days of the event taking place) appoint another agent (a "Replacement Agent") on terms acceptable to the Trustee.

The Republic agrees that failure by the Process Agent or, as applicable, a Replacement Agent, to notify the Republic of the process will not invalidate the proceedings concerned.

Any Dispute where the Republic is not a party, claimant, respondent or otherwise is necessary thereto, will be subject to the non-exclusive jurisdiction of any New York state or United States federal court sitting in the Borough of Manhattan, the City of New York, and any appellate court from any thereof, in any action or proceeding arising out of or relating to the Indenture (except actions or proceedings arising under or in connection with U.S. federal and state securities laws), and the Trustee and the holders of the Notes hereby irrevocably submit to such jurisdiction and agree that all claims in respect of such Dispute may be heard and determined in such New York state or United States federal court.

Sovereign Immunity

The execution and delivery of the Indenture by the Republic constitutes, and the Republic's performance of and compliance with its obligations will constitute an act of commercial public credit as provided under the laws of the Republic. To the extent permitted by law, the Republic irrevocably and unconditionally agrees that:

- (a) the Republic submits to the jurisdiction of any Ecuadorian court and to any legal process in the Republic's courts (other than attachment proceedings prior to recognition or enforcement of an arbitral award), in connection with the enforcement of an arbitral award obtained in accordance with the Indenture, except with respect to the Immune Property, which shall be entitled to immunity from enforcement in accordance with mandatory provisions of the laws of Ecuador;
- (b) the Republic submits to the jurisdiction of any court outside the Republic and to any legal process, orders or other measures in courts outside the Republic, whether through service or notice, attachment in aid of execution, execution against property of any sort, actions in rem or the grant of injunctions or specific performance, in connection with the enforcement of an arbitral award obtained in accordance with the Indenture, except with respect to the Immune Property, which shall be immune to the fullest extent;

- (c) the Republic undertakes not to invoke any defense on the basis of any kind of immunity, for itself and/or its assets which do not constitute Immune Property in respect of any of the foregoing legal actions or proceedings; and
- (d) the Republic submits to the jurisdiction of the English courts in connection with any proceeding invoking the supervisory jurisdiction of those courts in relation to an arbitration conducted pursuant to the Indenture.

The levy of execution on assets of the Republic within the territory of the Republic shall be carried out in accordance with and under the laws of the Republic.

The Republic irrevocably waives, to the fullest extent permitted by law, any requirement or provision of law that requires the posting of a bond or other security as a condition to the institution, prosecution or completion of any action or proceeding.

An arbitral award obtained in accordance with the Indenture will be conclusive and may be enforced in any jurisdiction in accordance with the New York Convention or in any other manner provided for by law.

“Immune Property,” in accordance with the provisions of the law of Ecuador, means:

- (a) any property which is used or designated for use in the performance of the functions of the diplomatic mission of Ecuador or its consular posts;
- (b) aircraft, naval vessels and other property of a military character or used or designated for use in the performance of military functions;
- (c) property forming part of the cultural heritage of Ecuador or part of its archives;
- (d) unexploited natural non-renewable resources in Ecuador;
- (e) funds managed in the national Treasury Account;
- (f) assets and resources comprising available monetary reserves of Ecuador;
- (g) public domain assets used for providing public services in Ecuador;
- (h) national assets located in the territory of Ecuador and belonging to the Republic, such as streets, bridges, roads, squares, beaches, sea and land located over 4,500 meters above sea level.
- (i) accounts of the Central Bank, whether they are held abroad or locally; and
- (j) public entities’ deposits with the Central Bank, whether they are maintained abroad or locally.

“New York Convention” means the New York Convention on the Recognition and Enforcement of Arbitral Awards 1958.

Indemnity

The Republic will indemnify the holders of the Notes and pay the Trustee on demand for the benefit of the holders of the Notes any attached amounts plus any accrued amounts to the date of payment at the interest rate set forth in the Notes in the event the Trustee or Paying Agent fails (without negligence or willful misconduct) to pay some or all of those amounts to the depositary for credit to the holders of the Notes because those funds are attached by one or more holders of Excluded Indebtedness prior to the receipt of such funds by the depositary or because any Trustee or Paying Agent is otherwise restrained or prevented from transferring the funds to the depositary as a result of legal action taken by one or more holders of Excluded Indebtedness.

Transfer Restrictions

The Notes have not been and will not be registered under the Securities Act, and will be subject to restrictions on transferability and resale. See “Transfer Restrictions”.

Governing Law

The Notes and the Indenture will be governed by the laws of the State of New York, except for those parts concerning submissions to arbitration, which shall be governed by English law.

Judgment Currency

U.S. dollars are the sole currency of account and payment for all sums due and payable by Ecuador under the Indenture and the Notes. If, for the purpose of obtaining judgment in any court, it is necessary to convert a sum due hereunder in U.S. dollars into another currency, Ecuador will agree, to the fullest extent that they may legally and effectively do so, that the rate of exchange used shall be that at which in accordance with normal banking procedures a person could purchase U.S. dollars with such other currency in New York, New York, on the Business Day immediately preceding the day on which final judgment is given.

The obligation of Ecuador in respect of any sum due to any noteholder or the Trustee in U.S. dollars shall, to the extent permitted by applicable law, notwithstanding any judgment in a currency other than U.S. dollars, be discharged only to the extent that on the Business Day following receipt of any sum adjudged to be so due in the judgment currency such noteholder or Trustee may in accordance with normal banking procedures purchase U.S. dollars in the amount originally due to such person with the judgment currency. If the amount of U.S. dollars so purchased is less than the sum originally due to such person, Ecuador agrees, as a separate obligation and notwithstanding any such judgment, to indemnify such person against the resulting loss; and if the amount of U.S. dollars so purchased is greater than the sum originally due to such person, such person will, by accepting a Note, be deemed to have agreed to repay such excess.

Certain Defined Terms

The following are certain definitions used in the Notes:

- “Business Day” means any day except a Saturday, Sunday or other day on which commercial banks in London, the City of New York or Quito, Ecuador are required or authorized by law to be closed.
- “Ecuadorian Authorization” means any approval, authorization, permit, consent, exemption or license or other action of or by, and any notice to or filing with, any Governmental authority, agency, regulatory or administrative body of Ecuador or of any Ecuadorian political subdivision.
- “Excluded Indebtedness” means the following series of securities issued by the Republic:
 - (i) the 12 percent U.S. dollar Denominated Global Bonds due 2012; and

(ii) the U.S. dollar Denominated Step-up Global Bonds due 2030.

- “External Indebtedness” means all Indebtedness (other than the Notes) that is not (i) issued pursuant to agreements or evidenced by instruments that expressly submit the resolution of all disputes to the exclusive jurisdiction of the courts of Ecuador or (ii) governed by Ecuadorian law.
- “Indebtedness” means for any person (a) all indebtedness of or guaranteed by such person for or in connection with borrowed money, and (b) all obligations of or guaranteed by such person (other than those specified in clause (a) above) evidenced by debt securities, debentures, notes or other similar instruments; provided that Indebtedness shall not include commercial agreements not having the commercial effect of a borrowing.
- “Lien” means any lien, pledge, mortgage, security interest, deed of trust, charge or other encumbrance or other preferential arrangement having the practical effect of constituting a security interest.
- “Majority” means greater than 50%.
- “Modification” means any modification, amendment, supplement, request, demand, authorization, direction, notice, consent, waiver (other than a waiver of an event of default that is waived by the majority of the holders as set forth under “—Events of Default” above), or other action provided by the Indenture or the terms and conditions of the Notes.
- “Non-Reserved Matter” means any Modification other than a Modification constituting a Reserved Matter.
- “Project Financing” means any financing of all or part of the costs of the acquisition, construction or development of any properties in connection with a project if the person or persons providing such financing expressly agree to look to the properties financed and the revenues to be generated by the operation of, or loss of or damage to, such properties as the principal source of repayment for the moneys advanced.
- “Public Sector Instrumentality” means the Central Bank, any department, ministry or agency of the Government or any corporation, trust, financial institution or other entity owned or controlled by the Government or any of the foregoing. For purposes of the foregoing, “control” means the power, directly or indirectly, through the ownership of voting securities or other ownership interest or otherwise, to direct the management of or elect or appoint a Majority of the board of directors or other persons performing similar functions in lieu of, or in addition to, the board of directors of a corporation, trust, financial institution or other entity.
- “Reserved Matter” means any Modification that would:
 - A. change the due date for the payment of the principal of (or premium, if any) or any installment of interest on the Notes;
 - B. reduce the principal amount of the Notes, the portion of such principal amount which is payable upon acceleration of the maturity of the Notes, the interest rate on the Notes or the premium payable upon redemption of the Notes;
 - C. change the coin or currency in which payment of interest, premium or principal in respect of the Notes is payable and the place where such payment must be made;
 - D. reduce the proportion of the principal amount of the Notes the vote or consent of the holders of which is necessary to make any Modification to or with respect to the terms and conditions of the debt securities of one or more series or the Indenture, or change the definition of “Outstanding” under the Notes;
 - E. change Ecuador's obligation to pay Additional Amounts on the Notes;
 - F. change the governing law provision of the Notes;

- G. change the arbitral forum to which the Republic has submitted, the Republic's waiver of immunity, the scope of the Republic's indemnities in the Indenture or the Republic's appointment of the process agent without appointing a substitute process agent in London, in respect of actions or proceedings brought by any holder based upon the Notes;
- H. change the seniority of the Notes;
- I. authorize and/or instruct the Trustee, on behalf of all holders, to exchange or substitute all their Notes for, or convert all their Notes into, other obligations or securities of Ecuador or any other person; or
- J. change the definition of "Uniformly Applicable" or "Reserved Matter."

Registration and Book-Entry System

Ecuador may issue the Notes in whole or in part in the form of one or more global notes, the ownership and transfer of which are recorded in computerized book-entry accounts, eliminating the need for physical movement of Notes. Ecuador refers to the intangible Notes represented by a global Note as "book-entry" Notes.

Ecuador will deposit any global Note it issues with the common depositary of the clearing system. The global Note will be registered in the name of the nominee of the common depositary. Unless a global Note is exchanged for definitive Notes, discussed above under "—Definitive Notes," it may not be transferred, except among the clearing system, its nominees or common depositaries and their successors. Clearing systems include Euroclear and Clearstream in Europe.

Clearing systems process the clearance and settlement of book-entry securities for their direct participants. A "direct participant" is a bank or financial institution that has an account with a clearing system. The clearing systems act only on behalf of their direct participants, who in turn act on behalf of indirect participants. An "indirect participant" is a bank or financial institution that gains access to a clearing system by clearing through or maintaining a relationship with a direct participant.

Euroclear and Clearstream are connected to each other by a direct link.

Ecuador, the Trustee and any Paying Agent will treat the registered holder of a global note as the absolute owner of the note for all purposes. The legal obligations of Ecuador, the Trustee, and any agent run only to the registered owner of a global note, which will be the relevant clearing system or the nominee of the common depositary. For example, once Ecuador arranges for payments to be made to the registered holder, Ecuador will no longer be liable for the amounts so paid on the note. In addition, if you own a beneficial interest in a global note, you must rely on the procedures of the institutions through which you hold your interests in the note (including Euroclear, Clearstream, and their participants) to exercise any of the rights granted to the holder of the note. Under existing industry practice, if you desire to take any action that the holder of a note is entitled to take, then the registered holder would authorize the clearing system participant through which you own your beneficial interest to take the action, and the participant would then either authorize you to take the action or act for you on your instructions.

SUBSCRIPTION AND SALE

Citigroup Global Markets Limited is acting as the Lead Manager (the “Lead Manager”) of this offering. Subject to the terms and conditions in the purchase agreement dated the date of this Offering Circular (the “Purchase Agreement”), the Lead Manager will agree to purchase and the Republic will agree to sell to the Lead Manager, the total principal amount of the Notes.

The Purchase Agreement provides that the obligations of the Lead Manager to purchase the Notes are subject to approval of legal matters by counsel and to other conditions. The Lead Manager must purchase all the Notes if it purchases any of the Notes.

The Republic has been advised that the Lead Manager proposes to resell the Notes at the offering price set forth on the cover page of this Offering Circular within the United States to qualified institutional buyers (as defined in Rule 144A) in reliance on Rule 144A and outside the United States in reliance on Regulation S. See “Transfer Restrictions.” The price at which the Notes are offered may be changed at any time without notice.

The Notes have not been and will not be registered under the Securities Act or any state securities law and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except in transactions exempt from, or not subject to, the registration requirements of the Securities Act. See “Transfer Restrictions.”

Accordingly, the Lead Manager has agreed that, except as permitted by the Purchase Agreement and set forth in “Transfer Restrictions,” it will not offer or sell the Notes within the United States or to, or for the account or benefit of, U.S. persons as part of the distribution of the Notes.

In addition, until 40 days after the commencement of this offering, an offer or sale of Notes within the United States by a dealer that is not participating in this offering may violate the registration requirements of the Securities Act if that offer or sale is made otherwise than in accordance with Rule 144A.

Although application has been made to list the Notes on the Official List of the Luxembourg Stock Exchange and to have the Notes trade on the Euro MTF Market, the listing does not assure that a trading market for the Notes will develop. The Lead Manager intends to make a secondary market for the Notes. However, it is not obligated to do so and may discontinue making a secondary market for the Notes at any time without notice. No assurance can be given as to how liquid the trading market for the Notes will be. The Republic cannot provide any assurances that the prices at which the Notes will trade in the market after this offering will not be lower than the initial offering price or that an active trading market for the Notes will develop and continue after this offering.

The Republic estimates that its portion of the total expenses of this offering, including underwriter's fees, will be U.S.\$5,100,000.

In connection with the offering, the Lead Manager may purchase and sell Notes in the open market. Purchases and sales in the open market may include short sales, purchases to cover short positions and stabilizing purchases.

- Short sales involve secondary market sales by the Lead Manager of a greater number of Notes than it is required to purchase in the offering.
- Covering transactions involve purchases of Notes in the open market after the distribution has been completed in order to cover short positions.
- Stabilizing transactions involve bids to purchase Notes so long as the stabilizing bids do not exceed a specified maximum.

Purchases to cover short positions and stabilizing purchases, as well as other purchases by the Lead Manager for its own account, may have the effect of preventing or retarding a decline in the market price of the Notes. They may also cause the price of the Notes to be higher than the price that would otherwise exist in the open

market in the absence of these transactions. The Lead Manager may conduct these transactions in the over-the-counter market or otherwise. If the Lead Manager commences any of these transactions, it may discontinue them at any time.

The Lead Manager is a full service financial institution engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. The Lead Manager and its respective affiliates have in the past performed commercial banking, investment banking and advisory services for the Republic from time to time for which they have received customary fees and reimbursement of expenses and may, from time to time, engage in transactions with and perform services for the Republic in the ordinary course of their business for which they may receive customary fees and reimbursement of expenses. In the ordinary course of its various business activities, the Lead Manager and its respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own accounts and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve the Republic's securities and instruments.

The Republic has agreed to indemnify the Lead Manager against certain liabilities, including liabilities under the Securities Act, or to contribute to payments that the Lead Manager may be required to make because of any of those liabilities.

Selling Restrictions

United States of America

No registration under Securities Act

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and in compliance with any applicable state securities laws. Accordingly, the Notes are being offered, sold or delivered only: (a) outside the United States in offshore transactions in reliance on Regulation S and (b) in the United States only to QIBs in connection with resales by the Lead Manager, in reliance on, and in compliance with, Rule 144A. In addition, until 40 days after the commencement of the offering, an offer or sale of any of the Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if the offer or sale is made otherwise than in accordance with Rule 144A.

Canada

The distribution of the Notes in Canada is being made only on a private placement basis exempt from the requirement that the Republic prepare and file a prospectus with the applicable securities regulatory authorities. The Republic is not a reporting issuer in any province or territory in Canada and its Notes are not listed on any stock exchange in Canada and there is currently no public market for the Notes in Canada. The Republic currently has no intention of becoming a reporting issuer in Canada, filing a prospectus with any securities regulatory authority in Canada to qualify the resale of the Notes to the public, or listing its securities on any stock exchange in Canada. Accordingly, to be made in accordance with securities laws, any resale of the Notes in Canada must be made under available statutory exemptions from registration and prospectus requirements or under a discretionary exemption granted by the applicable Canadian securities regulatory authority. Canadian purchasers are advised to seek legal advice prior to any resale of the Notes.

Each Canadian purchaser who purchases Notes on a private placement basis pursuant to this Canadian offering circular will be deemed to have represented to and agreed with the Republic and the Lead Manager that such purchaser: (i) is entitled under applicable securities laws to purchase such Notes without the benefit of a prospectus qualified under such securities laws; (ii) is resident in Canada; (iii) is not a U.S. person as defined in Rule 902 of Regulation S under the U.S. Securities Act of 1933; (iv) is purchasing the Notes with the benefit of the prospectus exemption provided by Section 2.3 of National Instrument 45-106 – Prospectus and Registration

Exemptions (“NI 45-106”) (that is, such purchaser is an “accredited investor” within the meaning of NI 45-106 and is either purchasing Notes as principal for its own account, or is deemed to be purchasing the Notes as principal for its own account in accordance with applicable securities laws); (v) if not an individual, the purchaser was not created or used solely to purchase or hold Notes as an accredited investor under NI 45-106; (vi) is a permitted client within the meaning of National Instrument 31-103 – Registration Requirements, Exemptions and Ongoing Registrant Obligations; and (vii) if required by applicable securities laws or stock exchange rules, the purchaser will execute, deliver and file or assist the Republic in obtaining and filing such reports, undertakings and other documents relating to the purchase of the Notes by the purchaser as may be required by any securities commission, stock exchange or other regulatory authority.

United Kingdom

The Lead Manager has represented, warranted and agreed that:

- (a) **Financial promotion:** it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the “FSMA”) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Republic; and
- (b) **General compliance:** it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Republic of Italy

The offering of the Notes has not been registered with the Commissione Nazionale per le Società e la Borsa (“CONSOB”) pursuant to Italian securities legislation. The Lead Manager represents and agrees that any offer, sale or delivery of the Notes or distribution of copies of this Offering Circular or any other document relating to the Notes in the Republic of Italy will be effected in accordance with all Italian securities, tax and exchange control and other applicable laws and regulations.

Any such offer, sale or delivery of the Notes or distribution of copies of this Offering Circular or any other document relating to the Notes in the Republic of Italy must be:

- (a) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with Legislative Decree No. 58 of 24 February 1998, CONSOB Regulation No. 16190 of 29 October 2007 and Legislative Decree No. 385 of 1 September 1993 (the “Banking Law”) (in each case as amended from time to time);
- (b) in compliance with Article 129 of the Banking Law and the implementing guidelines of the Bank of Italy, as amended; and
- (c) in compliance with any other applicable laws and regulations or requirement imposed by CONSOB or any other Italian authority.

Switzerland

The Notes may not be publicly offered, sold or advertised, directly or indirectly, in, into or from Switzerland, as such term is used under the Swiss Code of Obligations, and will not be listed on the SIX Swiss Exchange or on any other exchange or regulated trading facility in Switzerland. Neither this Offering Circular nor any other offering or marketing material relating to the Notes constitutes an Offering Circular as such term is understood pursuant to article 652a or article 1156 of the Swiss Code of Obligations or a listing Offering Circular within the meaning of the listing rules of the SIX Swiss Exchange or any other regulated trading facility in Switzerland and neither this Offering Circular nor any other offering or marketing material relating to the Notes may

be publicly distributed or otherwise made publicly available in Switzerland, as such term is used under the Swiss Code of Obligations.

Singapore

This Offering Circular has not been registered as an Offering Circular with the Monetary Authority of Singapore under the Securities and Futures Act, Cap. 289 of Singapore (the “SFA”) and accordingly, the Notes may not be offered or sold, nor may the Notes be the subject of an invitation for subscription or purchase, nor may this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase of the Notes be circulated or distributed, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the SFA) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or (iii) any person pursuant to an offer referred to in Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA or otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased in reliance on an exemption under Sections 274 or 275 of the SFA, the Notes may not be sold within the period of six months from the date of the initial acquisition of them, except to any of the following persons:

- (a) an institutional investor (as defined in Section 4A of the SFA);
- (b) a relevant person (as defined in Section 275(2) of the SFA); or
- (c) any person pursuant to an offer referred to in Section 275(1A) of the SFA,

unless expressly specified otherwise in Section 276(7) of the SFA or Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore (the “SFR”).

Where the Notes are acquired by persons who are relevant persons specified in Section 276 of the SFA, namely:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor; or
- (c) the shares, debentures and units of shares and debentures of that corporation or the beneficiaries’ rights and interest (howsoever described) in that trust shall not be transferred within 6 months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:
 - (1) to an institutional investor (under Section 274 of the SFA) or to a relevant person as defined in Section 275(2) of the SFA, or any person pursuant to an offer that is made on terms that such shares, debentures and units of shares and debentures of that corporation or such rights or interest in that trust are acquired at a consideration of not less than \$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets and further for corporations, in accordance with the conditions specified in Section 275(1A) of the SFA;
 - (2) where no consideration is or will be given for the transfer;
 - (3) where the transfer is by operation of law;

- (4) as specified in Section 276(7) of the SFA; or
- (5) as specified in Regulation 32 of the SFR.

Hong Kong

The Lead Manager has represented and agreed that:

- (1) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than (a) to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (“SFO”) and any rules made under the Ordinance; or (b) in other circumstances which do not result in the document being an “Offering Circular” as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and
- (2) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or ready by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the SFO and any rules made under that Ordinance.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (Law No. 25 of 1948, as amended) and, accordingly, the Lead Manager has undertaken that it will not offer or sell any Notes directly or indirectly, in Japan or to, or for the benefit of, any Japanese Person or to others for re-offering or resale, directly or indirectly, in Japan or to any Japanese Person except under circumstances which will result in compliance with all applicable laws, regulations and guidelines promulgated by the relevant Japanese governmental and regulatory authorities and in effect at the relevant time. For the purposes of this paragraph, “Japanese Person” shall mean any person resident in Japan, including any corporation or other entity organised under the laws of Japan.

United Arab Emirates (excluding the Dubai International Financial Centre)

The Lead Manager has represented and agreed that the Notes have not been and will not be offered, sold or publicly promoted or advertised by it in the United Arab Emirates other than in compliance with any laws applicable in the United Arab Emirates governing the issue, offering and sale of securities.

The Lead Manager has acknowledged that the information contained in this Offering Circular does not constitute a public offer of securities in the United Arab Emirates in accordance with the Commercial Companies Law (Federal Law 8 of 1984 (as amended)) or otherwise and is not intended to be a public offer and the information contained in this Offering Circular is not intended to lead to the conclusion of any contract of whatsoever nature within the territory of the United Arab Emirates.

Dubai International Financial Centre

The Lead Manager has represented and agreed that it has not offered and will not offer the Notes to any person in the Dubai International Financial Centre unless such offer is:

- (a) an “Exempt Offer” in accordance with the Offered Securities Rules of the Dubai Financial Services Authority (the “DFSA”); and
- (b) made only to persons who meet the Professional Client criteria set out in Rule 2.3.2 of the DFSA Conduct of Business Module.

Qatar

The Lead Manager has represented and agreed that it has not offered, sold or delivered and will not offer, sell, or deliver, directly or indirectly, any Notes in Qatar, except: (a) in compliance with all applicable laws and regulations of Qatar; and (b) through persons or corporate entities authorized and licensed to provide investment advice and/or engage in brokerage activity and/or trade in respect of foreign securities in Qatar.

This Offering Circular has not been reviewed or approved by or registered with the Qatar Exchange, the Qatar Central Bank or the Qatar Financial Markets Authority. This Offering Circular is strictly private and confidential and may not be reproduced or used for any other purpose, nor provided to any person other than the recipient thereof.

Chile

Neither the Republic nor the Notes are registered in the Securities Registry (*Registro de Valores*) or the Foreign Securities Registry (*Registro de Valores Extranjeros*) of the Chilean Securities and Insurance Commission (*Superintendencia de Valores y Seguros de Chile*), or SVS, or is subject to the control and supervision of the SVS. As unregistered securities, the Republic is not required to disclose public information about the Notes in Chile. The Notes may not be publicly offered in Chile unless they are registered in the corresponding securities registry. The Notes may only be offered in Chile in circumstances that do not constitute a public offering under Chilean law or in compliance with General Rule No. 336 of the SVS. Pursuant to General Rule No. 336. The Notes may be privately offered in Chile to certain “qualified investors” identified as such therein (which in turn are further described in General Rule No. 216, dated June 12, 2008, of the SVS).

This Offering Circular and other offering materials relating to the offer of the Notes do not constitute a public offer of, or an invitation to subscribe for or purchase, the Notes in the Republic of Chile, other than to individually identified purchasers pursuant to a private offering within the meaning of Article 4 of the Chilean Securities Market Act (*Ley de Mercado de Valores*) (an offer that is not addressed to the public at large or to a certain sector or specific group of the public).

General

No action has been taken by the Republic or by the Lead Manager that would, or is intended to, permit a public offer of the Notes in any country or jurisdiction where any such action for that purpose is required.

Accordingly, the Lead Manager has undertaken that it will not, directly or indirectly offer or sell any Notes or distribute or publish any offering circular, this Offering Circular, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of Notes by it will be made on the same terms.

BOOK-ENTRY SETTLEMENT AND CLEARANCE

Global Notes

The Notes will initially be issued in the form of two registered notes in global form (which Ecuador refers to in this Offering Circular as “Global Notes”), without interest coupons, as follows:

- Notes sold to qualified institutional buyers in reliance on Rule 144A under the Securities Act will be represented by one or more Global Notes (which Ecuador refers to in this Offering Circular as the “Restricted Global Notes”); and
- Notes sold in offshore transactions to non-U.S. persons in reliance on Regulation S will be represented by one or more Global Notes (which Ecuador refers to in this Offering Circular as the “Regulation S Global Notes”).

Upon issuance, the Global Notes will be deposited with the common depositary and registered in the nominee name of the common depositary for Euroclear and Clearstream.

Ownership of beneficial interests in each Global Note will be limited to persons who either have accounts with Euroclear (which Ecuador refers to in this Offering Circular as the “Euroclear participants”) or persons who have accounts with Clearstream (which Ecuador refers to in this Offering Circular as the “Clearstream participants”) or to persons who hold interests through Euroclear participants or Clearstream participants. The Republic expects that under procedures established by Euroclear:

- upon deposit of each Global Note with the common depositary, Euroclear or Clearstream will credit portions of the principal amount of the Global Note to the accounts of the Euroclear or Clearstream participants designated by the Lead Manager; and
- ownership of beneficial interests in each Global Note will be shown on, and transfer of ownership of those interests will be effected only through, records maintained by Euroclear (with respect to interests of Euroclear participants) or Clearstream (with respect to interests of Clearstream participants) and the records of Euroclear or Clearstream participants (with respect to other owners of beneficial interests in each Global Note).

Investors may hold their interests in the Regulation S Global Note directly through Euroclear or Clearstream, Luxembourg, if they are participants in those systems, or indirectly through organizations that are participants in those systems. Investors may also hold their interests in the Regulation S Global Note through organizations other than Euroclear or Clearstream, Luxembourg that are Euroclear participants. The Bank of New York Mellon, London Branch will act as the common depositary for the interests in the Regulation S Global Note.

Beneficial interests in the Global Notes may not be exchanged for Notes in physical certificated form except in the limited circumstances described below.

Each Global Note and beneficial interests in each Global Note will be subject to restrictions on transfer as described under “Transfer Restrictions.”

Exchanges between the Global Notes

Beneficial interests in one Global Note may generally be exchanged for interests in another Global Note. Depending on whether the transfer is being made during or after the 40-day restricted period, and to which Global Note the transfer is being made, the Issuer or Trustee may require the seller to provide certain written certifications in the form provided in the Indenture (as defined in “Description of the Notes”).

A beneficial interest in a Global Note that is transferred to a person who takes delivery through another Global Note will, upon transfer, become subject to any transfer restrictions and other procedures applicable to beneficial interests in the other Global Note.

Book-Entry Procedures for the Global Notes

All interests in the Global Notes will be subject to the operations and procedures of Euroclear and, if applicable, Clearstream, Luxembourg. The Republic provides the following summaries of those operations and procedures solely for the convenience of investors. The operations and procedures of each settlement system are controlled by that settlement system and may be changed at any time. None of the Republic, the Trustee, any agent or the Lead Manager is responsible for those operations or procedures.

Euroclear was created to hold securities for its participants and to facilitate the clearance and settlement of securities transactions between its participants through electronic book-entry changes to the accounts of its participants. Euroclear's participants include securities brokers and dealers, including the Lead Manager; banks and trust companies; clearing corporations; and other organizations. Indirect access to Euroclear's system is also available to others such as banks, brokers, dealers and trust companies; these indirect participants clear through or maintain a custodial relationship with a Euroclear participant, either directly or indirectly. Investors who are not Euroclear participants may beneficially own securities held by or on behalf of Euroclear only through Euroclear participants or indirect participants in Euroclear.

So long as the depositary is the registered owner of a Global Note, that depositary will be considered the sole owner or holder of the Notes represented by that Global Note for all purposes under the Indenture. Except as provided below, owners of beneficial interests in a Global Note:

- will not be entitled to have Notes represented by the Global Note registered in their names;
- will not receive or be entitled to receive physical, certificated notes; and
- will not be considered the owners or holders of the Notes under the Indenture for any purpose, including with respect to the giving of any direction, instruction or approval to the Trustee under the Indenture.

As a result, each investor who owns a beneficial interest in a Global Note must rely on the procedures of Euroclear to exercise any rights of a holder of Notes under the Indenture (and, if the investor is not a participant or an indirect participant in Euroclear, on the procedures of the Euroclear participant through which the investor owns its interest in the Notes).

Payments of principal and interest with respect to the Notes represented by a Global Note will be made by the Trustee to the common depositary as the registered holder of the Global Note. Neither the Republic nor the Trustee will have any responsibility or liability for the payment of amounts to owners of beneficial interests in a Global Note, for any aspect of the records relating to or payments made on account of those interests by Euroclear, or for maintaining, supervising or reviewing any records of Euroclear relating to those interests.

Payments by participants and indirect participants in Euroclear to the owners of beneficial interests in a Global Note will be governed by standing instructions and customary industry practice and will be the responsibility of those participants or indirect participants and Euroclear.

Transfers between participants in Euroclear will be effected under Euroclear's procedures and will be settled in same-day funds. Transfers between participants in Clearstream, Luxembourg will be effected in the ordinary way under the rules and operating procedures of those systems.

Cross-market transfers between Euroclear participants, on the one hand, and participants in Clearstream, Luxembourg, on the other hand, will be effected within Euroclear through the Euroclear participants that are acting as depositaries for Clearstream, Luxembourg. To deliver or receive an interest in a Global Note held in a

Clearstream, Luxembourg account, an investor must send transfer instructions to Clearstream, Luxembourg, as the case may be, under the rules and procedures of that system and within the established deadlines of that system. If the transaction meets its settlement requirements, Clearstream, Luxembourg, as the case may be, will send instructions to its Euroclear depositary to take action to effect final settlement by delivering or receiving interests in the relevant Global Notes in Euroclear, and making or receiving payment under normal procedures for same-day funds settlement applicable to Euroclear. Clearstream, Luxembourg participants may not deliver instructions directly to the Euroclear depositaries that are acting for Clearstream, Luxembourg.

Euroclear and Clearstream, Luxembourg have agreed to the above procedures to facilitate transfers of interests in the Global Notes among participants in those settlement systems. However, the settlement systems are not obligated to perform these procedures and may discontinue or change these procedures at any time. Neither the Republic nor the Trustee nor any paying agent will have any responsibility for the performance by, Euroclear or Clearstream, Luxembourg or their participants or indirect participants of their obligations under the rules and procedures governing their operations.

Certificated Notes

Notes in physical, certificated form will be issued and delivered to each person that Euroclear or Clearstream identifies as a beneficial owner of the related Notes only if:

- the depositary notifies the Republic at any time that it is unwilling or unable to continue as depositary for the Global Notes and a successor depositary is not appointed within 90 days;
- Euroclear or Clearstream ceases to be registered as a clearing agency under the U.S. Securities Exchange Act of 1934 and a successor depositary is not appointed within 90 days; or
- the Trustee receives a notice from the registered holder of the Global Note requesting exchange of a specified amount for individual note certificates following a failure to pay at maturity or upon acceleration of any Note.

TRANSFER RESTRICTIONS

The Notes are subject to the following restrictions on transfer. By purchasing Notes, each prospective investor will be deemed to have made the following acknowledgments, representations to and agreements with the Republic and the Lead Manager:

(1) Each prospective investor acknowledges that:

- the Notes have not been registered under the Securities Act or any other securities laws and are being offered for resale in transactions that do not require registration under the Securities Act or any other securities laws; and
- unless so registered, the Notes may not be offered, sold or otherwise transferred except under an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act or any other applicable securities laws, and in each case in compliance with the conditions for transfer set forth in paragraph (4) below.

(2) Each prospective investor represents that it is not an affiliate (as defined in Rule 144 under the Securities Act) of the Republic, that it is not acting on the Republic's behalf and that either:

- it is a qualified institutional buyer (as defined in Rule 144A) and is purchasing Notes for its own account or for the account of another qualified institutional buyer, and it is aware that the Lead Manager is selling the Notes to it in reliance on Rule 144A; or
- it is not a U.S. person (as defined in Regulation S under the Securities Act) or purchasing for the account or benefit of a U.S. person, other than a distributor, and it is purchasing Notes in an offshore transaction in accordance with Regulation S.

(3) Each prospective investor acknowledges that neither the Republic nor the Lead Manager nor any person representing the Republic or the Lead Manager has made any representation to such prospective investor with respect to the Republic or the offering of the Notes, other than the information contained in this Offering Circular. Each prospective investor represents that it is relying only on this Offering Circular in making its investment decision with respect to the Notes. Each prospective investor agrees that it has had access to such information concerning the Republic and the Notes as it has deemed necessary in connection with its decision to purchase Notes, including an opportunity to ask questions of and request information from the Republic.

(4) Each prospective investor represents that it is purchasing Notes for its own account, or for one or more investor accounts for which it is acting as a fiduciary or agent, in each case not with a view to, or for offer or sale in connection with, any distribution of the Notes in violation of the Securities Act, subject to any requirement of law that the disposition of its property or the property of that investor account or accounts be at all times within its or their control and subject to its or their ability to resell the Notes pursuant to Rule 144A or any other available exemption from the registration requirements of the Securities Act. Each prospective investor agrees on its own behalf and on behalf of any investor account for which it is purchasing Notes, and each subsequent holder of the Notes by its acceptance of the Notes will agree, that until the end of the applicable resale restriction period pursuant to Regulation S or Rule 144, the Notes may be offered, sold or otherwise transferred only:

(a) to the Republic;

(b) under a registration statement that has been declared effective under the Securities Act;

(c) for so long as the Notes are eligible for resale under Rule 144A, to a person whom the seller reasonably believes is a qualified institutional buyer that is purchasing for its own account or for the account of another qualified institutional buyer and to whom it has given notice that the transfer is being made in reliance on Rule 144A;

(d) pursuant to Regulation S; or

(e) under any other available exemption from the registration requirements of the Securities Act; subject in each of the above cases to any requirement of law that the disposition of the seller's property or the property of an investor account or accounts be at all times within the seller or such account's control.

Each prospective investor also acknowledges that:

- the Republic and the Trustee reserve the right to require, in connection with any offer, sale or other transfer of Notes before the applicable resale restriction period ends pursuant to Regulation S or Rule 144 under clauses (d) and (e) above, the delivery of an opinion of counsel, certifications and/or other information satisfactory to the Republic and the Trustee;
- Notes (other than those issued outside the United States pursuant to Regulation S) will, until the expiration of one year from the original issuance date of the Notes (or such other date as specified in Rule 144 or as specified in another applicable exemption under the Securities Act), unless otherwise agreed by us and the holder thereof, bear a legend substantially to the following effect:

THIS NOTE (OR ITS PREDECESSOR) WAS ORIGINALLY ISSUED IN A TRANSACTION NOT SUBJECT TO THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND THIS NOTE MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED IN THE ABSENCE OF REGISTRATION OR AN APPLICABLE EXEMPTION THEREFROM. EACH PURCHASER OF THIS NOTE IS HEREBY NOTIFIED THAT THE SELLER OF THIS NOTE MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A THEREUNDER.

THE HOLDER OF THIS NOTE AGREES FOR THE BENEFIT OF THE ISSUER THAT (A) THIS NOTE MAY BE OFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED, ONLY (I) TO THE ISSUER OF THIS NOTE, (II) IN THE UNITED STATES TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (III) OUTSIDE THE UNITED STATES IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 AND RULE 904 UNDER THE SECURITIES ACT, (IV) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE) OR (V) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH OF CASES (II) THROUGH (V) IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES, AND (B) THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER OF THIS NOTE FROM IT OF THE RESALE RESTRICTIONS REFERRED TO IN (A) ABOVE.

BY ACCEPTANCE OF THIS NOTE BEARING THE ABOVE LEGEND, WHETHER UPON ORIGINAL ISSUANCE OR SUBSEQUENT TRANSFER, EACH HOLDER OF THIS NOTE ACKNOWLEDGES THE RESTRICTIONS ON THE TRANSFER OF THESE NOTES SET FORTH ABOVE AND AGREES THAT IT SHALL TRANSFER THIS NOTE ONLY AS PROVIDED HEREIN AND IN THE INDENTURE.

THE FOREGOING LEGEND MAY BE REMOVED FROM THIS NOTE ON SATISFACTION OF THE CONDITIONS SPECIFIED IN THE INDENTURE.

- Notes issued outside the United States pursuant to Regulation S will, unless otherwise agreed by us and the holder thereof, bear a legend substantially to the following effect:

THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY IN ANY JURISDICTION AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT IN

ACCORDANCE WITH THE INDENTURE AND PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OR PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT.

Each prospective investor acknowledges that the Republic, the Trustee, any agent, the Lead Manager and others will rely upon the truth and accuracy of the above acknowledgments, representations and agreements. Each prospective investor agrees that if any of the acknowledgments, representations or agreements such prospective investor is deemed to have made by its purchase of Notes is no longer accurate, it will promptly notify the Republic and the Lead Manager. If any prospective investor is purchasing any Notes as a fiduciary or agent for one or more investor accounts, such prospective investor represents that it has sole investment discretion with respect to each of those accounts and that it has full power to make the above acknowledgments, representations and agreements on behalf of each account.

TAXATION

Ecuador Taxation

The following is a general discussion of Ecuadorian tax considerations. The discussion is based upon the tax laws of Ecuador as in effect on the date of this Offering Circular, which are subject to change. Prospective investors should consult their own tax advisers with respect to Ecuadorian tax consequences of the investment. This summary does not discuss the effects of any treaties that may be entered into by, or be effective with respect to, Ecuador.

All payments of principal and interest for the Notes offered for sale pursuant to this Offering Circular and accepted by the Republic, and any gains made by a holder from such sale, will be exempt from any Ecuadorian income tax, including withholding tax, if the holder is a foreign holder, i.e.:

- The holder is an individual and is not resident in the Republic for tax purposes; or
- The holder is a non-Ecuadorian entity that does not hold the Notes through a permanent establishment or fixed base in the Republic.

There are no Ecuadorian stamp, registration or similar taxes payable by a foreign holder in connection with offers or sales of Notes pursuant to this Offering Circular.

United States Federal Income Taxation

Generally

The following summary of certain material U.S. federal income tax consequences to original purchasers of the Notes of the purchase, ownership and disposition of the Notes is based upon existing U.S. federal income tax laws, which are subject to change, possibly with retroactive effect. No assurances can be given that any changes in these laws or authorities will not affect the accuracy of the discussions set forth in this summary. The Republic has not sought any ruling from the U.S. Internal Revenue Service (the “IRS”) with respect to the statements made and the conclusions reached in this discussion, and there can be no assurance that the IRS will agree with all of such statements and conclusions.

This summary does not purport to discuss all aspects of U.S. federal income taxation that may be relevant to a particular investor in light of that investor’s individual circumstances, such as investors whose functional currency is not the U.S. dollar or certain types of investors subject to special tax rules (*e.g.*, financial institutions, insurance companies, dealers in securities or currencies, certain securities traders, regulated investment companies, pension plans, tax-exempt organizations and investors holding Notes as a position in a “straddle,” “conversion transaction,” or “constructive sale” transaction). In addition, this summary does not discuss any non-U.S., state, or local tax considerations. This summary only applies to investors that hold Notes as “capital assets” (generally, property held for investment) within the meaning of the U.S. Internal Revenue Code of 1986, as amended (the “Code”).

For purposes of this summary, the term “U.S. Holder” means a beneficial owner of a Note who is, for U.S. federal income tax purposes, an individual who is a citizen or resident of the United States, a corporation (including an entity treated as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States, any state of the United States or the District of Columbia, an estate whose income is subject to U.S. federal income tax regardless of its source or a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more “United States persons,” as defined for U.S. federal income tax purposes, have the authority to control all substantial decisions of the trust or the trust was in existence on August 20, 1996 and has in effect a valid election to be treated as a United States person. If a partnership (or other entity treated as a partnership for U.S. federal income tax purposes) holds the Notes, the tax treatment of a partner in such partnership will generally depend upon the status of the partner and the activities of

the partnership. As used herein, the term “non-U.S. Holder” means a beneficial owner of a Note that is not a U.S. Holder for U.S. federal income tax purposes.

Prospective purchasers of Notes should consult their own tax advisors concerning the U.S. federal income tax consequences of the purchase, ownership and disposition of Notes in light of their particular circumstances, as well as the effect of any relevant state, local, foreign or other tax laws.

U.S. Holders

Payments of Interest and Additional Amounts

Ecuador expects, and the remainder of this summary assumes, that the Notes will be issued at par or at a discount that is de minimis for U.S. federal income tax purposes. Accordingly, payments of interest on a Note generally will be taxable to a U.S. Holder as ordinary interest income at the time they are received or accrued, depending on the U.S. Holder’s regular method of tax accounting. In addition to interest on a Note, a U.S. Holder will be required to include any tax withheld from the interest payment as ordinary interest income, even though such holder did not in fact receive it, and any Additional Amounts paid in respect of such tax withheld.

Interest (and any Additional Amounts) on the Notes will constitute income from sources outside the United States. Under the foreign tax credit rules, that interest generally will be classified as “passive category income” (or, in certain cases, as “general category income”), which may be relevant in computing the foreign tax credit allowable to a U.S. Holder under the U.S. federal income tax laws.

Sale, Exchange, Retirement or Other Taxable Disposition of a Note

A U.S. Holder generally will recognize gain or loss upon the sale, exchange, retirement or other taxable disposition of a Note (including payments as a result of an acceleration) in an amount equal to the difference between the amount realized upon that sale, exchange, retirement or other taxable disposition (other than amounts representing accrued and unpaid interest, which will be taxed as such to the extent not previously included in income) and the U.S. Holder’s adjusted tax basis in the Note. The amount realized is the sum of cash plus the fair market value of any property received upon the sale, exchange, retirement or other taxable disposition of a Note. A U.S. Holder’s adjusted tax basis in a Note generally will equal the U.S. Holder’s initial investment in the Note. Gain or loss generally will be capital, and will be long-term gain or loss if the Note is held for more than one year. The ability of a U.S. Holder to offset capital losses against ordinary income is limited. Any capital gain or loss recognized on the sale, exchange, retirement or other taxable disposition of a Note generally will be treated as income or loss from sources within the United States for foreign tax credit limitation purposes. Therefore, U.S. Holders may not be able to claim a credit for any Ecuadorian tax imposed upon a disposition of a Note unless (subject to special limits) such holder has other income from foreign sources and certain other requirements are met.

Medicare Tax

A U.S. Holder that is an individual or estate, or a trust that does not fall into a special class of trusts that is exempt from such tax, will be subject to a 3.8% tax on the lesser of (i) the U.S. Holder’s “net investment income” (or, in the case of an estate or trust, the “undistributed net investment income”) for the relevant taxable year and (ii) the excess of the U.S. Holder’s modified adjusted gross income for the taxable year over a certain threshold (which in the case of individuals will be between U.S.\$125,000 and U.S.\$250,000, depending on the individual’s circumstances). A U.S. Holder’s net investment income generally will include its interest income and its net gains from the disposition of a Note, unless such interest income or net gains are derived in the ordinary course of the conduct of a trade or business (other than a trade or business that consists of certain passive or trading activities).

Information with Respect to Foreign Financial Assets

Owners of “specified foreign financial assets” with an aggregate value in excess of U.S.\$50,000 on the last day of the taxable year, or U.S.\$75,000 at any time during the taxable year generally will be required to file information reports with respect to such assets with their U.S. federal income tax returns. Depending on the holder’s

circumstances, higher threshold amounts may apply. “Specified foreign financial assets” include any financial accounts maintained by foreign financial institutions, as well as any of the following, but only if they are not held in accounts maintained by certain financial institutions: (i) stocks and securities issued by non-U.S. persons, (ii) financial instruments and contracts held for investment that have non-U.S. issuers or counterparties and (iii) interests in non-U.S. entities. The Notes may be treated as specified foreign financial assets and U.S. Holders may be subject to this information reporting regime. Failure to file information reports may subject U.S. Holders to penalties. U.S. Holders should consult their own tax advisors regarding their obligation to file information reports with respect to the Notes.

Non-U.S. Holders

Payments of Interest and Additional Amounts

Subject to the discussion below of backup withholding, payments of interest and any Additional Amounts on the Notes generally are not subject to U.S. federal income tax, including withholding tax, if paid to a “non-U.S. Holder,” as defined above, unless the interest is effectively connected with such non-U.S. Holder’s conduct of a trade or business within the United States (and, if an income tax treaty applies, the interest is attributable to a permanent establishment or fixed place of business maintained by such non-U.S. Holder within the United States). In that case, the non-U.S. Holder generally will be subject to U.S. federal income tax in respect of such interest in the same manner as a U.S. Holder, as described above. A non-U.S. Holder that is a corporation may, in certain circumstances, also be subject to an additional “branch profits tax” in respect of any such effectively connected interest income currently imposed at a 30% rate (or, if attributable to a permanent establishment maintained by such non-U.S. Holder within the United States, a lower rate under an applicable tax treaty).

Sale, Exchange, Retirement or Other Taxable Disposition of a Note

Subject to the discussion below of backup withholding, a non-U.S. Holder generally will not be subject to U.S. federal income or withholding tax on any gain realized on the sale, exchange, retirement or other taxable disposition of a Note unless: (1) the gain is effectively connected with the conduct by such non-U.S. Holder of a trade or business within the United States (or, if an income tax treaty applies, the gain is attributable to a permanent establishment or fixed base in the United States), or (2) such non-U.S. Holder is a nonresident alien individual, who is present in the United States for 183 or more days in the taxable year of the disposition and certain other conditions are met. Non-U.S. Holders who are described under (1) above generally will be subject to U.S. federal income tax on such gain in the same manner as a U.S. Holder and, if the non-U.S. Holder is a foreign corporation, such holder may also be subject to the branch profits tax as described above. Non-U.S. Holders described under (2) above generally will be subject to a flat 30% tax on the gain derived from the sale, exchange, retirement or other taxable disposition of Notes, which may be offset by certain U.S. capital losses (notwithstanding the fact that such holder is not considered a U.S. resident for U.S. federal income tax purposes). Any amount attributable to accrued but unpaid interest on the Notes generally will be treated in the same manner as payments of interest, as described above under “—Payments of Interest and Additional Amounts.”

Backup Withholding and Information Reporting

In general, information reporting requirements will apply to payments of principal of and interest and any Additional Amounts on the Notes to non-corporate U.S. Holders if such payments are made within the United States or by or through a custodian or nominee that is a “U.S. Controlled Person,” as defined below. Backup withholding will apply to such payments if a U.S. Holder fails to provide an accurate taxpayer identification number or, in the case of interest payments and the accrual of interest, fails to certify that it is not subject to backup withholding or is notified by the IRS that it has failed to report all interest and dividends required to be shown on its U.S. federal income tax returns.

Non-U.S. Holders are generally exempt from these withholding and reporting requirements (assuming that the gain or income is otherwise exempt from U.S. federal income tax), but such non-U.S. Holders may be required to comply with certification and identification procedures in order to prove their exemption. If a non-U.S. Holder holds a Note through a foreign partnership, these certification procedures would generally be applied to such holder as a partner. The payment of proceeds of a sale or redemption of Notes effected at the U.S. office of a broker

generally will be subject to the information reporting and backup withholding rules, unless such non-U.S. Holder establishes an exemption. In addition, the information reporting rules will apply to payments of proceeds of a sale or redemption effected at a non-U.S. office of a broker that is a U.S. Controlled Person, as defined below, unless the broker has documentary evidence that the holder or beneficial owner is not a U.S. Holder (and has no actual knowledge or reason to know to the contrary) or the holder or beneficial owner otherwise establishes an exemption.

As used herein, the term “U.S. Controlled Person” means:

- a “United States person;”
- a controlled foreign corporation for U.S. federal income tax purposes;
- a non-U.S. person 50% or more of whose gross income is derived for tax purposes from the conduct of a U.S. trade or business for a specified three-year period; or
- a non-U.S. partnership in which United States persons hold more than 50% of the income or capital interests or which is engaged in the conduct of a U.S. trade or business.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules from a payment to a holder of a Note generally will be allowed as a refund or a credit against the holder’s U.S. federal income tax liability as long as the holder provides the required information to the IRS in a timely manner.

VALIDITY OF THE NOTES

The validity of the Notes will be passed upon on behalf of the Republic by the *Coordinador General Jurídico* of the Ministry of Finance of the Republic, Ecuadorian counsel to the Republic, and by Hogan Lovells US LLP, U.S. counsel to the Republic. The validity of the Notes will be passed upon on behalf of the Lead Manager by Pérez Bustamante & Ponce, Ecuadorian counsel to the Lead Manager, and by Clifford Chance US LLP, U.S. counsel to the Lead Manager. As to all matters of Ecuadorian law, Hogan Lovells US LLP will rely on the opinion of the *Coordinador General Jurídico* of the Ministry of Finance of the Republic, and Clifford Chance US LLP will rely upon the opinion of Pérez Bustamante & Ponce.

In connection with the issuance of the Notes, the Attorney General will issue a “Pronouncement” in relation to each of the Indenture, the Purchase Agreement and the Notes which will constitute the required authorizations for the Ministry of Finance to be able to agree to the laws of the State of New York as the governing law of the Indenture, the Purchase Agreement and the Notes, as well as the submission to arbitration provisions set out therein.

Local counsel to the Lead Manager has confirmed that the provision of the legal opinion from the *Coordinador General Jurídico* of the Ministry of Finance and the Pronouncement are fully compliant from an Ecuadorian law perspective.

GENERAL INFORMATION

1. The Regulation S Global Note and the Restricted Global Note have been accepted for clearance and settlement through Euroclear and Clearstream, Luxembourg. The common codes for the Regulation S Global Note and the Restricted Global Note are 145851467 and 145851696, respectively, and the International Securities Identification Numbers for the Regulation S Global Note and the Restricted Global Note are XS1458514673 and XS1458516967, respectively.

2. The Republic has obtained all necessary consents, approvals and authorizations in the Republic of Ecuador in connection with the issue and performance of the Notes. The issue of the Notes was authorized by the Republic's Debt and Finance Committee under Acta Resolutiva No.013 dated June 20, 2016.

3. The Republic is involved in certain litigation and administrative arbitration proceedings. See "Legal Proceedings."

4. On April 28, 2016, Moody's Investors Service affirmed the Republic's long-term Government bond ratings at "B3" with a "stable outlook." On August 12, 2015, Standard & Poor's Ratings Services downgraded the Republic's foreign long-term issuer rating from "B+" with a "stable outlook" and to "B" with a "stable outlook." On October 2, 2015, the Republic's long-term foreign currency issuer default rating by Fitch Ratings was affirmed at "B," with a "stable outlook".

Ratings are not a recommendation to purchase, hold or sell securities and may be changed, suspended or withdrawn at any time. The Republic's current ratings and the rating outlooks currently assigned to the Republic are dependent upon economic conditions and other factors affecting credit risk that are outside the control of the Republic. Any adverse change in the Republic's credit ratings could adversely affect the trading price for the Notes. Each rating should be evaluated independently of the others. Detailed explanations of the ratings may be obtained from the rating agencies.

5. Application has been made to list the Notes on the Official List of the Luxembourg Stock Exchange and to have the Notes admitted to trading on the Euro MTF Market. So long as any of the Notes are listed on the Luxembourg Stock Exchange, the Republic will maintain a paying agent and transfer agent in Luxembourg.

6. Copies of the following documents may be obtained, free of charge, on any business day (Saturdays, Sundays and public holidays excepted) at the office of the Paying Agent in Luxembourg so long as any of the Notes are listed on the Luxembourg Stock Exchange:

- (a) the Indenture incorporating the forms of Global Notes;
- (b) this Offering Circular;
- (c) copies of the 2008 Constitution, and the Legislative Decrees of the Republic referred to in paragraph 2 above (in Spanish); and
- (d) copies of the Republic's consolidated public sector fiscal accounts for the last calendar year (as and when available in English).

7. Other than as disclosed herein, (including information that has been updated as of December 31, 2015), there has been no material adverse change in the financial condition of the Republic which is material in the context of the issue of the Notes since December 31, 2015.

8. Save as disclosed in "Legal Proceedings," the Republic is not involved in any litigation or arbitration proceeding relating to claims or amounts which are material in the context of the issue of the Notes nor, as far as the Republic is aware, is any litigation pending or threatened.

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ISSUER

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You should rely only on the information contained in this Offering Circular or to which Ecuador has referred you. Ecuador has not authorized anyone to provide you with information that is different. This Offering Circular may only be used where it is legal to sell these securities. The information in this Offering Circular may only be accurate on the date of this Offering Circular.



The Republic of Ecuador

U.S.\$1,000,000,000

10.750% Notes due 2022

Lead Manager and Global Coordinator
Citigroup

Offering Circular

July 28, 2016

OFFERING CIRCULAR SUPPLEMENT



The Republic of Ecuador

U.S.\$1,000,000,000 10.750% Notes due 2022

On July 28, 2016, The Republic of Ecuador (the "Republic" or "Ecuador") executed an indenture (the "Indenture") pursuant to which it can issue 10.750% Notes due 2022 (the "Notes") from time to time. On July 28, 2016, the Republic issued Notes in the aggregate principal amount of U.S.\$1,000,000,000 (the "Original Notes"). The Republic is reopening the issuance of the Notes and is offering an additional U.S.\$1,000,000,000 aggregate principal amount of the Notes (the "Additional Notes"). The Additional Notes will be additional notes issued under the Indenture. The Additional Notes will have identical terms and conditions as the Original Notes, other than issue date and issue price, and will be consolidated and form a single series with the Original Notes. The Additional Notes will vote together as a single class with the Original Notes. Upon consummation of this offering, the aggregate principal amount of the Notes will be U.S.\$2,000,000,000.

This Offering Circular Supplement (the "Supplement") is supplemental to and should be read in conjunction with the Offering Circular dated July 28, 2016 (the "Offering Circular") which is attached as Appendix A to this Supplement. Terms defined in the Offering Circular shall have the same meaning in this Supplement. With effect from the date of this Supplement, the information appearing in the Offering Circular shall be amended and/or supplemented in the manner described in this Supplement.

There is currently no public market for the Additional Notes. Application has been made to list the Additional Notes on the Official List of the Luxembourg Stock Exchange and to have the Additional Notes admitted to trading on the Euro MTF Market. This Supplement, together with the Offering Circular, constitutes a prospectus for the purpose of the Luxembourg Law dated July 10, 2005 on prospectuses for securities, as amended. The Additional Notes are and will be issued in registered form and, in limited circumstances, definitive form in minimum denominations of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof.

See "Risk Factors" beginning on page 20 of the Offering Circular regarding certain risk factors you should consider before investing in the Additional Notes.

Price: 100.000%

plus accrued interest from July 28, 2016 to but excluding September 30, 2016

Delivery of the Additional Notes will be made on or about September 30, 2016.

The Additional Notes have not been and will not be registered under the Securities Act of 1933, as amended (the "Securities Act"). The Additional Notes may not be sold within the United States or to U.S. persons except to qualified institutional buyers in reliance on the exemption from registration provided by Rule 144A under the Securities Act and offered and sold to certain persons in offshore transactions in reliance on Regulation S under the Securities Act. You are hereby notified that sellers of the Additional Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A under the Securities Act.

The Additional Notes will be represented by one or more permanent global notes in fully registered form without interest coupons, deposited with a common depositary for Euroclear Bank S.A./N.V. ("Euroclear") and Clearstream Banking, *société anonyme* ("Clearstream"). Beneficial interests of Euroclear participants in the global notes will be shown on, and transfers thereof between Euroclear participants will be effected only through, records maintained by Euroclear and its direct and indirect participants, including Clearstream.

ANY OFFER OR SALE OF NOTES IN ANY MEMBER STATE OF THE EUROPEAN ECONOMIC AREA (THE "EEA") THAT HAS IMPLEMENTED DIRECTIVE 2003/71 EC (THE "PROSPECTUS DIRECTIVE") MUST BE ADDRESSED TO QUALIFIED INVESTORS (AS DEFINED IN THE PROSPECTUS DIRECTIVE).

Lead Manager and Global Coordinator

Citigroup

The date of this Offering Circular Supplement is September 30, 2016.

IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE REPUBLIC AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND THE RISKS INVOLVED.

You should rely only on the information contained in the Offering Circular and this Supplement or to which The Republic of Ecuador has referred you. Ecuador has not, and the Lead Manager has not, authorized anyone to provide you with information that is different from the information contained in the Offering Circular and this Supplement. This Supplement and the Offering Circular may only be used where it is legal to sell these Additional Notes. The information in this Supplement may only be accurate on the date of this Supplement.

This Supplement may only be used for the purposes for which it has been published.

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APPENDIX A: Offering Circular dated July 28, 2016	

The Additional Notes will be general, direct, unsecured, unsubordinated and unconditional obligations of Ecuador, will be backed by the full faith and credit of Ecuador and will rank equally in terms of priority with Ecuador's External Indebtedness (other than Excluded Indebtedness), as defined in "*Description of the Notes*" beginning on page 115 of the Offering Circular, provided, that, such ranking is in terms of priority only and does not require that Ecuador make ratable payments on the Additional Notes with payments made on its other External Indebtedness.

The Additional Notes will be issued in registered form only. Additional Notes sold in offshore transactions in reliance on Regulation S under the Securities Act ("Regulation S") will be represented by one or more permanent global notes in fully registered form without interest coupons (the "Regulation S Global Note") and Additional Notes sold in the United States to qualified institutional buyers (each a "qualified institutional buyer") as defined in, and in reliance on, Rule 144A under the Securities Act ("Rule 144A") will be represented by one or more permanent global notes in fully registered form without interest coupons (the "Restricted Global Note" and, together with the Regulation S Global Note, the "Global Notes"), in each case deposited with a common depositary for, and registered in the nominee name of a common depositary for Euroclear for the respective accounts at Euroclear as such subscribers may direct. Beneficial interests of Euroclear participants (as defined under "*Book-Entry Settlement and Clearance*" on page 137 of the Offering Circular) in the Global Notes will be shown on, and transfers thereof between Euroclear participants will be effected only through, records maintained by Euroclear and its direct and indirect participants, including Clearstream. Except as described herein, definitive Additional Notes will not be issued in exchange for beneficial interests in the Global Notes.

The Republic has taken reasonable care to ensure that the information contained in this Supplement is true and correct in all material respects and not misleading as of the date hereof, and that, to the best of the knowledge and belief of the Republic, there has been no omission of information which, in the context of the issue of the Additional Notes, would make this Supplement as a whole or any information included in this Supplement, misleading in any material respect. The Republic accepts responsibility accordingly.

This Supplement does not constitute an offer by, or an invitation by or on behalf of, the Republic or the Lead Manager to subscribe to or purchase any of the Additional Notes. Each recipient shall be deemed to have made its own investigation and appraisal of the financial condition of the Republic. The distribution of this Supplement or any part of it and the offering, possession, sale and delivery of the Additional Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Supplement comes are required by the Republic and the Lead Manager to inform themselves about and to observe any such restrictions. See "*Subscription and Sale*" on page 18 of this Supplement and "*Transfer Restrictions*" on page 140 of the Offering Circular for a description of further restrictions on the offer, sale and delivery of Additional Notes, the distribution of this Supplement, and other offering material relating to the Additional Notes.

Each purchaser of Additional Notes sold outside the United States in reliance on Regulation S will be deemed to have represented that it is not purchasing Additional Notes with a view to distribution thereof in the United States.

Each person purchasing Additional Notes pursuant to Rule 144A will be deemed to:

- represent that it is purchasing the Additional Notes for its own account or an account with respect to which it exercises sole investment discretion and that it or such account is a qualified institutional buyer (as defined in Rule 144A); and
- acknowledge that the Additional Notes have not been and will not be registered under the Securities Act or any State securities laws and may not be reoffered, resold, pledged or otherwise transferred except as described under "*Transfer Restrictions*" on page 140 of the Offering Circular.

Each person purchasing Additional Notes pursuant to Rule 144A also acknowledges that:

- it has been afforded an opportunity to request from the Republic and to review, and it has received, all additional information considered by it to be necessary to verify the accuracy of the information herein and acknowledges that the preliminary and final Supplements supersede any other information or presentation regarding the Republic;
- it has not relied on the Lead Manager or any person affiliated with the Lead Manager in connection with its investigation of the accuracy of the information contained in this Supplement or its investment decision; and
- no person has been authorized to give any information or to make any representation concerning the Republic or the Additional Notes other than those contained in this Supplement and, if given or made, such information or representation should not be relied upon as having been authorized by the Republic or the Lead Manager.

IN CONNECTION WITH THIS ISSUANCE OF ADDITIONAL NOTES, THE LEAD MANAGER MAY, ITSELF OR THROUGH ITS AFFILIATES, OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE ADDITIONAL NOTES AT A LEVEL WHICH MIGHT NOT OTHERWISE PREVAIL IN THE OPEN MARKET, TO THE EXTENT PERMITTED BY APPLICABLE LAWS. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

RECENT DEVELOPMENTS

The following description of "Recent Developments" sets forth material developments since the issuance of the Offering Circular (including information that was not available as of July 25, 2016). It does not purport to be a complete description of the Republic and should be read in conjunction with the relevant sections of the Offering Circular.

Please note that other than as set forth in the "Ecuadorian Economy" Section below, in Table 1 and Table 2, this Recent Developments section does not update statistical information from prior interim periods included in the Offering Circular that may have been updated by the Republic.

The Ecuadorian Economy

The rate of unemployment increased from 4.5% as of June 30, 2015 to 5.3% as of June 30, 2016 due to a continued slowdown of the economy. The rate of poverty increased from 22.0% as of June 30, 2015 to 23.7% as of June 30, 2016. Inflation decreased from 4.14% for the twelve-month period ended August 31, 2015 to 1.42% for the twelve-month period ended August 31, 2016 due to a decrease in the price of certain foods and non-alcoholic beverages.

On July 21, 2016, the *Ley Orgánica de Prevención, Detección y Erradicación del Delito de Lavado de Activos y del Financiamiento de Delitos* (the "Law to Eliminate Money Laundering and the Financing of Crimes") was published and became effective. This law is intended to prevent, detect, and eliminate money laundering and the financing of crimes by creating a registry of "unusual" and "unjustified" financial operations and transactions. In addition to the institutions that are part of the financial and insurance systems of Ecuador, the law requires certain other entities and institutions to report to the *Unidad de Análisis Financiero y Económico* (the "Financial and Economic Analysis Unit"), the Government entity responsible for compiling information and producing reports relating to money laundering.

According to the Central Bank's Monthly Bulletin for August 2016, oil field crude production, including that of private and state-owned companies, reached 116.5 million barrels for the first seven months of 2016, averaging 547 thousand barrels per day. This represents a 0.3% increase from the 116.1 million barrels produced in the first seven months of 2015, or an average production of 545 thousand barrels per day. In the first seven months of 2016, state-owned companies were responsible for 78.5% of production, compared to 77.6% of production in the first seven months of 2015.

On August 16, 2016, the Minister of Finance, Fausto Herrera, indicated that the three sources of financing being used to address relief and restoration efforts in relation to the Pedernales Earthquake include the General State Budget, proceeds from the Law of Solidarity and contingent lines of credit. Minister Herrera indicated that as of August 15, 2016, U.S.\$888 million had been allocated for relief and restoration efforts in relation to the Pedernales Earthquake.

According to the Central Bank's Monthly Bulletin for August 2016, overall exports for the first seven months of 2016 were U.S.\$9,368 million, a decrease compared to U.S.\$11,338 million for the first seven months of 2015. This decrease was primarily due to a decrease in crude oil exports from U.S.\$4,215 million for the first seven months of 2015 to U.S.\$2,676 million for the first seven months of 2016, but was partially offset by the increase in shrimp exports from U.S.\$1,312 million for the first seven months of 2015 to U.S.\$1,447 million for the first seven months of 2016.

On August 22, 2016, President Correa signed a decree effectuating the merger of Ecuador's Public TV and Radio Company ("E.P. RTVEcuador") with the state owned newspaper, El Telégrafo, to form the *Empresa Pública de Medios Públicos de Comunicación del Ecuador—Medios Públicos EP* (the "Public Media and Communications Company of Ecuador"). This consolidation decree was issued for the purpose of eliminating duplicative functions of media entities.

On August 24, 2016, the Central Bank of Ecuador and the Central Bank of Iran (Bank Markazi Jomhuri Islami Iran) signed a memorandum of understanding and a banking and payment arrangement. The two documents provide for mechanisms to set up accounts, netting of payments and other payment arrangements between the two central banks to facilitate future payments of exports between Iran and Ecuador. A third document was signed by the *Agencia Ecuatoriana de Aseguramiento de Calidad del Agro de la República del Ecuador* (the "Agency for the Quality Assurance of Agriculture of Ecuador") and the Plant Protection Organization of the Islamic Republic of Iran. The document is a memorandum of understanding that establishes a framework for bilateral cooperation in plant quarantine methods in accordance with the International Plant Protection Convention.

Ecuador previously entered into two other cooperative agreements with Iran. The first, signed in October 2011, is a memorandum of understanding that establishes a framework for bilateral cooperation on health initiatives. The second, signed in June 2012, is a commercial agreement that establishes a framework for any future commercial trade between Iran and Ecuador.

On August 29, 2016, the National Assembly's Commission on the Economic and Tax Regime reviewed comments on the draft of the *Ley de Incentivos Tributarios* (the "Law on Tax Incentives") that was presented for debate on August 23, 2016. The Law on Tax Incentives is intended to encourage productivity by extending tax incentives to additional sectors of the economy. The law proposes income tax deductions for micro, small and medium sized businesses that provide private insurance to their employees and reductions in the value of advances on income tax payments that are required to be made by public and commercial transport operators.

On September 1, 2016, a draft reform law with respect to the *Ley de Seguridad Social de las Fuerzas Armadas* (the "Armed Forces Social Security Law"), the *Ley de Seguridad Social de la Policía Nacional* (the "National Police Social Security Law") and the *Ley de Pensiones de las Fuerzas Armadas* (the "Armed Forces Pension Law," and together with the National Police Social Security Law and the Armed Forces Social Security Law, the "Draft Police and Armed Services Social Security and Armed Forces Pension Reform Law") was presented for discussion by the National Assembly. The Draft Police and Armed Services Social Security and Armed Forces Pension Reform Law is intended to make the national system of social security more sustainable over time by making adjustments to the pensions of public servants from Ecuador's Armed Forces and National Police.

On September 1, 2016, the Central Bank published updates with respect to certain statistical indicators for 2013 and 2014. Real GDP for 2013 was updated from U.S.\$67,293 million to U.S.\$67,546 million, and real GDP for 2014 was updated from U.S.\$69,766 million to U.S.\$70,243 million. Given these updated figures, real GDP per capita for 2013 would be updated from U.S.\$4,266 to U.S.\$4,282 and real GDP per capita for 2014 would be updated from U.S.\$4,353 to U.S.\$4,383. Real GDP growth from 2012 to 2013 was updated from 4.6% to 4.9%, and real GDP growth from 2013 to 2014 was updated from 3.7% to 4.0%. Nominal GDP for 2013 was updated from U.S.\$94,776 million to U.S.\$95,130 million, and nominal GDP for 2014 was updated from U.S.\$100,917 million to U.S.\$102,292 million.

Also on September 1, 2016, the Central Bank published updates with respect to certain statistical indicators for 2015, including (i) real GDP, (ii) annual GDP growth, (iii) nominal GDP, (iv) imports of goods and services as a component of GDP, (v) exports of goods and services as a component of GDP, and (vi) gross capital income formation as a component of GDP. Real GDP was updated from U.S.\$69,969 million to U.S.\$70,354 million. Given this updated figure, real GDP per capita for 2015 would be updated from U.S.\$4,298 to U.S.\$4,322. Real GDP growth from 2014 to 2015 was updated from 0.3% to 0.2%. Nominal GDP was updated from U.S.\$100,872 million to U.S.\$100,177 million. Imports of goods and services was updated from U.S.\$18,748 million to U.S.\$19,732 million. Exports of goods and services was updated from U.S.\$19,155 million to U.S.\$18,904 million, and gross fixed capital formation was updated from U.S.\$18,478 million to U.S.\$17,798 million.

On September 7, 2016, Petroamazonas began extracting oil from the ITT fields.

Legal Proceedings

Reference should be made to the section entitled "*Legal Proceedings*" beginning on page 63 of the attached Offering Circular for background information on the proceedings set forth below in this Recent Developments Section.

Chevron

With respect to Chevron's UNCITRAL claim against Ecuador, upon the orders of the arbitral tribunal, the parties were required to submit briefs on the final report of a forensic computer expert on August 12, 2016 and August 26, 2016 and to present their positions on the relevance of the August 8, 2016 decision of the Southern District of New York Court of Appeals on the RICO action: *Chevron v. Donziger et. al.* on August 16, 2016 and August 18, 2016, after which the tribunal will proceed to issue a decision with respect to track 2. The tribunal has not yet issued a decision.

Perenco Ecuador Limited

With respect to the Perenco Ecuador Limited arbitration, the tribunal has appointed an independent environmental expert for purposes of assessing the environmental status of Blocks 7 and 21. The independent expert has not released any findings.

Burlington Resources, Inc.

Ecuador and Burlington expect the tribunal to deliver its decision with respect to the hearing on damages in the case of Burlington Resources, Inc. described on pages 65-66 of the Offering Circular, in December 2016.

Murphy Ecuador Oil Company, Ltd.

On July 29, 2016, the parties in the case of Murphy Ecuador Oil Company, Ltd. presented their briefs on the fair market value of Murphy's property in Ecuador. The tribunal informed the parties that no additional briefs may be submitted and that it will issue its decision in September 2016.

William and Roberto Isaias Dassum

With respect to Ecuador's action against William and Roberto Isaias, the defendants were granted an extension of time from August 9, 2016 to October 8, 2016 to present their response to Ecuador's appeal.

Merck Sharp & Dohme

On August 4, 2016, the National Court of Justice ordered Merck to pay U.S.\$42 million with respect to the judgment initiated against Merck by NIFA S.A. The international tribunal subsequently ordered that the parties submit their briefs regarding the National Court of Justice's order by September 26, 2016 and make themselves available for a hearing in The Hague on October 3, 2016 or October 12, 2016.

International Reserves

As of August 31, 2016, Ecuador's International Reserves totaled U.S.\$3,801.9 million, a decrease from August 31, 2015, when International Reserves totaled U.S.\$4,201.4 million. This decrease was primarily due to the decrease in the price of petroleum and the appreciation of the dollar.

Monetary System

As of August 31, 2016, banking deposits, including guarantee deposits and restricted deposits, totaled U.S.\$26,357 million, an increase from U.S.\$25,149 million as of August 31, 2015. However, total current loans to

the private sector from the private banking sector decreased from U.S.\$18,909 million as of August 31, 2015 to U.S.\$18,123 million as of August 31, 2016.

As of August 31, 2015, the delinquency rate for loans from the private banking sector reached 4.0% as a result of the increase in delinquency rates in consumer credits to 7.6%. As of August 31, 2016, the delinquency rate continued to increase to 4.4% as a result of increases in the delinquency rates of consumer credits and microenterprise credits to 8.4% and 7.3%, respectively.

Total assets of the banking system increased from U.S.\$31.3 billion as of August 31, 2015 to U.S.\$32.9 billion as of August 31, 2016.

Public Sector Finances

Total revenues of the Central Government for the first seven months of 2016 were U.S.\$10,632.2 million, while total expenditures were U.S.\$11,736.4 million. This results in a deficit of U.S.\$1,104.2 million for the first seven months of 2016, an increase compared to the deficit of U.S.\$516 million for the first seven months of 2015. This increase in the deficit is primarily due to decreased petroleum revenue.

In the first seven months of 2016, the non-financial public sector registered a deficit of U.S.\$1,630.0 million (approximately 1.6% of GDP), compared to a deficit U.S.\$71.0 million in the first seven months of 2015 (approximately 0.1% of GDP). This increase in the deficit was due to a decrease in the revenues from the sale of oil exports caused by the decrease in the price of oil during the time period. In the first seven months of 2016, total revenues for the non-financial public sector totaled U.S.\$17,098.2 million (approximately 16.7% of GDP), a decrease from U.S.\$21,470.0 million in the first seven months of 2015 (approximately 21.6% of GDP). In the first seven months of 2016, total expenditures for the non-financial public sector totaled U.S.\$18,728.2 million (approximately 18.3% of GDP), a decrease from U.S.\$21,541.0 in the first seven months of 2015 (approximately 21.7% of GDP).¹

Public Debt

The total external debt of the public sector as of August 31, 2016 was U.S.\$23.62 billion compared to U.S.\$20.38 billion as of August 31, 2015. This increase is primarily the result of the issuance of the Original Notes and the April 29, 2016 loan entered into with China Development Bank described on page 109 of the Offering Circular. See "*Public Debt – External Debt*." According to Ministry of Finance, following the issuance of the Notes and the application of proceeds, it is estimated that the Republic's total public debt to GDP will be approximately 39.1%.

As of August 31, 2015, the top three bilateral lenders to Ecuador were China, Brazil and Spain, with debt levels of U.S.\$5,295 million (87% of the total bilateral debt), U.S.\$311 million (5% of the total bilateral debt) and U.S.\$ 138 million (2% of the total bilateral debt), respectively. As of August 31, 2016, the top three bilateral lenders to Ecuador were China, Brazil and Spain, with debt levels of U.S.\$6,773 million (89% of the total bilateral debt), U.S.\$250 million (3% of the total bilateral debt) and U.S.\$131 million (2% of the total bilateral debt), respectively.

Public debt, including internal and external debt of the financial and non-financial public sector and the external Central Bank debt balance, was 32.7% of nominal GDP as of December 31, 2015, compared to 29.5% of nominal GDP as of December 31, 2014 and 24.0% of nominal GDP as of December 31, 2013.

¹ Percentages of GDP in 2015 that are included in this paragraph were calculated using relevant first and second quarter data available in the Central Bank's August 2016 Monthly Bulletin (Table 2.1) and the corresponding July 2015 figure available in the Central Bank's August 2015 Monthly Bulletin (Table 2.1), while percentages of GDP in 2016 that are included in this paragraph were calculated using relevant first and second quarter data available in the Central Bank's August 2016 Monthly Bulletin (Table 2.1).

The Government is current on all of its obligations to bilateral and multilateral lenders. As of August 31, 2016, total indebtedness owed to multilateral institutions was U.S.\$8,038.9 million and total indebtedness owed to bilateral entities was U.S.\$7,842.1 million.

The total internal debt of Ecuador as of August 31, 2016 was U.S.\$13.19 billion, compared to U.S.\$12.18 billion as of August 31, 2015. This increase is primarily due to the increased issuance of domestic long term and short term government notes.

In 2009, the Republic launched cash tender offers to the holders of the 2012 and 2030 Bonds and from 2009 through the date of this Supplement has repurchased additional 2012 and 2030 Bonds. As of the date hereof, the total aggregate amount of outstanding principal on the 2012 and 2030 Bonds is U.S.\$70.3 million, which represents 2.2% of the original aggregate principal amount of the 2012 and 2030 Bonds.

On July 15, 2016, Ecuador's Ministry of Finance and the Official Credit Institute of Spain (*Instituto de Crédito Oficial*), acting for Spain, entered into a U.S.\$183.6 million credit agreement for the financing of the supply of rolling stock, auxiliary vehicles, workshop tools and equipment and parts for Quito's first metro line.

On July 28, 2016, IESS entered into two loans for U.S.\$65.0 million and U.S.\$13.3 million, respectively, both with Deutsche Bank, Sociedad Anónima Española, as agent, various other financial institutions, as mandated lead arrangers and Ecuador, acting through its Ministry of Finance, as guarantor. The loans are to be repaid over a term of seven years and are to be used to finance the construction and outfitting of hospitals in the city of Guayaquil and the city of Machala, respectively.

On July 28, 2016, the Republic successfully issued the Original Notes. The Republic is current on its financial obligations under the Original Notes and intends to make all payments as they become due and payable. The Republic is using the proceeds of the Original Notes to finance its various Government programs and infrastructure projects contemplated in its National Development Plan. The Republic is also current on all of its obligations under the 2020 Bonds and the 2024 Bonds.

On September 23, 2016, Ecuador entered into a U.S.\$100.0 million bilateral loan agreement with CAF to finance costs related to damages to infrastructure and housing caused by the Pedernales Earthquake.

Updated Economic Indicators²

Table 1: Real and Nominal GDP⁽¹⁾

(in millions of U.S.\$, except for percentages)

	For the Year Ended December 31, 2015
Nominal GDP	100,176.8
Real GDP ⁽²⁾	70,353.8
Real GDP growth.....	0.2%

Source: Based on figures from the Central Bank Annual Bulletin on National Accounts for 2015.

- (1) Figures in this table are updated from those in the Offering Circular in accordance with the Central Bank's Annual Bulletin on National Accounts for 2015.
- (2) Real GDP measures the Gross Domestic Product of Ecuador minus the effect of inflation. The Central Bank of Ecuador uses 2007 as its base year for all real number calculations.

² The economic indicators in this Supplement only reflect data that has been released since the date of the Offering Circular. The Supplement does not reproduce all of the tables and data presented in the Offering Circular. Please see the relevant sections in the Offering Circular for the more detailed data, including the most recent publicly available information regarding GDP and Balance of Trade data.

Table 2: Real GDP by Expenditure⁽¹⁾

(in millions of U.S.\$)

	For the Year Ended December 31, 2015
Consumption	
Central Government Consumption	10,172.3
Non-Profit Service Provider Consumption.....	613.9
Private Consumption	42,699.4
Total Consumption	53,485.5
Gross Investment	
Gross Fixed Capital Formation	17,797.9
Change in Inventory	-101.7
Exports of goods and services ⁽²⁾	18,904.0
Imports of goods and services ⁽²⁾	19,731.9
Real GDP	70,353.8

Source: Based on figures from the Central Bank Annual Bulletin on National Accounts for 2015.

- (1) Figures in this table are updated from those in the Offering Circular in accordance with the Central Bank's Annual Bulletin on National Accounts for 2015.
- (2) The exports and imports figures in this chart are adjusted for inflation and reflect the contribution of exports and imports to GDP. They differ from the nominal exports and imports in the "Balance of Payments" table and stand-alone exports and imports tables in the "Exports-(FOB)" and "Imports-(CIF)" tables in the Offering Circular.

Table 3: Labor Force and Employment

(in thousands except when expressed in percentages)

	As of June 30, 2015	As of June 30, 2016
Total Population	16,153	16,404
Labor Force	11,282	11,557
Labor Force Participation	7,431	7,832
Labor Force Participation Rate	65.86%	67.77%
Employed Labor Force	7,099	7,415
Unemployed Labor Force	332	417
Unemployment Rate	4.47%	5.32%

Source: Based on figures from INEC as of June 2016.

Table 4: Percentage of Households in Poverty

	As of June 30, 2015	As of June 30, 2016
Poverty Based on Income		
Urban	14.4%	15.6%
Rural.....	38.0%	40.9%
Total.....	22.0%	23.7%
Extreme Poverty Based on Income		
Urban	3.8%	3.9%
Rural.....	14.9%	18.6%
Total.....	7.4%	8.6%

Source: Based on figures from INEC as of June 2016.

Table 5: Petroleum Production

(in thousands of barrels per year, except where noted)

	January 1 - July 31	
	2015	2016
Public Companies ⁽¹⁾	90,047	91,479
Other operators	26,043	24,994
Total	116,090	116,472
Petroleum production per day ⁽²⁾	545	547

Source: Petroleum data is based on figures from the Central Bank August 2016 Monthly Bulletin (Table 4.1.1).

(1) Public company numbers include the production of Rio Napo, CEM, ("Rio Napo"). Petroamazonas and PDVSA own Rio Napo, with 70% and 30% interests, respectively.

(2) Petroleum information is displayed in thousands of barrels per day.

Table 6: Exports - (FOB) ⁽¹⁾

(in millions of U.S.\$ and as a % of total exports)

	January 1 - July 31,			
	2015		2016	
	U.S.\$	%	U.S.\$	%
Crude oil	4,215	37.2	2,676	28.6
Bananas and plantains ..	1,705	15.0	1,622	17.3
Petroleum derivatives ..	227	2.0	227	2.4
Shrimp	1,312	11.6	1,447	15.4
Cacao	357	3.1	319	3.4
Coffee	7	0.1	7	0.1
Tuna and other fish	154	1.4	145	1.5
Flowers	530	4.7	497	5.3
Metal Manufacturing ...	314	2.8	231	2.5
Other products ⁽²⁾	2,516	22.2	2,198	23.5
Total	11,338	100.0	9,368	100.0

Source: Based on figures from the Central Bank August 2016 Monthly Bulletin (Table 3.1.1).

(1) Total export figures differ with export figures from "Balance of Payments" chart and "Real GDP by Expenditure" chart due to the exclusion of 'non-registered commerce' and 'other exports' figures in calculation of total exports in this chart. See footnote 1 of "Balance of Payment" chart.

(2) "Other products" consist of non-traditional primary and manufactured products, including canned seafood, vehicles and chemicals.

Table 7: Monetary System

(in millions of U.S.\$, except when expressed in percentages)

	As of August 31, 2015	As of August 31, 2016
Loans to Private Sector		
Commercial, Productive and Consumer Loans	16,080	15,194
Microenterprise Loans	1,454	1,379
Education Loans	416	423
Real Estate and Public Housing Loans	1,744	1,953
Total Loan Portfolio	19,694	18,950
Banking System Loan Portfolio Balances		
Total Current Loans	18,909	18,123
Past-Due Loans	784	826
Delinquency rate	4.0%	4.4%
Total Loan Portfolio	19,694	18,950
Private Bank Deposits		
Demand Deposits	16,485.9	17,033.1
Time Deposits	7,512.7	8,164.6
Guarantee Deposits	1.1	0.9
Others	1,149.6	1,158.6
Total Deposits	25,149.2	26,357.2

Source: Superintendent of Banks as of September 2016.

Table 8: International Reserves

(in millions of U.S.\$)

	As of August 31, 2015	As of August 31, 2016
International Reserves	4,201.4	3,801.9

Source: Based on figures from the Central Bank August 2016 Monthly Bulletin (Table 1.2.1).

Table 9: Consolidated Non-financial Public Sector Revenues and Expenditures

(in millions of U.S.\$)

	January 1 - July 31	
	2015 ⁽²⁾	2016
Revenue		
Petroleum Revenue		
Exports ⁽¹⁾	3,906	2,820
Domestic Sales	-	-
Total Petroleum Revenue (a)	3,906	2,820
Non-petroleum revenue		
Income Tax	3,444	2,378
Value-added Tax	3,900	3,084
Specific consumption taxes	534	433
International trade taxes	1,149	952
Social Security Contributions	3,055	2,683
Other taxes	1,051	1,322

Others	3,311	3,061
Total non-petroleum revenue (b)	16,444	13,913
Operating Income of Public Companies (c)	1,119	365
Total Revenue (a+b+c)	21,470	17,098
Expenses		
Current Expenditures		
Interest (d+e)	695	876
Foreign (d)	557	728
Domestic (e)	118	148
Wages and salaries	5,329	5,470
Purchases of goods and services	2,502	2,017
Others	4,083	3,195
Social Security Borrowings	2,283	2,467
Total Current Expenditure	14,892	14,025
Capital Expenditure and net lending		
Gross capital formation	6,119	4,402
Central Government	3,289	1,945
Public Companies	1,975	1,573
Rest of general Government	855	883
Other Capital Expenditure	530	301
Total Capital Expenditure	6,649	4,703
Total Expenditure	21,541	18,728
Surplus/Deficit	-71	-1,630

Source: Based on figures from the Central Bank August 2016 Monthly Bulletin (Table 2.2).

- (1) This figure is different than the crude oil exports figure in the Exports FOB in the Offering Circular table in that it includes derivative revenues, as opposed to only crude oil, and measures revenues from petroleum exports for the non-financial public sector.
- (2) Each figure in this column is the sum of relevant first and second quarter 2015 data available in the Central Bank August 2016 Monthly Bulletin and the corresponding July 2015 figure available in the Central Bank August 2015 Monthly Bulletin.

Table 10: Summary of Consolidated Central Government Sector Revenues and Expenditures
(in millions of U.S.\$)

	January 1 - July 31,	
	2015 ⁽¹⁾	2016
Revenue		
Petroleum revenue	1,307	1,028
Non-petroleum revenue		
Tax revenue		
Taxes on Goods and Services	4,434	3,516
Value-added tax	3,900	3,084
Specific consumption taxes	534	433
Taxes on income and profits	3,444	2,378
Taxes on international trade	1,957	1,432
Import duties	1,149	952
Exit tax	808	480
Vehicle tax	152	122
Other taxes	91	722
Total tax revenue	10,078	8,169
Non-tax revenue	1,184	1,184
Transfers	404	252
Total non-petroleum revenue	11,666	9,605

Total revenues	12,973	10,632
Expenditure		
Current expenditure		
Interest accrual		
Foreign.....	489	574
Domestic.....	412	426
Total interest accrual	901	1,000
Wages and salaries.....	4,695	4,833
Purchase of goods and services	1,267	983
Other current expenditures	422	357
Transfers.....	628	520
Total current expenditure	7,912	7,693
Capital expenditure		
Fixed capital expenditure.....	3,289	1,945
Other	14	220
Capital Transfers.....	2,275	1,879
Total capital expenditure	5,577	4,044
Total Expenditure	13,489	11,736
Adjustment on treasury accounts.....	-	-
Overall surplus or deficit	-516	-1,104

Source: Based on figures from the Central Bank August 2016 Monthly Bulletin (Table 2.2.1).

- (1) Each figure in this column is the sum of relevant first and second quarter 2015 data available in the Central Bank August 2016 Monthly Bulletin and the corresponding July 2015 datum available in the Central Bank August 2015 Monthly Bulletin.

Table 11: Total Public Sector Debt

(in billions of U.S. dollars, except percentages)

	As of		As of	
	August 31, 2015		August 31, 2016	
	U.S.\$	% GDP ⁽¹⁾	U.S.\$	% GDP ⁽²⁾
Total Public Sector External Debt.....	20.38	20.3	23.62	24.6
Total Public Sector Internal Debt	12.18	12.2	13.19	13.7
Total Sector Public Debt	32.56	32.5	36.81	38.3

Source: Ministry of Finance August 2016 Bulletin with respect to 2016 information and Ministry of Finance December 2015 Bulletin with respect to 2015 information.

- (1) Calculated using latest Nominal GDP figure from Central Bank of Ecuador for 2015.
(2) Based on Ministry of Finance estimate of projected GDP, which differs from look-back data from the Central Bank.

Table 12: Public Sector External Debt

(by debtor, in billions of U.S. dollars, except percentages)

	As of	As of
	August 31, 2015	August 31, 2016
Central Government.....	18.35	20.95
Public financial and non-financial entities	2.04	2.68
Total	20.38	23.62
External public debt as a percentage of nominal GDP.....	20.3% ⁽¹⁾	24.6% ⁽²⁾

Source: Ministry of Finance August 2016 Bulletin with respect to 2016 information and Ministry of Finance December 2015 Bulletin with respect to 2015 information.

- (1) Calculated using latest Nominal GDP figure from Central Bank of Ecuador for 2015.
(2) Based on Ministry of Finance estimate of projected GDP, which differs from look-back data from the Central Bank.

Table 13: Public Sector External Debt by Type of Creditor

(in billions of U.S. dollars)

	As of August 31, 2015	As of August 31, 2016
Multilateral Debt.....	7.54	8.04
Bilateral Debt.....	6.42	7.84
Other Debt ⁽¹⁾	6.42	7.74
Total External Debt	20.38	23.62

Source: Ministry of Finance August 2016 Bulletin with respect to 2016 information and Ministry of Finance December 2015 Bulletin with respect to 2015 information.

- (1) "Other debt" includes amounts owed under the 2012 and 2030 Bonds, the 2020 Bonds, the 2024 Bonds and the Brady Bonds.

Table 14: Public Sector External Debt Service Maturity 2017-2027

(in millions of U.S. dollars)

	2017	2018	For the Year Ending December 31,				2023	2024	2025	2026	2027
			2019	2020	2021	2022					
Central Government	3,701	3,304	2,949	4,181	2,170	2,959	1,757	3,471	1,156	833	1,224
Principal	2,429	2,132	1,895	3,299	1,457	2,370	1,288	3,143	957	670	1,088
Interest	1,272	1,172	1,055	882	713	589	469	327	199	163	136
Rest of Public Sector	677	657	593	408	253	183	161	143	126	113	90
Principal	534	544	495	334	200	138	122	109	96	88	69
Interest	143	114	99	74	53	45	39	34	29	25	21
Total Debt Service	4,378	3,961	3,543	4,589	2,423	3,142	1,918	3,613	1,281	945	1,315

Source: Ministry of Finance as of August 2016.

Table 15: Public Sector Internal Debt

(in billions of U.S.\$)

	As of August 31, 2015	As of August 31, 2016
Central Government Notes.....	11.41	12.42
Governmental Entities	0.77	0.76
Total Internal Debt	12.18	13.19
Internal public debt as a percentage of nominal GDP.....	12.2% ⁽¹⁾	13.7% ⁽²⁾

Source: Ministry of Finance August 2016 Bulletin with respect to 2016 information and Ministry of Finance December 2015 Bulletin with respect to 2015 information.

- (1) Calculated using latest Nominal GDP figure from Central Bank of Ecuador for 2015.
(2) Based on Ministry of Finance estimate of projected GDP, which differs from look-back data from the Central Bank.

THE ADDITIONAL NOTES OFFERING

The following summary does not purport to be complete and is qualified in its entirety by, and is subject to, the detailed information appearing elsewhere in this Supplement and in the attached Offering Circular, in particular in the sections entitled the "Offering" and "Description of the Notes" beginning on page 11 and 115, respectively, of the attached Offering Circular. The Additional Notes will have identical terms and conditions as the Original Notes, other than the issue date and issue price as described below.

Issuer:	The Republic of Ecuador.
Additional Notes Issue Amount:	U.S.\$1,000,000,000, upon consummation of this Additional Notes offering, the aggregate principal amount of the Notes will be U.S.\$2,000,000,000.
Securities Offered:	U.S.\$1,000,000,000, principal amount of 10.750% notes due 2022; consolidated with and forming a single series, from and including the Issue Date, with the Original Notes issued on July 28, 2016 in the aggregate principal amount of U.S.\$1,000,000,000.
Issue Format:	Rule 144A/Regulation S.
Issue Price:	100.000% plus accrued interest from July 28, 2016 to but excluding September 30, 2016, which equals U.S.\$18,513.89 per U.S.\$1,000 principal amount of Notes for a total of U.S.\$18,513,888.89.
Issue Date:	September 30, 2016.
Maturity Date:	March 28, 2022.
Interest:	10.750% per annum, computed on the basis of a 360-day year of twelve 30 day months.
Interest Payment Dates:	Each March 28 and September 28, commencing on March 28, 2017.
Form:	The Additional Notes will be represented in the form of global notes, without coupons, registered in the nominee name of the common depositary for Euroclear and Clearstream for the accounts of its participants. Additional Notes in definitive certificated form will not be issued in exchange for the global notes except under limited circumstances.
Denominations:	The Republic will issue the Additional Notes only in denominations of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof.
Ranking:	The Additional Notes will be general, direct, unsecured, unsubordinated

and unconditional obligations of Ecuador, will be backed by the full faith and credit of Ecuador and will rank equally in terms of priority with Ecuador's External Indebtedness (other than Excluded Indebtedness), provided, that, such ranking is in terms of priority only and does not require that Ecuador make ratable payments on the Additional Notes with payments made on its other External Indebtedness.

Use of Proceeds:

The Republic will use the proceeds of U.S.\$1,000,000,000 of the Additional Notes in accordance with the limitations of the Public Planning and Finance Code, as further described in "*Use of Proceeds*" on page 17 of this Supplement.

Trustee, Registrar and Transfer Agent:

The Bank of New York Mellon.

London Paying Agent:

The Bank of New York Mellon, London Branch.

**Luxembourg Listing Agent,
Transfer Agent and Luxembourg
Paying Agent:**

The Bank of New York Mellon (Luxembourg) S.A.

Governing Law:

The Additional Notes will be governed by the laws of the State of New York, except for the terms concerning submissions to arbitration which will be governed by English law.

Further Issues:

The Republic may, from time to time, without the consent of the holders of the Additional Notes, create and issue additional notes having the same terms and conditions as the Additional Notes in all respects (or in all respects except for the amount of the first interest payment and the issue price) provided that:

- (a) the notes are consolidated and form a single series with the outstanding Notes; and
- (b) such additional notes do not have, for purposes of U.S. federal income taxation, a greater amount of original issue discount than the outstanding Additional Notes have as of the date of the issue of such additional notes (regardless of whether any holders of such Notes are subject to U.S. federal income taxation).

USE OF PROCEEDS

The use of proceeds for public debt is limited by the Public Planning and Finance Code (defined in the Offering Circular). Under the Public Planning and Finance Code, proceeds of public debt transactions may only be used to: (1) finance Government programs, (2) finance infrastructure projects that have the capacity to repay the related debt obligations and (3) refinance an existing external debt obligation on more favorable terms. The Public Planning and Finance Code prohibits public transactions for the purpose of paying ongoing expenses, with the exception of expenses related to health, education, and justice, under exceptional circumstances as determined by the President of the Republic.

The Republic will use the proceeds of U.S.\$1,000,000,000 of the Additional Notes in accordance with the limitations of the Public Planning and Finance Code. The total expenses of this offering, including the underwriter's fee, will be approximately U.S.\$5,000,000.

SUBSCRIPTION AND SALE

Citigroup Global Markets Limited is acting as the Lead Manager (the "Lead Manager") of this offering. Subject to the terms and conditions in the purchase agreement dated the date of this Supplement (the "Additional Notes Purchase Agreement"), the Lead Manager will agree to purchase and the Republic will agree to sell to the Lead Manager, the total principal amount of the Additional Notes.

The Additional Notes Purchase Agreement provides that the obligations of the Lead Manager to purchase the Additional Notes are subject to approval of legal matters by counsel and to other conditions. The Lead Manager must purchase all the Additional Notes if it purchases any of the Additional Notes.

The Republic has been advised that the Lead Manager proposes to resell the Additional Notes at the offering price set forth on the cover page of this Supplement within the United States to qualified institutional buyers (as defined in Rule 144A) in reliance on Rule 144A and outside the United States in reliance on Regulation S. See "*Transfer Restrictions*" on page 140 of the Offering Circular. The price at which the Additional Notes are offered may be changed at any time without notice.

The Additional Notes have not been and will not be registered under the Securities Act or any state securities law and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except in transactions exempt from, or not subject to, the registration requirements of the Securities Act. See "*Transfer Restrictions*" on page 140 of the Offering Circular.

Accordingly, the Lead Manager has agreed that, except as permitted by the Additional Notes Purchase Agreement and set forth in "*Transfer Restrictions*" described on page 140 of the Offering Circular, it will not offer or sell the Additional Notes within the United States or to, or for the account or benefit of, U.S. persons as part of the distribution of the Additional Notes.

In addition, until 40 days after the commencement of this offering, an offer or sale of Additional Notes within the United States by a dealer that is not participating in this offering may violate the registration requirements of the Securities Act if that offer or sale is made otherwise than in accordance with Rule 144A.

Although an application has been made to list the Additional Notes on the Official List of the Luxembourg Stock Exchange and to have the Additional Notes trade on the Euro MTF Market, the listing does not assure that a trading market for the Additional Notes will develop. The Lead Manager intends to make a secondary market for the Additional Notes. However, it is not obligated to do so and may discontinue making a secondary market for the Additional Notes at any time without notice. No assurance can be given as to how liquid the trading market for the Additional Notes will be. The Republic cannot provide any assurances that the prices at which the Additional Notes will trade in the market after this offering will not be lower than the initial offering price or that an active trading market for the Additional Notes will develop and continue after this offering.

The Republic estimates that its portion of the total expenses of this offering, including underwriter's fees, will be U.S.\$5,000,000.

In connection with the offering, the Lead Manager may purchase and sell Additional Notes in the open market. Purchases and sales in the open market may include short sales, purchases to cover short positions and stabilizing purchases.

- Short sales involve secondary market sales by the Lead Manager of a greater number of Additional Notes than it is required to purchase in the offering.
- Covering transactions involve purchases of Additional Notes in the open market after the distribution has been completed in order to cover short positions.
- Stabilizing transactions involve bids to purchase Additional Notes so long as the stabilizing bids do not exceed a specified maximum.

Purchases to cover short positions and stabilizing purchases, as well as other purchases by the Lead Manager for its own account, may have the effect of preventing or retarding a decline in the market price of the Additional Notes. They may also cause the price of the Additional Notes to be higher than the price that would otherwise exist in the open market in the absence of these transactions. The Lead Manager may conduct these transactions in the over-the-counter market or otherwise. If the Lead Manager commences any of these transactions, it may discontinue them at any time.

The Lead Manager is a full service financial institution engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. The Lead Manager and its respective affiliates have in the past performed commercial banking, investment banking and advisory services for the Republic from time to time for which they have received customary fees and reimbursement of expenses and may, from time to time, engage in transactions with and perform services for the Republic in the ordinary course of their business for which they may receive customary fees and reimbursement of expenses. In the ordinary course of its various business activities, the Lead Manager and its respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own accounts and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve the Republic's securities and instruments.

The Republic has agreed to indemnify the Lead Manager against certain liabilities, including liabilities under the Securities Act, or to contribute to payments that the Lead Manager may be required to make because of any of those liabilities.

Selling Restrictions

United States of America

No registration under Securities Act

The Additional Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and in compliance with any applicable state securities laws. Accordingly, the Additional Notes are being offered, sold or delivered only: (a) outside the United States in offshore transactions in reliance on Regulation S and (b) in the United States only to qualified institutional buyers in connection with resales by the Lead Manager, in reliance on, and in compliance with, Rule 144A. In addition, until 40 days after the commencement of the offering, an offer or sale of any of the Additional Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if the offer or sale is made otherwise than in accordance with Rule 144A.

Canada

The distribution of the Additional Notes in Canada is being made only on a private placement basis exempt from the requirement that the Republic prepare and file a prospectus with the applicable securities regulatory authorities. The Republic is not a reporting issuer in any province or territory in Canada and its Additional Notes are not listed on any stock exchange in Canada and there is currently no public market for the Additional Notes in Canada. The Republic currently has no intention of becoming a reporting issuer in Canada, filing a prospectus with any securities regulatory authority in Canada to qualify the resale of the Additional Notes to the public, or listing its securities on any stock exchange in Canada. Accordingly, to be made in accordance with securities laws, any resale of the Additional Notes in Canada must be made under available statutory exemptions from registration and prospectus requirements or under a discretionary exemption granted by the applicable Canadian securities regulatory authority. Canadian purchasers are advised to seek legal advice prior to any resale of the Additional Notes.

Each Canadian purchaser who purchases Additional Notes on a private placement basis pursuant to this Canadian offering circular will be deemed to have represented to and agreed with the Republic and the Lead Manager that such purchaser: (i) is entitled under applicable securities laws to purchase such Additional Notes without the benefit of a prospectus qualified under such securities laws; (ii) is resident in Canada; (iii) is not a U.S. person as defined in Rule 902 of Regulation S under the U.S. Securities Act of 1933; (iv) is purchasing the Additional Notes with the benefit of the prospectus exemption provided by Section 2.3 of National Instrument 45-106 – Prospectus and Registration Exemptions ("NI 45-106") (that is, such purchaser is an "accredited investor" within the meaning of NI 45-106 and is either purchasing Additional Notes as principal for its own account, or is deemed to be purchasing the Additional Notes as principal for its own account in accordance with applicable securities laws); (v) if not an individual, the purchaser was not created or used solely to purchase or hold Additional Notes as an accredited investor under NI 45-106; (vi) is a permitted client within the meaning of National Instrument 31-103 – Registration Requirements, Exemptions and Ongoing Registrant Obligations; and (vii) if required by applicable securities laws or stock exchange rules, the purchaser will execute, deliver and file or assist the Republic in obtaining and filing such reports, undertakings and other documents relating to the purchase of the Additional Notes by the purchaser as may be required by any securities commission, stock exchange or other regulatory authority.

United Kingdom

The Lead Manager has represented, warranted and agreed that:

- (a) **Financial promotion:** it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the "FSMA")) received by it in connection with the issue or sale of any Additional Notes in circumstances in which section 21(1) of the FSMA does not apply to the Republic; and
- (b) **General compliance:** it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Additional Notes in, from or otherwise involving the United Kingdom.

Republic of Italy

The offering of the Additional Notes has not been registered with the Commissione Nazionale per le Società e la Borsa ("CONSOB") pursuant to Italian securities legislation. The Lead Manager represents and agrees that any offer, sale or delivery of the Additional Notes or distribution of copies of this Supplement, the Offering Circular or any other document relating to the Additional Notes in the Republic of Italy will be effected in accordance with all Italian securities, tax and exchange control and other applicable laws and regulations.

Any such offer, sale or delivery of the Additional Notes or distribution of copies of this Supplement, the Offering Circular or any other document relating to the Additional Notes in the Republic of Italy must be:

- (a) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with Legislative Decree No. 58 of 24 February 1998, CONSOB Regulation No. 16190 of 29 October 2007 and Legislative Decree No. 385 of 1 September 1993 (the "Banking Law") (in each case as amended from time to time);
- (b) in compliance with Article 129 of the Banking Law and the implementing guidelines of the Bank of Italy, as amended; and
- (c) in compliance with any other applicable laws and regulations or requirement imposed by CONSOB or any other Italian authority.

Switzerland

The Additional Notes may not be publicly offered, sold or advertised, directly or indirectly, in, into or from Switzerland, as such term is used under the Swiss Code of Obligations, and will not be listed on the SIX Swiss Exchange or on any other exchange or regulated trading facility in Switzerland. Neither this Supplement, the Offering Circular nor any other offering or marketing material relating to the Additional Notes constitutes an Offering Circular as such term is understood pursuant to article 652a or article 1156 of the Swiss Code of Obligations or a listing Offering Circular within the meaning of the listing rules of the SIX Swiss Exchange or any other regulated trading facility in Switzerland and neither this Supplement, the Offering Circular nor any other offering or marketing material relating to the Additional Notes may be publicly distributed or otherwise made publicly available in Switzerland, as such term is used under the Swiss Code of Obligations.

Singapore

This Supplement and the Offering Circular have not been registered as an Offering Circular with the Monetary Authority of Singapore under the Securities and Futures Act, Cap. 289 of Singapore (the "SFA") and accordingly, the Additional Notes may not be offered or sold, nor may the Additional Notes be the subject of an invitation for subscription or purchase, nor may this Supplement, the Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase of the Additional Notes be circulated or distributed, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the SFA) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, (iii) or any person pursuant to an offer referred to in Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Additional Notes are subscribed or purchased in reliance on an exemption under Sections 274 or 275 of the SFA, the Additional Notes may not be sold within the period of six months from the date of the initial acquisition of them, except to any of the following persons:

- (a) an institutional investor (as defined in Section 4A of the SFA);
- (b) a relevant person (as defined in Section 275(2) of the SFA); or
- (c) any person pursuant to an offer referred to in Section 275(1A) of the SFA,

unless expressly specified otherwise in Section 276(7) of the SFA or Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore (the "SFR").

Where the Additional Notes are acquired by persons who are relevant persons specified in Section 276 of the SFA, namely:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor;
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor; or
- (c) the shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within 6 months after that corporation or that trust has acquired the Additional Notes pursuant to an offer made under Section 275 of the SFA except:

- (1) to an institutional investor (under Section 274 of the SFA) or to a relevant person as defined in Section 275(2) of the SFA, or any person pursuant to an offer that is made on terms that such shares, debentures and units of shares and debentures of that corporation or such rights or interest in that trust are acquired at a consideration of not less than \$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets and further for corporations, in accordance with the conditions specified in Section 275(1A) of the SFA;
- (2) where no consideration is or will be given for the transfer;
- (3) where the transfer is by operation of law;
- (4) as specified in Section 276(7) of the SFA; or
- (5) as specified in Regulation 32 of the SFR.

Hong Kong

The Lead Manager has represented and agreed that:

- (1) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Additional Notes other than (a) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong ("SFO") and any rules made under the Ordinance; or (b) in other circumstances which do not result in the document being an "Offering Circular" as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and
- (2) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Additional Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Additional Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under that Ordinance.

Japan

The Additional Notes have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (Law No. 25 of 1948, as amended) and, accordingly, the Lead Manager has undertaken that it will not offer or sell any Additional Notes directly or indirectly, in Japan or to, or for the benefit of, any Japanese Person or to others for re-offering or resale, directly or indirectly, in Japan or to any Japanese Person except under circumstances which will result in compliance with all applicable laws, regulations and guidelines promulgated by the relevant Japanese governmental and regulatory authorities and in effect at the relevant time. For the purposes of this paragraph, "Japanese Person" shall mean any person resident in Japan, including any corporation or other entity organised under the laws of Japan.

United Arab Emirates (excluding the Dubai International Financial Centre)

The Lead Manager has represented and agreed that the Additional Notes have not been and will not be offered, sold or publicly promoted or advertised by it in the United Arab Emirates other than in compliance with any laws applicable in the United Arab Emirates governing the issue, offering and sale of securities.

The Lead Manager has acknowledged that the information contained in this Supplement and in the Offering Circular does not constitute a public offer of securities in the United Arab Emirates in accordance with the

Commercial Companies Law (Federal Law 8 of 1984 (as amended)) or otherwise and is not intended to be a public offer and the information contained in this Supplement and in the Offering Circular is not intended to lead to the conclusion of any contract of whatsoever nature within the territory of the United Arab Emirates.

Dubai International Financial Centre

The Lead Manager has represented and agreed that it has not offered and will not offer the Additional Notes to any person in the Dubai International Financial Centre unless such offer is:

- (a) an "Exempt Offer" in accordance with the Offered Securities Rules of the Dubai Financial Services Authority (the "DFSA"); and
- (b) made only to persons who meet the Professional Client criteria set out in Rule 2.3.2 of the DFSA Conduct of Business Module.

Qatar

The Lead Manager has represented and agreed that it has not offered, sold or delivered and will not offer, sell, or deliver, directly or indirectly, any Additional Notes in Qatar, except: (a) in compliance with all applicable laws and regulations of Qatar; and (b) through persons or corporate entities authorized and licensed to provide investment advice and/or engage in brokerage activity and/or trade in respect of foreign securities in Qatar.

This Supplement and the Offering Circular have not been reviewed or approved by or registered with the Qatar Exchange, the Qatar Central Bank or the Qatar Financial Markets Authority. This Supplement and the Offering Circular are strictly private and confidential and may not be reproduced or used for any other purpose, nor provided to any person other than the recipient thereof.

Chile

Neither the Republic nor the Additional Notes are registered in the Securities Registry (*Registro de Valores*) or the Foreign Securities Registry (*Registro de Valores Extranjeros*) of the Chilean Securities and Insurance Commission (*Superintendencia de Valores y Seguros de Chile*), or SVS, or is subject to the control and supervision of the SVS. As unregistered securities, the Republic is not required to disclose public information about the Additional Notes in Chile. The Additional Notes may not be publicly offered in Chile unless they are registered in the corresponding securities registry. The Additional Notes may only be offered in Chile in circumstances that do not constitute a public offering under Chilean law or in compliance with General Rule No. 336 of the SVS. Pursuant to General Rule No. 336. The Additional Notes may be privately offered in Chile to certain "qualified investors" identified as such therein (which in turn are further described in General Rule No. 216, dated June 12, 2008, of the SVS).

This Supplement, the Offering Circular and other offering materials relating to the offer of the Additional Notes do not constitute a public offer of, or an invitation to subscribe for or purchase, the Additional Notes in the Republic of Chile, other than to individually identified purchasers pursuant to a private offering within the meaning of Article 4 of the Chilean Securities Market Act (*Ley de Mercado de Valores*) (an offer that is not addressed to the public at large or to a certain sector or specific group of the public).

General

No action has been taken by the Republic or by the Lead Manager that would, or is intended to, permit a public offer of the Additional Notes in any country or jurisdiction where any such action for that purpose is required.

Accordingly, the Lead Manager has undertaken that it will not, directly or indirectly offer or sell any Additional Notes or distribute or publish any offering circular, this Supplement and the Offering Circular, form of application, advertisement or other document or information in any country or jurisdiction except under

circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of Additional Notes by it will be made on the same terms.

VALIDITY OF THE NOTES

The validity of the Additional Notes will be passed upon on behalf of the Republic by the *Coordinador General Juridico* of the Ministry of Finance of the Republic, Ecuadorian counsel to the Republic, and by Hogan Lovells US LLP, U.S. counsel to the Republic. The validity of the Additional Notes will be passed upon on behalf of the Lead Manager by Pérez Bustamante & Ponce, Ecuadorian counsel to the Lead Manager, and by Clifford Chance US LLP, U.S. counsel to the Lead Manager. As to all matters of Ecuadorian law, Hogan Lovells US LLP will rely on the opinion of the *Coordinador General Juridico* of the Ministry of Finance of the Republic, and Clifford Chance US LLP will rely upon the opinion of Pérez Bustamante & Ponce.

In connection with the issuance of the Additional Notes, the Attorney General will issue a "Pronouncement" in relation to the Additional Notes Purchase Agreement and the Additional Notes, which will constitute the required authorizations for the Ministry of Finance to be able to agree to the laws of the State of New York as the governing law of the Additional Notes Purchase Agreement and the Additional Notes, as well as the submission to arbitration provisions set out therein.

GENERAL INFORMATION

1. The Regulation S Global Note and the Restricted Global Note have been accepted for clearance and settlement through Euroclear and Clearstream, Luxembourg. The common codes for the Regulation S Global Note and the Restricted Global Note are 145851467 and 145851696, respectively, and the International Securities Identification Numbers for the Regulation S Global Note and the Restricted Global Note are XS1458514673 and XS1458516967, respectively.

2. The Republic has obtained all necessary consents, approvals and authorizations in The Republic of Ecuador in connection with the issue and performance of the Additional Notes. The issue of the Original Notes was authorized by the Republic's Debt and Finance Committee under *Acta Resolutiva* No. 013 dated June 20, 2016. The issue of the Additional Notes was authorized by the Republic's Debt and Finance Committee under *Acta Resolutiva* No. 020 dated September 27, 2016.

3. The Republic is involved in certain litigation and administrative arbitration proceedings. See "*Legal Proceedings*" on page 63 of the Offering Circular and "*Recent Developments – Legal Proceedings*" in this Supplement.

4. On April 28, 2016, Moody's Investors Service affirmed The Republic's long-term Government bond ratings at "B3" with a "stable outlook." On August 4, 2016, Standard & Poor's Ratings Services affirmed the Republic's foreign long-term issuer rating at "B" with a "stable" outlook. On August 25, 2016, The Republic's long-term foreign currency issuer default rating by Fitch Ratings was affirmed at "B," but the rating outlook was revised from "stable" to "negative."

Ratings are not a recommendation to purchase, hold or sell securities and may be changed, suspended or withdrawn at any time. The Republic's current ratings and the rating outlooks currently assigned to the Republic are dependent upon economic conditions and other factors affecting credit risk that are outside the control of the Republic. Any adverse change in the Republic's credit ratings could adversely affect the trading price for the Additional Notes. Each rating should be evaluated independently of the others. Detailed explanations of the ratings may be obtained from the rating agencies.

5. Application has been made to list the Additional Notes on the Official List of the Luxembourg Stock Exchange and to have the Additional Notes admitted to trading on the Euro MTF Market. So long as any of the Additional Notes are listed on the Luxembourg Stock Exchange, the Republic will maintain a paying agent and transfer agent in Luxembourg.

6. Copies of the following documents may be obtained, free of charge, on any business day (Saturdays, Sundays and public holidays excepted) at the office of the Paying Agent in Luxembourg so long as any of the Additional Notes are listed on the Luxembourg Stock Exchange:

- (a) the Indenture incorporating the forms of Global Notes;
- (b) this Supplement;
- (c) the Offering Circular;
- (d) copies of the 2008 Constitution, and the Legislative Decrees of the Republic referred to in paragraph 2 above (in Spanish); and
- (e) copies of the Republic's consolidated public sector fiscal accounts for the last calendar year (as and when available in English).

7. Other than as disclosed herein and in the Offering Circular, there has been no material adverse change in the financial condition of the Republic which is material in the context of the issue of the Additional Notes.

8. Save as disclosed in "*Legal Proceedings*" on page 63 of the Offering Circular and "*Recent Developments – Legal Proceedings*" in this Supplement, the Republic is not involved in any litigation or arbitration proceeding relating to claims or amounts which are material in the context of the issue of the Additional Notes nor, as far as the Republic is aware, is any litigation pending or threatened.

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You should rely only on the information contained in the Offering Circular and this Supplement or to which Ecuador has referred you. Ecuador has not authorized anyone to provide you with information that is different. This Supplement may only be used where it is legal to sell these securities. The information in this Supplement may only be accurate on the date of this Supplement.



The Republic of Ecuador

U.S.\$ 1,000,000,000

10.750% Notes due 2022

Lead Manager and Global Coordinator
Citigroup

Offering Circular Supplement

September 30, 2016

APPENDIX C:
Additional Offering Circular Supplement dated October 11, 2017, with respect to the 2022 Notes

OFFERING CIRCULAR SUPPLEMENT



The Republic of Ecuador

U.S.\$378,000,000 10.750% Notes due 2022

U.S.\$187,000,000 8.750% Notes due 2023

U.S.\$41,000,000 9.650% Notes due 2026

The Republic of Ecuador (the "Republic" or "Ecuador") and The Bank of New York Mellon, as trustee (the "Trustee") have executed (i) the indenture dated July 28, 2016, with respect to the 2022 Notes (as defined below) (the "2022 Indenture"), (ii) the indenture dated June 2, 2017, with respect to the 2023 Notes (as defined below) (the "2023 Indenture"), and (iii) the indenture dated December 13, 2016, with respect to the 2026 Notes (as defined below) (the "2026 Indenture", and together with the 2022 Indenture and the 2023 Indenture, the "Indentures"). Pursuant to the respective Indentures, the Republic has issued (i) an initial U.S.\$1,000,000,000 and an additional U.S.\$1,000,000,000 of its 10.750% Notes due 2022 (aggregately, the "2022 Notes"), (ii) U.S.\$1,000,000,000 aggregate principal amount of its 8.750% Notes due 2023 (the "2023 Notes") and (iii) an initial U.S.\$750,000,000 and an additional U.S.\$1,000,000,000 of its 9.650% Notes due 2026 (aggregately, the "2026 Notes", and together with the 2022 Notes and the 2023 Notes, the "Original Notes").

The Republic is issuing (i) an additional U.S.\$378,000,000 aggregate principal amount of its 10.750% Notes due 2022 (the "Additional 2022 Notes"), (ii) an additional U.S.\$187,000,000 aggregate principal amount of its 8.750% Notes due 2023 (the "Additional 2023 Notes"), and (iii) an additional U.S.\$41,000,000 aggregate principal amount of its 9.650% Notes due 2026 (the "Additional 2026 Notes", and together with the Additional 2022 Notes and the Additional 2023 Notes, the "Additional Notes"). The Additional Notes will be additional notes issued under each respective Indenture. Each series of Additional Notes will have identical terms and conditions as its respective series of Original Notes, other than issue date and issue price, and each will be consolidated and form a single series with their respective series of Original Notes. Each series of Additional Notes will vote together as a single class with its respective series of Original Notes. Upon consummation of this offering, the aggregate principal amount of (i) 2022 Notes will be U.S.\$2,378,000,000, (ii) 2023 Notes will be U.S.\$1,187,000,000, and (iii) 2026 Notes will be U.S.\$1,791,000,000.

This Offering Circular Supplement (the "Supplement") is supplemental to and should be read in conjunction with (i) the Offering Circular dated July 28, 2016, and its supplement dated September 30, 2016, with respect to the 2022 Notes (the "2022 Offering Circular"), (ii) the Offering Circular dated May 30, 2017, with respect to the 2023 Notes (the "2023 Offering Circular"), and (iii) the Offering Circular dated December 13, 2016, and its supplement dated January 13, 2017, with respect to the 2026 Notes (the "2026 Offering Circular", and together with the 2022 Offering Circular and the 2023 Offering Circular, the "Offering Circulars"), attached as Appendix A, Appendix B and Appendix C, respectively, to this Supplement. Terms defined in the Offering Circulars shall have the same meaning in this Supplement. With effect from the date of this Supplement, the information appearing in the Offering Circulars shall be amended and/or supplemented in the manner described in this Supplement.

There is currently no public market for the Additional Notes. Application has been made to list the Additional Notes on the Official List of the Luxembourg Stock Exchange and to have the Additional Notes admitted to trading on the Euro MTF Market. This Supplement, together with the Offering Circulars, constitutes a prospectus for the purpose of the Luxembourg Law dated July 10, 2005 on prospectuses for securities, as amended. The Additional Notes are and will be issued in registered form and, in limited circumstances, definitive form in minimum denominations of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof.

See "Risk Factors" section on each Offering Circular regarding certain risk factors you should consider before investing in the Additional Notes.

Additional 2022 Notes Price: 112.878% plus accrued interest from July 28, 2016 to but excluding October 16, 2017

Additional 2023 Notes Price: 104.412% plus accrued interest from June 2, 2017 to but excluding October 16, 2017

Additional 2026 Notes Price: 106.664% plus accrued interest from December 13, 2016 to but excluding October 16, 2017

Delivery of the Additional Notes will be made on or about October 16, 2017.

The Additional Notes have not been and will not be registered under the Securities Act of 1933, as amended (the “Securities Act”). The Additional Notes may not be sold within the United States or to U.S. persons except in reliance on the exemption from registration provided under the Securities Act and offered and sold to certain persons in offshore transactions in reliance on Regulation S under the Securities Act. There are no Additional Notes being offered and sold in the United States or to U.S. persons.

The Additional Notes will be represented by one or more permanent global notes in fully registered form without interest coupons, deposited with a common depositary for Euroclear Bank S.A./N.V. (“Euroclear”) and Clearstream Banking, *société anonyme* (“Clearstream”). Beneficial interests of Euroclear participants in the global notes will be shown on, and transfers thereof between Euroclear participants will be effected only through, records maintained by Euroclear and its direct and indirect participants, including Clearstream.

ANY OFFER OR SALE OF NOTES IN ANY MEMBER STATE OF THE EUROPEAN ECONOMIC AREA (THE “EEA”) THAT HAS IMPLEMENTED DIRECTIVE 2003/71 EC (THE “PROSPECTUS DIRECTIVE”) MUST BE ADDRESSED TO QUALIFIED INVESTORS (AS DEFINED IN THE PROSPECTUS DIRECTIVE).

The date of this Supplement is October 11, 2017.

IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE REPUBLIC AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND THE RISKS INVOLVED.

You should rely only on the information contained in the Offering Circulars and this Supplement or to which the Republic of Ecuador has referred you. Ecuador has not authorized anyone to provide you with information that is different from the information contained in the Offering Circulars and this Supplement. This Supplement and the Offering Circulars may only be used where it is legal to sell these Additional Notes. The information in this Supplement may only be accurate on the date of this Supplement.

This Supplement may only be used for the purposes for which it has been published.

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The Additional Notes will be general, direct, unsecured, unsubordinated and unconditional obligations of Ecuador, will be backed by the full faith and credit of Ecuador and will rank equally in terms of priority with Ecuador's External Indebtedness (other than Excluded Indebtedness), as defined in "*Description of the Notes*" in each Offering Circular, provided, that, such ranking is in terms of priority only and does not require that Ecuador make ratable payments on the Additional Notes with payments made on its other External Indebtedness.

The Additional Notes will be issued in registered form only. Additional Notes sold in offshore transactions in reliance on Regulation S under the Securities Act ("Regulation S") will be represented by one or more permanent global notes in fully registered form without interest coupons (the "Regulation S Global Note") and Additional Notes sold in the United States, if any, to qualified institutional buyers (each a "qualified institutional buyer") as defined in, and in reliance on, Rule 144A under the Securities Act ("Rule 144A") will be represented by one or more permanent global notes in fully registered form without interest coupons (the

“Restricted Global Note” and, together with the Regulation S Global Note, the “Global Notes”), in each case deposited with a common depository for, and registered in the nominee name of a common depository for Euroclear for the respective accounts at Euroclear as such subscribers may direct. Beneficial interests of Euroclear participants (as defined under “*Book-Entry Settlement and Clearance*” on each Offering Circular) in the Global Notes will be shown on, and transfers thereof between Euroclear participants will be effected only through, records maintained by Euroclear and its direct and indirect participants, including Clearstream. Except as described herein, definitive Additional Notes will not be issued in exchange for beneficial interests in the Global Notes.

The Republic has taken reasonable care to ensure that the information contained in this Supplement is true and correct in all material respects and not misleading as of the date hereof, and that, to the best of the knowledge and belief of the Republic, there has been no omission of information which, in the context of the issue of the Additional Notes, would make this Supplement as a whole or any information included in this Supplement, misleading in any material respect. The Republic accepts responsibility accordingly.

This Supplement does not constitute an offer by, or an invitation by or on behalf of, the Republic to subscribe to or purchase any of the Additional Notes. Each recipient shall be deemed to have made its own investigation and appraisal of the financial condition of the Republic. The distribution of this Supplement or any part of it and the offering, possession, sale and delivery of the Additional Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Supplement comes are required by the Republic to inform themselves about and to observe any such restrictions. See “*Plan of Distribution*” on page 29 of this Supplement and “*Transfer Restrictions*” in each Offering Circular for a description of further restrictions on the offer, sale and delivery of Additional Notes, the distribution of this Supplement, and other offering material relating to the Additional Notes.

Each purchaser of the Additional Notes sold outside the United States in reliance on Regulation S will be deemed to have represented that it is not purchasing the Additional Notes with a view to distribution thereof in the United States. With respect to the offer and sale of the Additional Notes by the Republic, no Additional Notes will be offered and sold in the United States or to U.S. persons.

RECENT DEVELOPMENTS

The following description of “Recent Developments” sets forth material developments since the issuance of the 2023 Offering Circular (including information that was not available as of May 30, 2017). It does not purport to be a complete description of the Republic and should be read in conjunction with the relevant sections of the 2023 Offering Circular.

Please note that other than as specifically described below in connection with statistical updates to GDP and Balance of Payments, this Recent Developments section does not update statistical information from prior interim periods included in the Offering Circular that may have been updated by the Republic.

The Republic of Ecuador

On February 19, 2017, a presidential election (the “2017 Election”) was held with eight candidates to replace former President Rafael Correa after he was elected for two consecutive periods. Lenin Moreno of former President Correa’s Alianza PAIS came in first, with 39.36% of the vote, and Guillermo Lasso of the CREO - SUMA party came in second, with 28.09% of the vote. Since no candidate gained either an outright victory of 50% of the vote or at least 40% of the vote with an additional ten points of advantage over the candidate in second place, a run-off election between President Moreno and Mr. Lasso was held on April 2, 2017. President Moreno was elected president with 51.16% of the vote.

On May 23, 2017, President Moreno announced the members of his cabinet, composed of 23 ministers, 12 secretaries and 8 managers and directors of state owned companies. President Moreno named Carlos Alberto de la Torre Muñoz as the Minister of Economy and Finance, Pablo José Campana Saénz as the Minister of Foreign Trade and Verónica Artola Jarrín as General Manager of the Central Bank. President Moreno’s cabinet includes former ministers under former President Correa’s cabinet such as the Minister of Education, the Minister of Health and the Minister of the Interior.

President Moreno assumed the post of President of Ecuador on May 24, 2017 with Jorge Glas as Vice President (the “Vice President”) for a four-year term. After the election, President Moreno stated, in light of Ecuador’s economic climate, that Ecuador’s priority is to push for economic and social development through generating employment, equality and social justice, eradicating extreme poverty and reducing inequality while maintaining dollarization. Pursuant to Article 149 of the 2008 Constitution, the Vice President performs all functions assigned to him by the President. On August 3, 2017, President Moreno signed Decree 100 (“Decree 100”) to withdraw all functions previously assigned to the Vice President on May 24, 2017 under Decree 9 (“Decree 9”) arguing lack of understanding of the political agenda. As part of the revocation of functions assigned to the Vice President under Decree 9, Decree 100 removes the Vice President as member and official in charge of the *Consejo Sectorial de la Producción* (the “Sectorial Council of Production”), withdraws his duties to coordinate the execution of policies and projects of the productive sector as developed by ministries, secretariats and other member entities of the Sectorial Council of Production and removes the Vice President as member and chair of the *Comité para la Reconstrucción y Reactivación Productiva y del Empleo* (the “Committee for Reconstruction and Productive Recovery”) in the zones affected by the earthquake that struck the northern coast of Ecuador on April 16, 2016. Additionally, Decree 100 removes the Vice President as member of the *Comité Ejecutivo del Consejo Consultivo Productivo y Tributario* (the “Advisory Council Executive Committee”) and also repeals all norms of equal or lower priority to a presidential decree assigning functions to the post of Vice President. Otherwise, Jorge Glas retained the post of Vice President. The Vice President has been subject to investigation for allegedly accepting bribes from Odebrecht S.A. (“Odebrecht”), a Brazilian conglomerate consisting of diversified businesses in the fields of engineering, construction, chemicals and petrochemicals. Odebrecht has admitted as part of its plea agreement with the U.S. Department of Justice that it made and caused to be made more than US\$33.5 million in corrupt payments to government officials in Ecuador and intermediaries working on their behalf between 2007 and 2016. On September 28, 2017, Ecuador’s Attorney General presented charges related to allegations of corruption in Ecuador involving Odebrecht. The charges were presented to Ecuador’s highest court, the *Corte Nacional de Justicia* (the “National Court of Justice”) and included the Vice President, among others. The National Court of Justice decreed that the Vice

President is not allowed to leave Ecuador. On October 2, 2017, the National Court of Justice decreed the preventive detention of the Vice President and ordered a freeze of his bank accounts. On October 4, 2017, President Moreno appointed the Minister of Urban and Housing Development, María Alejandra Vicuña Muñoz, as interim Vice President. It is expected that the investigation will conclude during the week of October 16, 2017 and that formal accusations will be issued in order to start proceedings in the courts of justice.

Through Decree No. 50, President Moreno created the Production & Taxation Advisory Council which is headed by the Ministry of Industry and Productivity and establishes a dialogue between the public and private sectors. The Production & Taxation Advisory Council has an executive committee (the “Advisory Council Executive Committee”) in charge of channeling and evaluating the proposals and recommendations developed through dialogue. Six delegates of the executive branch and six delegates of the private, economic and solidarity sectors, the latter of which is composed of the cooperative, associative and community organizations, form the Advisory Council Executive Committee. On August 7, 2017, President Moreno announced four austerity measures. As part of the austerity measures, President Moreno offered for sale one of the two presidential airplanes and luxury cars owned by the government. President Moreno ordered a 10% reduction in the salary of public servants with monthly salaries between U.S.\$2,368 and U.S.\$6,261. Finally, President Moreno announced that real property owned by the public company “Inmobiliar” would be offered for sale and the proceeds invested in the “Casa para Todos” project (the “Housing For All Project”) to generate employment and grant access to housing to the poorest families in the country. The Housing for All Project includes the construction of 325,000 houses in the next four years out of which 191,000 will be granted to the public free of cost and 134,000 will be financed at a low cost. Construction of housing under the Housing For All Project is expected to generate more than 136,000 jobs.

Pursuant to Article 295 of the 2008 Constitution, during a presidential election year, the national budget is to be presented for National Assembly approval within the first 90 days of the term of the next president. Accordingly, the 2017 draft budget (“2017 Draft Budget”) was presented for National Assembly approval on August 7, 2017, within the first 90 days of the term of President Moreno, which began on May 24, 2017. The National Assembly had 30 days from August 7, 2017 to approve or make observations to the 2017 Draft Budget. The 2017 Draft Budget proposed a budget of U.S.\$36.8 billion, an increase of 2% from the U.S.\$36.0 billion codified budget for 2016. In 2016, the 2016 initial budget was of U.S.\$29.8 billion. The 2017 Draft Budget assumes an average crude oil price of U.S.\$41.69 per barrel and estimates the export of 136.6 million barrels of crude oil and the import of 45.2 million barrels of petroleum derivatives. The 2017 Draft Budget estimates the budget deficit to amount to U.S.\$4,700 million. The 2017 Draft Budget also estimates a GDP growth of 0.7%. The 2017 Draft Budget also sets the goal of a reduction of the budget deficit for the non-financial public sector from 7.6% of GDP in 2016 to less than 2% of GDP in 2021. The 2017 Draft Budget provides for projected revenues of about U.S.\$14,760 million in taxes, U.S.\$1,609 million in rates and contributions, U.S.\$3,322 million in transfers from public companies and the Central Bank and U.S.\$3,241 million in transfers and donations of capital and investments. The 2017 Draft Budget provides for projected expenses of about U.S.\$9,192 million in personnel, U.S.\$7,034 in the amortization of public debt, U.S.\$5,123 in consumer goods and services and U.S.\$4,060 million in transfers and donations of capital. The 2017 Draft Budget allocates about U.S.\$18,876 million to the national treasury sector, U.S.\$5,198 million to the education sector, U.S.\$2,779 million to the health sector, U.S.\$3,453 million to the security, risks and defense sector, U.S.\$1,157 million to the housing sector and U.S.\$1,048 billion to the social welfare sector. On August 31, 2017, the National Assembly approved the 2017 Draft Budget.

On July 2017, the *Contraloría General del Estado* (the “Office of the Comptroller General”), exercising its abilities granted by law to examine acts of public entities, announced that it will conduct an audit of all the internal and external debt of the Republic incurred between 2012 and 2017. While the Office of the Comptroller General had previously audited all such government acts involving debt until 2015 –without finding any illegalities, it is expected that the Ministry of Economy and Finance, the Central Bank and the *Secretaría de Planificación* (the “National Secretariat of Planning”) will be covered by this review.

On July 28, 2017, President Moreno set forth the following plans for immediate execution:

- promote legislation intended to foster and improve the construction sector by revising the *Ley Orgánica para Evitar la Especulación sobre el Valor de las Tierras y Fijación de Tributos* (the “Law to Eliminate Speculation and Tax Fixing”) in order to disincentive price speculation in real estate;
- incentivize investment and foreign exchange income through a bill that allows repatriation of capital belonging to those who hold capital abroad;
- encourage the use of electronic money in coordination with the national financial system;
- in line with austerity measures, optimize the use of national resources mainly in the hiring of personnel, consulting, publicity, vehicles and travel; and
- channel public investment towards efforts that are strictly necessary.

On October 2, 2017, President Moreno presented the following questions to the National Court of Justice for its pronouncement about the constitutionality of the subjects addressed in the questions with the intention of submitting the questions to a national referendum to be convened by the *Consejo Nacional Electoral* (the “National Electoral Council” or “CNE”):

- whether those convicted of corruption related offenses should lose their political rights and whether their property should be confiscated;
- whether an election should be held to replace the current members of the *Consejo de Participación Ciudadana y Control Social* (the “National Council for Citizen Participation and Social Control”);
- whether to reverse the recent constitutional amendment which allows indefinite reelection, instead limiting officials to a single reelection to the same office;
- whether to eliminate the Law to Eliminate Speculation and Tax Fixing;
- whether to reduce the area in the Yasuni National Park under oil exploitation and add 50,000 hectares to the protected area in this park;
- whether to prohibit metal mining in urban and protected areas; and
- whether the statute of limitations should be eliminated for sexual abuse crimes against children and adolescents.

The Presidency of the Republic provided additional background on the first question above and stated that the question contemplates whether public servants or public officials convicted of corruption should not only lose their political rights but also whether the companies linked to these cases should be banned from further contracting with the Republic if found responsible.

On October 11, 2017, President Moreno announced a number of economic measures intended to reactivate the economy, protect dollarization and finance social programs. The executive will send a bill to the National Assembly that will include:

- starting in 2018, an additional income tax applicable to natural persons earning at least \$3,000 per month;
- an increase of 3% of the corporate income tax, from 22% to 25%, which was the level of corporate income tax in 2010; however, this will not be applicable to small and medium enterprises, and other companies that perform activities that facilitate the access of foreign currency into Ecuador;

- the elimination of prepayment of income tax for companies with annual sales of less than \$300,000, and for companies with sales over \$300,000, a refund of such income tax prepayment, on a progressive basis, subject to maintaining or increasing employment levels;
- the elimination of income tax for small enterprises for the first \$11,000 of income;
- the elimination of income tax for small and medium enterprises during the first two years of operation;
- measures to incentivize the repatriation of capital, consisting in a 5-year tax holiday to those who repatriate capital within 12 months;
- a tax refund program for exporters;
- the elimination of land tax, and
- certain tariffs and rates to protect local producers and disincentive contraband.

The Ecuadorian Economy

According to the *Instituto Nacional de Estadística y Censos* (“National Institute of Statistics” or “INEC”), inflation decreased from 1.4% for the 12-month period ended August 31, 2016 to 0.3% for the 12-month period ended August 31, 2017 primarily due to a decrease in prices of furniture, home goods, items for the routine conservation of homes, clothing items, footwear and diverse goods and services, including items for personal care caused by the reduction in the value-added tax from 14% to 12% and a reduction in tariffs. According to the Central Bank, inflation decreased from 1.30% for the 12-month period ended September 30, 2016 to -0.03% for the 12-month period ended September 30, 2017. According to INEC, the rate of unemployment increased slightly from 4.4% as of March 31, 2017 to 4.5% as of June 30, 2017.

According to the Central Bank’s Monthly Bulletin for August 2017, oil field crude production, including that of private and state-owned companies, reached 113.4 million barrels in the first seven months of 2017, representing a 2.7% decrease from the 116.6 million barrels produced in the first seven months of 2016 (and a decrease of 2.3% in barrels per day (“bpd”)). In the first seven months of 2017, state-owned companies were responsible for 78.9% of production, compared to 78.6% of production in the first seven months of 2016.

According to the Central Bank’s Monthly Bulletin for August 2017, for the period of January through July 2017, overall exports increased to U.S.\$10,998 million, an increase of 17.4% compared to the U.S.\$9,368 million for the same period for 2016. This increase was primarily due to an increase in crude oil exports (29.5%), as well as an increase in shrimp exports (21.9%) and an increase in bananas and plantains exports (16.5%). In the first seven months of 2017, crude oil exports totaled U.S.\$3,466 million compared to U.S.\$2,676 million in the first seven months of 2016. In the first seven months of 2017, shrimp exports totaled U.S.\$1,764 million compared to U.S.\$1,447 million in the first seven months of 2016. In the first seven months of 2017, banana exports totaled U.S.\$1,891 million compared to U.S.\$1,622 million in the first seven months of 2016. In the first seven months of 2017, cacao exports totaled U.S.\$301 million, a 5.7% decrease from U.S.\$319 million in the first seven months of 2016. In the first seven months of 2017, flower exports totaled U.S.\$566 million, a 14.0% increase from U.S.\$497 million in the first seven months of 2016. In the first seven months of 2017, fishing exports other than shrimp, totaled U.S.\$137 million, a 14.2% decrease from U.S.\$160 million in the first seven months of 2016.

According to the Central Bank’s Monthly Bulletin for August 2017, for the period of January through July 2017, imports totaled U.S.\$10,885 million, as compared to the U.S.\$8,823 million for the first seven months of 2016, a 23.4% increase mainly as a result of an increase in imports of durable consumer goods, fuel

and combustibles, industrial primary materials, international postal traffic and courier, construction materials, capital goods for agriculture, industrial capital goods and transportation equipment.

According to the Central Bank's quarterly bulletin for the second quarter of 2017, real GDP for the first six months of 2017 was U.S.\$35,291 million, compared to U.S.\$34,335 million for the first six months of 2016, representing an increase of 2.8% in real terms. This increase is mainly due to a growth of 3.8% in end consumption expenditures as a result of an increase in production of private sector entities, mainly related to financial services, production of glass, ceramics and cement, manufacturing of machinery and equipment, manufacturing of metal products and manufacturing of transportation equipment. Likewise, the performance of the private productive sector is further fostered by an increase in consumption, showing a quarterly variation of a non-oil gross production increase of 2.8%. In the first six months of 2017, the nominal GDP reached U.S.\$50,772 million representing an increase from the U.S.\$48,912 million in the first six months of 2016. The Central Bank's quarterly bulletin for the second quarter of 2017 reflects changes in nominal GDP and real GDP figures for 2014, 2015 and 2016, respectively, displayed in Tables 1 – 5 of the Updated Economic Indicators section hereof. The Central Bank's monthly bulletin for August reflects changes in the real GDP per capita and the nominal GDP per capita for 2013, 2014, 2015 and 2016, respectively, displayed in Table 2 of the Updated Economic Indicators section hereof.

According to the Central Bank's quarterly bulletin for the second quarter of 2017, in the first six months of 2017, manufacturing was the largest sector of the economy measured by percentage of GDP (13.69%), followed by construction (11.07%), trade (9.92%), community services (8.77%) and agriculture (8.56%). In the first six months of 2016, manufacturing, construction, trade, community services and agriculture were also the largest sectors of the economy measured by percentage of GDP, respectively accounting for 13.90%, 12.27%, 9.73%, 8.74% and 8.42%. In the first six months of 2017, manufacturing reached U.S.\$6,952 million, an increase of 2.2% compared to U.S.\$6,801 million in the first six months of 2016. In the first six months of 2017, construction activity decreased by 8.3% in real terms compared with the first six months of 2016.

In the first six months of 2017, the mining sector represented 0.47% of GDP, compared to 0.44% of GDP for the first six months of 2016. For the first six months of 2017, the electric and water sectors contributed a total of U.S.\$918 million to GDP, an increase compared to U.S.\$748 million for the first six months of 2016. For the first six months of 2017, the telecommunications sector accounted for U.S.\$1,034 million of GDP, an increase of 6.2% compared to U.S.\$974 million for the first six months of 2016. In the first six months of 2017, the agricultural sector represented 8.56% of GDP, an increase compared to 8.42% of GDP for the first six months of 2016.

In its quarterly bulletin for the second quarter of 2017, the Central Bank published information regarding balance of payments for the second quarter of 2017 as well as updated annual figures for previous years which are set forth in Table 11 below. For purposes of comparison with the first and second quarters of 2017, Table 12 below sets forth quarterly information for the first and second quarters of 2016 and the first and second quarters of 2017. For the quarters ended in June 2016 and June 2017, there were balance of payments surpluses.

In 2014, Ecuador had a balance of payment deficit of U.S.\$424.5 million as a result of a decrease in the capital and financial account. The capital and financial account decreased from U.S.\$2,914.6 million in 2013 to U.S.\$323.5 million in 2014 as a result of a decrease in investment for that year. However, the current account improved from a deficit of U.S.\$923.4 million in 2013 to a deficit of U.S.\$523.4 million in 2014. This improvement was due to the improvement in the trade balance from a deficit of U.S.\$528.6 million in 2013 to a deficit of U.S.\$63.5 million in 2014, which was due to an increase in non-petroleum exports in 2014, particularly banana and shrimp exports. In 2015, Ecuador's balance of payment deficit grew to U.S.\$1,488.4 million as a result of a decrease in the current account. The current account decreased from a deficit of U.S.\$523.4 million in 2014 to a deficit of U.S.\$2,108.3 million in 2015. The expansion of the deficit in the current account was due to an increase in the deficit in the balance of trade from U.S.\$63.5 million in 2014 to a deficit of U.S.\$1,649.8 in 2015. The increase in the deficit was the result of a decline in the price of oil. In

2016, there was a balance of payment surplus of U.S.\$1206.7 million, an increase compared to the U.S.\$1,488.4 million deficit in 2015. The balance of payment surplus was due to an increase in the current account. For the second quarter of 2017, there was a balance of payment surplus of U.S.\$652.3 million, a decrease of U.S.\$202.3 million compared to the U.S.\$854.5 million balance of payment surplus for the second quarter of 2016. This decrease was due to a decrease of U.S.\$894.8 million in the current account surplus and to an increase of U.S.\$665.8 million in liabilities of the capital and financial account.

The current account increased from a deficit of U.S.\$2,108.3 million in 2015 to a surplus of U.S.\$1,437.6 million in 2016. The surplus in the current account was principally due to an improvement in the trade balance from a deficit of U.S.\$1,649.8 million to a surplus of U.S.\$1,567.3 million, which was due to a decrease in imports particularly with respect to fuel and lubricants as well as capital goods. In the second quarter of 2017, the current account registered a surplus of U.S.\$59.2 million, a decrease of U.S.\$895.0 million compared to the U.S.\$954.2 million surplus for the second quarter of 2016. The decrease in the surplus of the current account was mainly due to a decrease of U.S.\$647.3 million in the trade balance, an increase in the deficits of the services and the investment income accounts of U.S.\$17.1 million and U.S.\$81.5 million respectively and a decrease of U.S.\$148.9 million in net transfers.

In the second quarter of 2017, the capital and financial account registered a surplus of U.S.\$616.7 million compared to the deficit of U.S.\$49.1 million for the second quarter of 2016. This increase was due to an increase of U.S.\$2,279.8 million in liabilities of the investment portfolio and to the increase of assets and decrease in liabilities of U.S.\$1,903.3 million in the other investment account which is composed of assets and liabilities consisting of commercial credits, loans, deposits and currency in circulation and other liabilities such as non-monetary capital subscriptions to international organizations and diverse accounts payable and accounts receivable.

According to the quarterly bulletin showing balance of payments figures, for the second quarter of 2017, imports totaled U.S.\$4,626.7 million compared to U.S.\$3,613.8 million for the second quarter of 2016. This increase in the level of imports was due to an increase in imports of 34.1% in consumer goods, 36.3% in fuel and lubricants, 33.7% in raw materials and 14.1% in capital goods. The trade balance for the second quarter of 2017 resulted in a surplus of U.S.\$199.2 million, a decrease compared to the U.S.\$846.2 million surplus in the second quarter of 2016. An increase in imports consisting mainly of durable and non-durable consumer goods, fuel and lubricants, industrial raw materials, industrial capital goods and transportation equipment capital goods contributed to this decrease in the surplus. The services balance for the second quarter of 2017 resulted in a deficit of U.S.\$277.1 million, an increase compared to the U.S.\$259.9 million deficit in the second quarter of 2016 as a result of an increase in the deficit of rendered services received of U.S.\$55.2 million due to an increase in imported freights compared to a U.S.\$38.2 million increase in credits of rendered services. The investment income balance for the second quarter of 2017 resulted in a deficit of U.S.\$564.2 million, an increase compared to the U.S.\$464.7 million deficit in the second quarter of 2016. This increase in the deficit was due to the payment of interests from the investment portfolio and to public and private external debt which increased in U.S.\$88.6 million and U.S.\$9.4 million, respectively. For the second quarter of 2017, remittances totaled U.S.\$698.9 million, an increase compared to the U.S.\$669.5 million total for the second quarter of 2016. This increase in remittances is due to the seasonality and economic situation of the main countries where Ecuadorians living abroad reside, including the United States, Spain, and Italy, among others. For the second quarter of 2017, direct investment totaled U.S.\$175.1 million, an increase compared to the U.S.\$128.5 million total for the second quarter of 2016. This increase was principally due to an increase of U.S.\$13.8 million in shares and equity interests, an increase of U.S.\$2.1 million in reinvested earnings and to an increase of U.S.\$17.9 million consisting in net capital contributions of related companies. The investment portfolio for the second quarter of 2017 registered a surplus of U.S.\$2,372.3 million, an increase compared to the U.S.\$92.5 million surplus for the second quarter of 2016 mainly due to the Republic's issuance of U.S.\$1.0 billion notes due 2023 with a coupon of 8.750% and to the issuance of U.S.\$1.0 billion notes due 2027 with a coupon of 9.625% both issued on June 2, 2017.

Legal Proceedings

Burlington

On July 20, 2017, Ecuador and Burlington agreed before the High Court of Justice Queen's Bench Division, Commercial Court in the UK, that the enforcement of the Award be stayed until 45 days after the expiration of the provisional stay or expiration of the stay.

On August 31, 2017, the ICSID Annulment Committee lifted the provisional stay of the enforcement of the award and terminated the provisional stay. Given the decision of the ICSID Annulment Committee, Burlington has proceeded to activate its enforcement actions in the Southern District of New York, the U.S. District Court for the District of Columbia and the United Kingdom in accordance with the stipulations entered into between the parties. The parties may seek to extend the "no enforcement period" and are in discussions regarding the same.

On October 6, 2017, Professor Piero Bernardini, one of the Committee members, submitted his resignation. The proceeding is suspended until the vacancy is filled. Thereafter, a new procedural calendar will be presented to the parties.

Chevron

On July 18, 2017, the courts of The Hague denied Ecuador's request to set aside the September 17, 2013 partial award and the previous interim awards. Ecuador intends to submit another appeal on October 17, 2017.

International Reserves

As of September 30, 2017, Ecuador's International Reserves totaled U.S.\$2,362.4 million, a decrease from August 31, 2016, when International Reserves totaled U.S.\$4,472.9 million. This decrease was primarily due to payments made abroad by private sector entities, the net balance between deposits and withdrawals in the Central Bank's vaults and debt service payments.

Monetary System

As of September 30, 2017, total time and demand deposits increased to U.S.\$27,479 million, an increase of 6.92% compared to September 30, 2016. This increase was principally due to accounting for the deposits of the new bank "Banco Diners" which contributed to a 3.12% growth in time and demand deposits out of the 6.92% total growth mainly driven by time deposits; an increase in demand deposits of Banco Pichincha, which despite the decrease in time deposits, contributed to a 1.24% growth in time and demand deposits out of the 6.92% total growth; and to the increase of mainly demand deposits of Produbanco and Banco Bolivariano, time deposits of Banco del Austro, and both time and demand deposits of Banco Internacional.

Total assets of the banking system increased from U.S.\$33.5 billion as of September 30, 2016 to U.S.\$36.8 billion as of September 30, 2017, an increase of 9.7%. This increase was principally due to an increase in the net loan portfolio of U.S.\$4.20 billion.

As of September 30, 2017, the delinquency rate decreased to 3.4% compared to the 4.1% delinquency rate as of September 30, 2016. This decrease is principally due to a decrease of 3.16% in past-due loans, while the total gross loan portfolio increased by 23.81% as a result of an increase in the income of borrowers which decreased payment delays.

Public Sector Finances

In its monthly bulletin for August of 2017, the Central Bank published information regarding consolidated figures of non-financial public sector revenues and expenditures for the first quarter of 2017 and for April, May and June of 2017, respectively. In this bulletin, the Central Bank also published updated annual figures for December 2015 which are set forth in Table 14 below along with annual figures for December 2016 for purposes of comparison. Additionally, the Central Bank published information regarding figures for revenues and expenditures corresponding to the general state budget in this bulletin.

For the first six months of 2017, the non-financial public sector registered a deficit of U.S.\$717 million compared to a deficit of U.S.\$1,834 million for the first six months of 2016. This decrease in the deficit was due to a surplus in expenses in social security, a decrease in spending in public works and an increase in available funds for municipal and regional governments. For the first six months of 2017, total revenues for the non-financial public sector totaled U.S.\$16,566 million, an increase from U.S.\$14,437 million for the first six months of 2016. For the first six months of 2017, total expenditures for the non-financial public sector totaled U.S.\$17,283 million, an increase compared to U.S.\$16,271 million for the first six months of 2016.

For the first six months of 2017, total revenues of the general state budget were U.S.\$9,416 million, while total expenditures were U.S.\$11,304 million. This resulted in a deficit of U.S.\$1,888 million for the first six months of 2017, an increase compared to the U.S.\$1,288 million deficit for the first six months of 2016. This increase in the deficit is primarily due to the increased use of monetary resources to finance strategic investment projects and capital formation projects.

Public Debt

Public sector aggregate debt, including internal and external debt of the financial and non-financial public sector and the external Central Bank debt balance, was U.S.\$32,771.2 million as of December 31, 2015, compared to U.S.\$30,140.2 million as of December 31, 2014, U.S.\$22,846.7 million as of December 31, 2013, U.S.\$18,652.3 million as of December 31, 2012 and U.S.\$14,561.8 million as of December 31, 2011. Since October 2016, pursuant to Presidential Decree 1218 ("Decree 1218"), the consolidated methodology is the legal methodology in Ecuador to calculate public sector debt to GDP in Ecuador and is in accordance with the IMF methodology set out in the Manual of Public Finance Statistics of the IMF (the "IMF GFS"). Public sector consolidated debt, including internal and external debt of the financial and non-financial public sector and the external Central Bank debt balance, was U.S.\$29,569.1 million as of August 31, 2017, U.S.\$24,705.4 million as of August 31, 2016, U.S.\$26,811 million as of December 31, 2016, U.S.\$21,273 million as of December 31, 2015, compared to U.S.\$18,679 million as of December 31, 2014, U.S.\$13,957 million as of December 31, 2013, and U.S.\$11,526 million as of December 31, 2012. The increase in public sector debt from August 31, 2016 to August 31, 2017 was primarily due to disbursements of loans from the China Development Bank, the issuance of the 2022 Bonds, the 2023 Bonds, the 2026 Bonds and the 2027 Bonds and the Republic's guarantee of the issuance of the Petroamazonas 2019 Notes and the Petroamazonas 2020 Notes. The ratio of total aggregate public sector debt to GDP increased from 32.7% as of December 31, 2015 to 39.6% as of December 31, 2016. The ratio of total public sector consolidated debt to GDP increased from 21.2% as of December 31, 2015 to 27.9% as of December 31, 2016. The ratio of total public sector consolidated debt to GDP increased from 25.7% as of August 31, 2016 to 29.3% as of August 31, 2017 and, following the issuance of the Additional Notes, it is estimated that the total public debt to GDP will be approximately 29.3% under the consolidation methodology. As of August 31, 2017, interest payments on all debt obligations represent approximately 1.4% of GDP.

Total public external debt as of August 31, 2017 was U.S.\$28,659.4 million, an increase from U.S.\$23,624.1 million as of August 31, 2016 due primarily to disbursements of loans from the China Development Bank, the issuance of the 2022 Bonds, the 2026 Bonds, the 2023 Bonds, the 2027 Bonds and the Republic's guarantee of the issuance of the Petroamazonas 2019 Notes and the Petroamazonas 2020 Notes.

As of August 31, 2017, the top three bilateral lenders to Ecuador were China, Brazil, and Spain, with debt levels of U.S.\$ 6,716.3 million (88.7% of the total bilateral debt), U.S.\$ 190,7 million (2.5% of the total bilateral debt) and U.S.\$ 164,5 million (2.2% of the total bilateral debt), respectively.

On June 2, 2017, the Republic successfully issued two tranches of notes. Under the first tranche, the Republic issued the 2023 Bonds. Under the second tranche, the Republic issued the 2027 Bonds. The Republic is current on its financial obligations under the 2023 Bonds and under the 2027 Bonds and intends to make all payments as they become due and payable. The Republic used the proceeds of the 2023 Bonds and the 2027 Bonds to (1) finance Government Programs, (2) finance infrastructure projects that have the capacity to repay the related debt obligations and (3) refinance an existing external debt obligation on more favorable terms.

On August 11, 2017, Ecuador entered into a U.S.\$65 million credit facility agreement with the French Development Agency (“AFD”) with the principal amount due in semi-annual installments and with the last installment due on December 1, 2036. The proceeds will be used to finance the reconstruction of housing by *Corporación Financiera Nacional* (“CFN”) or *Corporación Nacional de Finanzas Populares y Solidarias* (“CONAFIPS”) adding earthquake resistant features and to reactivate the main productive sectors in the Ecuadorian provinces most affected by the 7.8 magnitude earthquake that struck Ecuador on April 16, 2016.

On October 2, 2017, the Latin American Reserve Fund (“FLAR”) approved a loan of U.S.\$637.8 million for Ecuador for a term of three years with a one year grace period for the payment of principal. It is expected that the proceeds of this loan will be used to improve Ecuador’s balance of payments.

GSI Loan Facility

On October 11, 2017 the Republic and Goldman Sachs International (“GSI”) entered into a U.S.\$500 million 35-month loan facility (the “GSI Loan Facility”) governed by Ecuadorian law.

On October 11, 2017, the Central Bank and GSI entered into a three-year gold derivative transaction in which the Central Bank transferred to GSI an initial 300,000 ounces of gold (valued at the date of the transaction at approximately U.S.\$387 million, “Gold”) (the “Gold Derivative Transaction”) and in return received a fixed rate from GSI on the value of the Gold transferred. The Gold Derivative Transaction is similar to the gold transaction that the Central Bank entered into on May 2014, which terminated at maturity in February 2017. In addition, on the same date as the Gold Derivative Transaction, the Central Bank entered into a three-year bond derivative transaction (the “Bond Derivative Transaction”) in which the Central Bank transferred to GSI U.S.\$606 million nominal amount of notes issued by the Republic (the “Additional Notes”) (with a market value at the date of the transaction of U.S.\$ 650 million) and in return received the interest amounts on the Additional Notes (with any interest generated for any delays in such transfer from GSI to the Central Bank) in addition to a fixed rate on the value of the Additional Notes transferred to GSI. The Additional Notes constitute “Further Notes” (as defined in each of the Offering Circulars) of the following existing series of notes currently being traded in the international markets: (a) the 2022 Notes, (b) the 2023 Notes, and (c) the 2026 Notes. The issue of the Additional Notes was authorized by the Republic’s Debt and Finance Committee under Acta Resolutiva No. 014 dated October 10, 2017. The Additional Notes will be issued on October 16, 2017 and exchanged with the Central Bank for a scheduled term of 3 years pursuant to an *Acuerdo de Permuta* (the “Swap Agreement”) between the Central Bank and the Ministry of Economy and Finance dated October 11, 2017 for U.S.\$650 million of notes issued by the Republic in the domestic market (“Locally Issued Notes”), owned by the Central Bank at the date of the transaction. The Additional Notes were issued on October 16, 2017 in consideration for the transfer to the Republic of the Locally Issued Notes subject to the terms of the Swap Agreement. The Additional Notes are fully fungible with the 2022 Notes, the 2023 Notes and the 2026 Notes respectively and constitute general, direct, unsecured, unsubordinated and unconditional obligations of the Republic backed by the full faith and credit of the Republic and have been legally and validly issued.

Under the terms of the Bond Derivative Transaction and the Gold Derivative Transaction, upon maturity, the Central Bank is entitled to receive the return of an equivalent amount of the Gold (under the Gold Derivative Transaction) and equivalent property (the “Equivalent Property”) to the Additional Notes (under the Bond Derivative Transaction) from GSI, without payment by the Central Bank, provided that certain credit events relating to the Republic do not occur. GSI will post investment-grade securities to a custodial account at The Bank of New York Mellon as collateral for the Central Bank’s exposure to GSI. Under the Bond Derivative Transaction, GSI can sell or otherwise transfer any interest in the Additional Notes at any time to any third party, although it will retain economic exposure to the Equivalent Property for so long as GSI has a future obligation, whether or not contingent, to deliver the Equivalent Property. Upon the occurrence of a credit event, GSI will retain the Gold and the Equivalent Property, although the Central Bank may repurchase the Gold if it pays GSI its dollar value at that point in time at market price. In the event the combined value of Gold and Equivalent Property declines and is worth less than approximately U.S.\$807 million, the Central Bank must deliver an additional amount of cash, gold or U.S. treasuries (the “Additional Assets”) in order to make up the difference (with the amount of additional Gold capped at 100,000 additional ounces). Accordingly, the Republic’s gold reserves, cash and investments in U.S. treasuries (if any) could decrease in the event that the combined value of the Gold, the Equivalent Property and the Additional Assets declines or if a credit event occurs. In addition, in certain limited circumstances the excess amount of the equivalent Additional Assets will be returned to the Central Bank if the combined value of the Gold, Equivalent Property and Additional Assets increases above a certain threshold.

Under the Swap Agreement, the Central Bank is required to transfer to the Ministry of Economy and Finance the full interest amounts (together with any interest generated for any delays in such transfer by GSI to the Central Bank) that it receives under the Bond Derivative Transaction (excluding the additional fixed rate the BCE receives from GSI on the value of the Additional Notes transferred to GSI) and is required to transfer to the Ministry of Economy and Finance Equivalent Property upon the maturity of the Swap Agreement in exchange for the return of the Locally Issued Notes. If a credit event occurs under the Bond Derivative transaction, the rights of the Central Bank under the Bond Derivative Transaction, and of the Ministry of Economy and Finance under the Swap Agreement, to receive amounts paid under the Additional Notes will terminate, but the Ministry of Economy and Finance will continue to be required to make all payments of principal and interest in respect of the Additional Notes to the applicable holders of the Additional Notes, and will have certain remedies against the Central Bank.

Article 124 of the *Código Orgánico de Planificación y Finanzas Públicas* (the “Public Planning and Finance Code”) establishes a total public debt to GDP ceiling of 40%. According to the Ministry of Economy and Finance, as of the close of August 2017, it is estimated that the Republic’s total public debt to GDP will be approximately 29.8% (after taking into account the effect of the GSI Loan Facility).

Article 133 of the Rules to the Public Planning and Finance Code sets forth that is incumbent on the Ministry of Economy and Finance to prepare the statements of public debt and to issue technical regulations to calculate the public debt to GDP ratio. On October 25, 2016, pursuant to Article 147, Clause 13 of the 2008 Constitution, the Government of the Republic of Ecuador issued implementing regulations through the enactment of Decree 1218, which is currently in effect. Decree 1218, establishes that the Ministry of Economy and Finance shall use the consolidation methodology set out in the IMF GFS for the preparation of statements of public debt in order to calculate the total public debt to GDP. See “Public Debt-Decree 1218” in the Offering Circular attached as Appendix B. On August 31, 2017 the Legislative Assembly of Ecuador approved the 2017 Draft Budget prepared by the Ministry of Economy and Finance in which the consolidation methodology, mandated by Decree 1218, has been used to calculate the total public debt to GDP ratio.

Accordingly, the Ministry of Economy and Finance has not considered the aggregate amount of the Additional Notes in the calculation of total public debt to GDP ceiling as described above, as it has been accounted as a “contingency” (*pasivo contingente*) as stated in the Public Planning and Finance Code. According to Section 3.95 of the IMF GFS contingencies are “conditions or situations that may affect the financial performance or position of the general government sector depending on the occurrence or nonoccurrence of one or more future events” and under Section 3.96 of the IMF GFS, the IMF GFS does “not

treat any contingencies as financial assets or liabilities because they are not unconditional claims or obligations”. Under Section 7.142 of the IMF GFS, debt “consists of all liabilities that require payment or payments of interest and/or principal by the debtor to the creditor at a date or dates in the future.” It is the view of both the Ministry of Economy and Finance and the Debt and Finance Committee of the Republic that the Additional Notes should be treated as contingencies under the IMF GFS and in the Public Planning and Finance Code because they form part of a series of transactions which contemplate that any interest amounts on the Additional Notes will be returned to the Central Bank as provided in the Bond Derivative Transaction and through the Swap Agreement to the Republic, GSI has agreed to retain economic exposure to the Equivalent Property and, unless a credit event occurs, GSI is required to return Equivalent Property to the Central Bank upon maturity (and the Central Bank to the Ministry of Economy and Finance under the Swap Agreement). According to the Ministry of Economy and Finance, the Additional Notes (as part of the Bond Derivative Transaction) are contingencies and not “debt” to be accounted in the consolidated statement of public debt which would count towards the calculation of the total public debt to GDP ceiling. For similar reasons, the Ministry of Economy and Finance will also exclude the Additional Notes from certain other unconsolidated measures which reflect the amount of its indebtedness owed to the Central Bank and other governmental agencies.

There is currently no precedent in Ecuador for similar transactions being treated as a contingency, such as the Additional Notes in the context of the Bond Derivative Transaction, as the IMF GFS guidelines were recently implemented and adopted through Decree 1218. The treatment of the Additional Notes as a contingency may be subject to a subsequent Presidential decree implementing other methodologies or different interpretation of the IMF GFS guidelines. If the Additional Notes were not to be treated as contingencies but instead included in the calculation of the public debt to GDP ratio, as of the close of August 2017, the public debt to GDP ratio would increase by approximately 0.6% to 30.4% following the consolidation methodology, which, as of the date of this Supplement, is below the total public debt to GDP ceiling of 40% established by Ecuadorian law; however, if the 40% ceiling is surpassed in the future, it could potentially affect the ability of the Republic to incur further debt obligations. As of the date of this Supplement, the Additional Notes have not exceeded the total public debt to GDP ceiling and, as such, are considered validly issued. For a description of the risks of any action by the Government in relation to the 40% public debt to GDP limit, see “*Risk Factors—Risk Factors relating to Ecuador—The Republic may incur additional debt beyond what investors may have anticipated as a result of a change in methodology in calculating the public debt to GDP ratio for the purpose of complying with a 40% limit under Ecuadorian law, which could materially adversely affect the interests of Noteholders*” in the Offering Circular attached as Appendix B.

Updated Economic Indicators¹

Table 1: Real and Nominal GDP ⁽¹⁾

(in millions of U.S. dollars, except for percentages)

	For the Year Ended December 31,			For the Six months ended June 30,	For the Six Months ended June 30,
	2014	2015	2016	2016	2017
Nominal GDP	101,726	99,290	98,614	48,912	50,772
Real GDP ⁽²⁾	70,105	70,175	69,068	34,335	35,291
Real GDP growth ⁽³⁾	3.8%	0.1%	-1.6%	-2.9%	2.8%

(1) Figures in this table are updated from those in the Offering Circular for the 2023 Notes in accordance with the Central Bank’s Quarterly Bulletin on National Accounts for the Second Quarter of 2017.

(2) Real GDP measures the Gross Domestic Product of Ecuador minus the effect of inflation. The Central Bank of Ecuador uses 2007 as its base year for all real number calculations.

(3) Real GDP Growth measured as compared to Real GDP figure from the corresponding period of the previous year.

¹ The economic indicators in this Supplement only reflect data that has been released since the date of the Offering Circular for the 2023 Notes. The Supplement does not reproduce all of the tables and data presented in the Offering Circular for the 2023 Notes. Please see the relevant sections in the Offering Circular for the 2023 Notes for more detailed data.

Table 2: Per Capita GDP

	For the Year Ended December 31,			
	2013	2014	2015	2016
Per capita Nominal GDP (current U.S.\$).....	6,031	6,347	6,099	5,966
Per capita Real GDP.....	4,282	4,374	4,311	4,179
Population (in thousands) ⁽¹⁾	15,775	16,027	16,279	16,529

Source: Based on figures from Table 4.3.5 of the Central Bank's Monthly Bulletin for August 2017.

(1) Population figures correspond to projected population annual figures from 2010 census.

Table 3: Real GDP by Expenditure

(in millions of dollars)

	For the Year Ended December 31,			For the Six Months Ended June 30,	
	2014	2015	2016	2016	2017
Consumption					
Public Sector Consumption.....	10,252.3	10,471.8	10,293.4	5,132.6	5,214.3
Private Consumption.....	43,088.8	43,049.2	41,485.0	20,559.2	21,349.9
Total Consumption.....	53,341.2	53,521.0	51,778.4	25,691.8	26,564.2
Gross Investment					
Gross Fixed Capital Formation.....	18,626.3	17,465.3	16,049.4	8,071.7	7,848.5
Change in Inventory.....	471.2	-123.1	-508.5	-461.9	472.9
Exports of goods and services ⁽¹⁾	19,342.0	19,218.8	19,610.2	9,736.4	9,923.1
Imports of goods and services ⁽¹⁾	21,675.4	19,907.4	17,861.0	8,702.9	9,518.0
Real GDP.....	70,105.4	70,174.7	69,068.5	34,335.2	35,290.8

Source: Based on figures from the Central Bank Quarterly National Accounts for the Second Quarter of 2017.

(1) The exports and imports figures in this chart are adjusted for inflation and reflect the contribution of exports and imports to GDP. They differ from the nominal exports and imports in the "Balance of Payments" table and stand-alone exports and imports tables in the "Exports-(FOB)" and "Imports-(CIF)" tables in this Offering Circular Supplement.

Table 4: Real GDP and Expenditure Growth

(Percentage change from previous comparable period based on 2007 prices)

	For the Year Ended December 31,			For the Six Months Ended June 30,	
	2014	2015	2016	2016	2017
Real GDP Growth.....	3.8	0.1	-1.6	-2.9	2.8
Import of goods & services ⁽¹⁾	4.8	-8.2	-10.3	-17.6	9.4
Total Supply of Goods & Services	4.0	-1.9	-3.5	-6.3	4.1
Public Sector Consumption.....	6.7	2.1	-1.7	-2.8	1.6
Private Consumption.....	2.7	-0.1	-3.6	-5.6	3.9
Gross Fixed Capital Formation.....	2.3	-6.2	-8.1	-10.7	-2.8
Exports of goods and services ⁽¹⁾	6.2	-0.6	2.0	0.1	1.9
Total Final Demand	4.0	-1.9	-3.5	-6.3	4.1

Source: Based on figures from the Central Bank Quarterly National Accounts for the Second Quarter of 2017.

(1) Corresponds to figures from "Real GDP by Expenditure" table.

Table 5: Nominal GDP by Economic Sector (1)

(in millions of U.S. dollars, except for percentages)

	For the Year Ended December 31,						For the Six Months Ended June 30,			
	2014	% of GDP	2015	% of GDP	2016	% of GDP	2016	% of GDP	2017	% of GDP
Manufacturing ⁽²⁾	13,717	13.48	13,513	13.61	13,622	13.81	6,801	13.90	6,952	13.69
Construction	10,891	10.71	11,125	11.20	11,871	12.04	6,002	12.27	5,620	11.07
Petroleum	10,913	10.73	4,344	4.38	3,375	3.42	1,512	3.09	1,967	3.87
Trade (commerce)	10,545	10.37	10,218	10.29	9,637	9.77	4,761	9.73	5,036	9.92
Agriculture	8,122	7.98	8,406	8.47	8,344	8.46	4,120	8.42	4,347	8.56
Community services	7,833	7.70	8,499	8.55	8,692	8.81	4,277	8.74	4,454	8.77
Government services ⁽³⁾	6,682	6.57	6,660	6.71	6,849	6.95	3,451	7.06	3,415	6.73
Administrative activity ⁽⁴⁾	7,016	6.90	6,887	6.94	6,388	6.48	3,190	6.52	3,154	6.21
Transportation	4,338	4.26	4,773	4.81	5,139	5.21	2,529	5.17	2,687	5.29
Finance and insurance	3,166	3.11	3,165	3.19	3,094	3.14	1,517	3.10	1,720	3.39
Telecommunications	2,127	2.09	1,984	2.00	1,972	2.00	974	1.99	1,034	2.04
Electricity and water	1,253	1.23	1,509	1.52	1,594	1.62	748	1.53	918	1.81
Shrimp	563	0.55	445	0.45	499	0.51	240	0.49	257	0.51
Mining	354	0.35	346	0.35	449	0.46	214	0.44	238	0.47
Others ⁽⁵⁾	14,208	13.97	17,427	17.55	17,088	17.33	8,576	17.53	8,972	17.67
Total GDP	101,726	100	99,290	100	98,614	100	48,912	100	50,772	100

Source: Based on information from the Central Bank.

(1) Table measures gross value added by economic sector and corresponding percentage of Nominal GDP.

(2) Includes manufacturing other than petroleum refining.

(3) Includes public defense and social security administration.

(4) Includes professional and technical administration.

(5) Includes fishing, petroleum refining, hospitality and food services, domestic services, other services and other elements of GDP.

Table 6: Annual Inflation

	As of September 30,	
	2016	2017
Annual inflation	1.30%	-0.03%

Table 7: International Reserves

(in millions of U.S. dollars)

	As of September 30,	
	2016	2017
International reserves ⁽¹⁾	4,472.9	2,362.4

(1) Data corresponds to freely disposable international reserves. Before dollarization, Ecuador kept international monetary reserves with the aim of supporting the exchange rate of the sucre. Currently, Ecuador keeps freely disposable international reserves ("International Reserves"), whose variations are explained by the change in the deposits from Ecuador's financial institutions and non-financial public sector institutions held in the Central Bank.

Table 8: Unemployment Rate

	<u>As of June 30,</u>
	<u>2017</u>
The Economy	
Unemployment Rate ⁽⁴⁾	4.5%

Table 9: Labor Force and Employment*(in thousands of persons, except percentages)*

	<u>June 2017</u>
Total Population ⁽¹⁾	16,746
Labor Force ⁽²⁾	11,856
Labor Force Participation ⁽³⁾	8,148
Labor Force Participation Rate	68.7%
Employed Labor Force	7,782
Unemployed Labor Force	366
Unemployment Rate ⁽⁴⁾	4.5%

*Source: Based on figures from INEC as of June 2017.**(1) Total population numbers based on yearly projections from 2010 census.**(2) Refers to population above minimum working age (15 years old), irrespective of employment status.**(3) Also referred to as economically active population.**(4) As a percentage of economically active population.***Table 10: Wage and Unemployment**

	<u>June 30,</u>
	<u>2017</u>
Unemployment rate (% of economically active population) ⁽¹⁾	4.5
Underemployment rate (% of economically active population) ⁽²⁾	54.93

*Source: Based on figures from INEC as of June 2017.**(1) Refers to population at or above the minimum working age that is not employed and is willing to work (even if not actively seeking work) as a percentage of the total labor force.**(2) Refers to individuals who are unable to obtain full-time work to receive a salary meeting the official minimum wage.*

Table 11: Annual Balance of Payments⁽¹⁾

(in millions of U.S.\$)

	2012	2013	2014	2015	2016
Current Account	-165.3	-923.4	-523.4	-2,108.3	1,437.6
Trade balance	49.9	-528.6	-63.5	-1,649.8	1,567.3
Exports (FOB) ⁽²⁾	24,568.9	25,586.8	26,596.5	19,048.7	17,425.4
Petroleum and derivatives	13,792.0	14,107.2	13,275.5	6,660.1	5,459.2
Non-petroleum	9,972.8	10,643.7	12,448.9	11,670.6	11,338.5
Non-registered commerce and other exports	804.1	835.9	872.0	718.1	627.7
Imports (FOB)	-24,519.0	-26,115.3	-26,660.0	-20,698.5	-15,858.1
Services	-1,394.3	-1,419.6	-1,170.7	-805.2	-1,054.5
Rendered services (credit)	1,804.0	2,041.4	2,346.3	2,391.3	2,139.9
Transportation	408.7	435.8	437.0	444.3	409.8
Travel	1,032.5	1,246.2	1,482.1	1,551.4	1,443.6
Other	362.8	359.4	427.1	395.7	286.4
Rendered services (debit)	-3,198.4	-3,460.9	-3,517.0	-3,196.6	-3,194.3
Transportation	-1,708.4	-1,708.9	-1,743.9	-1,510.1	-1,238.2
Travel	-610.6	-622.5	-634.6	-638.6	-661.1
Other	-879.4	-1,129.5	-1,138.5	-1,047.8	-1,295.0
Investment income	-1,301.1	-1,374.1	-1,553.3	-1,731.1	-1,855.5
Inflows (credit)	104.9	112.6	120.7	140.3	161.4
Outflows (debit)	-1,406.0	-1,486.7	-1,674.0	-1,871.4	-2,016.9
Employees' remuneration	-8.4	-9.8	-11.4	-13.5	-14.4
Direct investment income	-674.4	-680.5	-663.2	-598.0	-433.1
Portfolio investment income	-64.0	-63.7	-143.2	-230.9	-300.7
Other	-659.2	-732.7	-856.1	-1,029.0	-1,268.7
Net transfers	2,480.2	2,398.8	2,264.1	2,077.8	2,780.3
Emigrant remittances	2,466.9	2,449.5	2,461.7	2,377.8	2,602.0
Capital and financial account	-514.0	2,914.6	323.5	584.7	-130.1
Capital account	121.5	66.1	66.8	-69.1	-813.8
Financial account	-635.5	2,848.5	256.8	653.8	683.8
Direct Investment	567.5	727.0	772.3	1,322.0	754.6
Portfolio Investment	66.7	-909.8	1,500.4	1,473.4	2,200.9
Other Investment	-1,269.7	3,031.3	-2,015.9	-2,141.6	-2,271.8
Errors and omissions	97.4	-145.3	-224.6	35.2	-100.8
Total balance of payments	-581.9	1,845.9	-424.5	-1,488.4	1,206.7
Financing	581.9	-1,845.9	424.5	1,488.4	-1,206.7
International Reserves ⁽³⁾	475.1	-1,878.0	411.5	1,453.1	-1,762.9
IMF loans	-	-	-	-	365.2
Exceptional Financing, net ⁽⁴⁾	106.8	32.1	13.0	35.3	191.0

Source: Based on figures from the Central Bank 2017 Quarterly Balance of Payments Bulletin for the Second Quarter of 2017. Balance of payments data is published by the Central Bank on an annual and quarterly basis.

- (1) Balance of payments data is published by the Central Bank on an annual and quarterly basis, not by semester.
- (2) Figures differ from "Exports-(FOB)" charts and "Real GDP by Expenditure" chart due to the inclusion of non-registered commerce and "other exports." "Non-registered commerce" includes goods, which for some reason are not registered by customs. Ecuadorian customs may not register commerce under various situations including, but not limited to, delays in the submission of export forms, false declarations, different statistical treatment in the country with which Ecuador has engaged in trade, sales of contraband, and arms trade. "Other exports" includes exports of goods for processing, repair of goods, goods acquired in ports through various transportation means and non-monetary gold.
- (3) Data corresponds to changes in International Reserves. Negative numbers indicate an increase in International Reserves and positive numbers indicate a reduction.
- (4) Data refers to the refinancing of existing debt, financing necessary for repayment of arrears, and loans procured for the purpose of financing the balance of payments.

Table 12: Quarterly Balance of Payments⁽¹⁾

(in millions of U.S.\$)

	For the Quarter Ended,			
	March 2016	June 2016	March 2017	June 2017
Current Account	-54.8	954.2	307.5	59.2
Trade balance	20.3	846.2	533.5	199.2
Exports (FOB) ⁽²⁾	3,786.4	4,460.3	4,855.4	4,825.9
Imports (FOB)	-3766.0	-3,613.8	-4,321.9	-4,626.7
Services	-196.8	-259.9	-243.6	-277.1
Rendered services (credit)	565.4	492.4	556.6	530.5
Transportation	91.5	102.2	94.5	102.5
Travel	391.8	315.3	397.8	372.4
Other	82.0	74.8	64.3	55.5
Rendered services (debit)	-762.2	-752.2	-800.2	-807.6
Transportation	-297.7	-283.7	-340.3	-357.3
Travel	-162.1	-158.1	-164.5	-170.9
Other	-302.3	-310.4	-295.4	-279.4
Investment income	-471.2	-464.7	-600.6	-546.2
Inflows (credit)	38.9	37.0	45.3	43.7
Outflows (debit)	-510.1	-501.7	-645.9	-590.0
Employees' remuneration	-3.9	-3.9	-3.6	-3.3
Other outflows investment income ⁽³⁾	-506.2	-497.8	-642.2	-586.7
Net transfers	592.9	832.3	618.2	683.4
Emigrant remittances	594.7	669.5	625.7	698.9
Other transfers	110.9	288.8	116.2	119.6
Outgoing transfers	-112.8	-126.0	-123.7	-135.1
Capital and financial account	-144.7	-49.1	-763.4	616.7
Capital account	-535.5	-314.3	15.2	16.7
Financial account	390.8	265.2	-778.5	600.0
Direct Investment	198.6	128.5	184.9	175.1
Portfolio Investment	-328.1	92.5	1,033.2	2,372.3
Other Investment	520.3	44.1	-1,996.6	-1,947.4
Errors and omissions	108.7	-50.6	-5.1	-23.7
Total balance of payments	-90.7	854.5	-460.9	652.3
Financing	90.7	-854.5	460.9	-652.3
International Reserves ⁽⁴⁾	-77.1	-860.7	449.2	-657.5
IMF loans	-	-	-	-
Exceptional Financing, net ⁽⁵⁾	167.9	6.2	11.6	5.3

Source: Based on figures from the Central Bank 2017 Quarterly Balance of Payments Bulletin for the Second Quarter of 2017. Balance of payments data is published by the Central Bank on an annual and quarterly basis.

(1) Balance of payments data is published by the Central Bank on an annual and quarterly basis, not by semester.

(2) Figures include "non-registered commerce" and "other exports" and therefore differ from figures included in "Exports-(FOB)" and "Real GDP by Expenditure" tables. "Non-registered commerce" includes goods not registered by customs for reasons such as delays in the submission of import or export forms, falsely declared goods for import or export, different statistical treatment of goods in the origin or destination country, undeclared imports or exports (i.e., contraband), and arms trade. "Other exports" includes exports of goods for processing, repair of goods, goods acquired abroad by transportation companies and non-monetary gold.

(3) Includes direct investment income, portfolio investment income and other investment income.

(4) Data reflects changes in International Reserves, where negative numbers indicate an increase in International Reserves and positive numbers indicate a decrease.

(5) Data refers to the refinancing of existing debt, financing necessary for repayment of arrears, and loans procured for the purpose of financing the balance of payments.

Table 13: Overall Balance of Trade ⁽¹⁾

(in millions of U.S.\$)

	Exports	Imports	Balance
First Quarter of 2016	3,786.4	-3,766.0	20.3
Second Quarter of 2016	4,460.3	-3,613.8	846.5
First Quarter of 2017	4,855.4	-4,321.9	533.5
Second Quarter of 2017	4,825.9	-4,626.7	199.2

Source: Based on Figures from the Central Bank Balance of Payments Quarterly Bulletin for the Second Quarter of 2017.

(1) Data for exports and imports reflect figures from "Balance of Payments" chart.

Table 14: Consolidated Non-financial Public Sector Revenues and Expenditures

(in millions of U.S.\$ and as a % of GDP)

	For the year ended December 31,				January 1- June 30 ⁽¹⁾	
	2015	% of GDP	2016	% GDP	2016	2017
Revenue						
Petroleum Revenue						
Exports ⁽²⁾	6,346	6.4	5,402	5.5	2,529	2,548
Domestic Sales	-	-	-	-	-	-
Total Petroleum Revenue (a)	6,346	6.4	5,402	5.5	2,529	2,548
Non-petroleum revenue						
Income Tax	4,734	4.8	3,640	3.7	2,057	2,147
Value-added Tax	6,352	6.4	5,400	5.5	2,666	2,970
Specific consumption taxes	840	0.8	790	0.8	356	445
International trade taxes	2,026	2.0	1,633	1.7	746	732
Social Security Contributions	5,052	5.1	4,741	4.8	2,305	2,740
Other ⁽³⁾	6,933	7.0	8,091	8.3	3,516	4,037
Total non-petroleum revenue (b)	25,937	26.1	24,294	24.8	11,649	13,071
Operating Income of Public Companies (c)	1,298	1.3	618	0.6	261	947
Total Revenue (a+b+c)	33,581	33.8	30,314	40.0	14,437	16,566
Expenses						
Current Expenditures						
Interest	1,368	1.4	1,561	1.6	732	996
Foreign	1,143	1.2	1,335	1.4	624	906
Domestic	225	0.2	226	0.2	109	90
Wages and salaries	9,904	10.0	10,014	10.2	4,704	4,858
Purchases of goods and services	5,111	5.1	4,684	4.8	2,104	1,932
Social Security	4,216	4.3	4,655	4.8	2,121	2,354
Others	6,884	6.9	5,691	5.8	2,858	2,733
Total Current Expenditure	27,483	27.7	26,604	27.2	12,520	12,872
Capital Expenditure and net lending						
Gross capital formation	10,344	10.4	10,293	10.5	3,409	3,876
General State Budget	5,542	5.6	6,105	6.2	1,374	2,264
Public Companies	3,286	3.3	2,533	2.6	1,368	848
Rest of General Government	1,516	1.5	1,655	1.7	667	764
Other Capital Expenditure	850	0.9	731	0.7	342	535
Total Capital Expenditure	11,194	11.3	11,024	11.3	3,751	4,411
Total Expenditure	38,677	39.0	37,628	38.5	16,271	17,283
Surplus/Deficit	-5,096	-5.1	-7,314	-7.5	-1,834	-717

Source: Based on figures from the Central Bank August 2017 Monthly Bulletin (Table 2.1 and Table 2.2).

- (1) Figures for the period from January 1, 2017 through June 30, 2017, were calculated based on figures published for the first trimester of 2017 and aggregations of figures corresponding to April 2017, May 2017 and June 2017, respectively.
- (2) This figure is different than the crude oil exports figure in the Exports FOB table in that it includes derivate revenues, as opposed to only crude oil, and measures revenues from petroleum exports for the non-financial public sector, only.
- (3) Includes other taxes and revenue.

Table 15: General State Budget Revenues and Expenditures

(in millions of U.S.\$)

	January 1 – June 30 ⁽¹⁾	
	2016	2017
Revenue⁽²⁾		
Petroleum revenue	836	880
Non-petroleum revenue	7,939	8,536
Tax revenue		
Taxes on goods and services		
Value-added tax	2,666	2,970
Selected excise taxes	356	445
Total taxes on goods and services	3,022	3,415
Taxes on income and profits	2,057	2,148
Taxes on International Trade		
Import duties	746	732
Exit tax ⁽³⁾	406	438
Total taxes on international trade	1,152	1,170
Vehicle tax	106	104
Other taxes	423	611
Total tax revenue	6,760	7,447
Non-tax revenue	970	959
Transfers	209	131
Total revenues	8,775	9416
Current expenditure		
Interest accrual		
Foreign	535	791
Domestic	392	416
Total interest accrual		
Wages and salaries	4,157	4,268
Purchase of goods and services	836	964
Other current expenditures	380	320
Transfers	470	629
Total current expenditure	6,770	7,388
Capital expenditure		
Fixed capital expenditure	1,374	2,264
Other	218	-
Capital Transfers	1,702	1,653
Total capital expenditure	3,293	3,916
Total Expenditure⁽³⁾	10,063	11,304
Adjustment on treasury accounts	-	-
Overall surplus or deficit	-1,288	-1,888

Source: Based on figures from the Central Bank August 2017 Monthly Bulletin (Table 2.2.1)

(1) Figures for the period from January 1, 2017 through June 30, 2017, were calculated based on figures published for the first trimester of 2017 and aggregations of figures corresponding to April 2017, May 2017 and June 2017, respectively.

(2) Revenues are cash, expenditures are accrued.

(3) Includes all interest payments under foreign debt obligations.

Table 16: Exports - (FOB)

(in millions of U.S.\$ and as a % of total exports)

	January 1 – July 31,			
	2016		2017	
	U.S.\$	%	U.S.\$	%
Crude oil	2,676	28.6	3,466	31.5
Bananas and plantains	1,622	17.3	1,891	17.2
Petroleum derivatives	227	2.4	352	3.2
Shrimp	1,447	15.4	1,764	16.0
Cacao	319	3.4	301	2.7
Coffee	7	0.1	9	0.1
Tuna and other fish	160	1.7	137	1.2
Flowers	497	5.30	566	5.1
Metal Manufacturing ⁽¹⁾	231	2.5	238	2.2
Other products ⁽²⁾	2,182	23.3	2,275	20.7
Total⁽³⁾	9,368	100	10,998	100

Source: Based on figures from the Central Bank August 2017 Monthly Bulletin (Table 3.1.1).

(1) Includes vehicles and their components.

(2) "Other products" consist of non-traditional primary and manufactured products, including abaca, wood, other primary products, processed coffee, processed cacao products, fish flour, other canned seafood, chemicals and pharmaceutical products, hats and textile manufactured products.

(3) Figures do not include "non-registered commerce" and "other exports" and therefore differ from export figures in "Balance of Payments" and "Real GDP by Expenditure" tables. See footnote 1 of "Balance of Payment" chart.

Table 17: Imports – (CIF)

(in millions of U.S.\$ and as a % of total imports)

	January – July 31,			
	2016		2017	
	U.S.\$	%	U.S.\$	%
Consumer goods				
Non-durable goods	1,156	13.1	1,325	12.2
Durable goods	670	7.6	951	8.7
Postal traffic	72	0.8	92	0.8
Fuel and combustibles	1,381	15.7	1,822	16.7
Primary Materials				
Agriculture	601	6.8	672	6.2
Industrial	2,401	27.2	3,139	28.8
Construction materials	218	2.5	271	2.5
Capital Goods				
Agriculture	65	0.7	77	0.7
Industrial	1,690	19.2	1,845	16.9
Transportation Equipment	532	6.0	661	6.1
Other	37	0.4	31	0.3
Total	8,823	100	10,885	100

Source: Based on figures from the Central Bank August 2017 Monthly Bulletin (Table 3.1.7).

(1) Total export figures differ with export figures from "Balance of Payments" chart and "Real GDP by Expenditure" chart due to the exclusion of "non-registered commerce" and "other exports" figures in calculation of total exports in this chart. See footnote 1 of "Balance of Payment" chart.

(2) "Other products" consist of non-traditional primary and manufactured products, including canned seafood, vehicles and chemicals.

Table 18: Exports - (FOB) by Destination Country⁽¹⁾

(in millions of U.S.\$, and as a % of total exports)

	January - July			
	2016		2017	
	U.S. \$	%	U.S.\$	%
Americas				
United States	3,081	32.9	3,651	33.2
Peru	459	4.9	680	6.2
Colombia	445	4.7	434	4.0
Chile	602	6.4	752	6.8
Other (Americas) ⁽²⁾	989	10.6	951	8.7
Total Americas	5,576	59.5	6,468	58.8
Europe				
European Union (EU)	1,652	17.6	1,889	17.2
Italy	253	2.7	359	3.3
United Kingdom	85	0.9	116	1.1
Germany	329	3.5	292	2.7
Spain	316	3.4	354	3.2
Other (EU) ⁽³⁾	669	7.1	769	7.0
Rest of Europe ⁽⁴⁾	520	5.6	582	5.3
Total Europe	2,172	23.2	2,471	22.5
Asia				
Taiwan	4	0.0	8	0.1
Japan	162	1.7	199	1.8
China	355	3.8	425	3.9
South Korea	45	0.5	67	0.6
Other countries ⁽⁵⁾	962	10.3	1,303	11.9
Total Asia	1,528	16.3	2,002	18.2
Africa	44	0.5	22	0.2
Oceania	31	0.3	33	0.3
Other countries	18	0.2	2	0.0
Total	9,368	100	10,998	100

Source: Central Bank August 2017 Monthly Bulletin (Table 3.1.5).

- (1) Total export figures differ with export figures from "Balance of Payments" chart and "Real GDP by Expenditure" chart due to the exclusion of "non-registered commerce" and "other exports" figures in calculation of total exports in this chart. See footnote 1 of "Balance of Payment" chart.
- (2) Includes Canada, the Central American Common Market, Argentina, Brazil, Mexico, Panama, Venezuela, Bolivia and other countries in the Americas.
- (3) Includes Belgium, Luxembourg, France, Holland and other countries in the EU.
- (4) Includes the European Free Trade Association and other countries in Europe.
- (5) Includes Hong Kong and other countries of Asia.

Table 19: Imports (CIF) by Country of Origin

(in millions of U.S.\$)

	January - July	
	2016	2017
Americas⁽¹⁾		
Mexico	270	362
United States	2,360	2,606
Central America	56	63
South America and the Caribbean		
Argentina	94	195
Brazil	363	461
Bolivia	91	95
Colombia	714	939
Chile	246	296
Panama	422	628
Peru	386	432
Rest of Americas and Caribbean	193	264
TOTAL AMERICA	5,195	6,342
Europe		
Germany	226	275
Italy	152	138
Spain	188	323
UK	28	42
Rest of EU ⁽²⁾	403	627
Rest of Europe ⁽³⁾	197	156
TOTAL EUROPE	1,195	1,561
Asia		
China	1,348	1,616
Japan	159	226
Taiwan	70	74
South Korea	294	341
Rest of Asia ⁽⁴⁾	429	568
TOTAL ASIA	2,301	2,825
Postal Traffic and regions excluding the Americas, Europe and Asia⁽⁵⁾	132	157
Total	8,823	10,885

Source: Central Bank August 2017 Monthly Bulletin (Table 3.1.9).

(1) Canada included in Rest of Americas and Caribbean.

(2) Includes Belgium, Luxembourg, France, Holland and other countries in the EU.

(3) Includes the European Free Trade Association and other countries in Europe.

(4) Includes Hong Kong and other countries in Asia.

(5) Includes Africa, Oceania, other countries and international postal traffic.

Table 20: Foreign Investment by Sector

(in millions of U.S.\$, and as a % of total foreign investment)

	For the Year Ended December 31										For January 1 – June 30			
	2012		2013		2014		2015		2016		2016		2017	
	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%
Agriculture, forestry, hunting and fishing	17.8	3.1	20.8	2.9	38.9	5.0	67.8	5.1	42.0	5.6	10.8	3.3	65.0	18.0
Commerce ⁽¹⁾	83.3	14.7	110.3	15.2	148.5	19.2	172.9	13.1	122.2	16.2	56.7	17.3	76.2	21.2
Construction	31.6	5.6	69.2	9.5	4.7	0.6	6.8	0.5	30.5	4.0	26.6	8.1	5.0	1.4
Electricity, gas and water	46.4	8.2	29.2	4.0	-4.7	-0.6	61.8	4.7	1.2	0.2	1.1	0.3	1.9	0.5
Petroleum ⁽²⁾	224.9	39.7	252.9	34.8	685.6	88.8	559.8	42.4	461.7	61.2	202.9	62.0	38.0	10.6
Manufacturing	135.6	23.9	137.9	19.0	107.7	14.0	264.1	20.0	37.5	5.0	10.4	3.2	106.0	29.5
Social and personal services	1.7	0.3	-2.3	-0.3	14.1	1.8	-10.8	-0.8	-9.9	-1.3	-6.7	-2.1	-1.3	-0.4
Services rendered to businesses	39.5	7.0	117.7	16.2	24.4	3.2	243.3	18.4	21.9	2.9	15.3	4.7	27.4	7.6
Transportation, storage and telecommunications	-13.4	-2.4	-8.5	-1.2	247.0	-32.0	-43.6	-3.3	47.5	6.3	10.1	3.1	41.9	11.6
Total	567.5	100	727.0	100	772.3	100	1,322.0	100	754.6	100	327.1	100	360.0	100

Source: Based on Figures from the Central Bank Balance of Payments Quarterly Bulletin for the Second Quarter of 2017

(1) Commerce includes investment in commercial infrastructure and real estate.

(2) Includes mining and natural gas.

Table 21: Petroleum Production

(in thousands of barrels per year, except where noted)

	January 1 – August 31,	
	2016	2017
Public Companies ⁽¹⁾	104,979	102,504
Other operators	28,633	27,516
Total	133,612	130,020
Petroleum production per day ⁽²⁾	548	535

Source: Petroleum data is based on figures from the Central Bank September 2017 Monthly Bulletin (Table 4.1.1).

(1) Public company numbers include the production of Rio Napo, CEM, ("Rio Napo"). Petroamazonas and PDVSA own Rio Napo, with 70% and 30% interests, respectively.

(2) Petroleum information is displayed in thousands of barrels per day as an average.

Table 22: Public Sector External Debt

(by debtor, in billions of U.S. dollars at the end of the year, except percentages)

	As of August 31,	
	2016	2017 ⁽¹⁾
Central Government	20.94	25.57
Public financial and non-financial entities	2.67	3.08
Total	23.62	28.65
External public debt as a percentage of nominal GDP ⁽²⁾	24.6%	28.4%

Source: Ministry of Economy and Finance August 2017 Bulletin.

(1) Includes the 2024 Bonds, the 2020 Bonds, the 2022 Bonds, the 2026 Bonds, the 2023 Bonds and the 2027 Bonds.

(2) Calculated using Central Bank GDP data, except for August 2017 percentage which is calculated using estimates from the Ministry

Table 23: Public Sector External Debt by Type of Creditor

(in billions of U.S. dollars)

	As of August 31,	
	2016	2017
Multilateral	8.04	8.34
Bilateral	7.84	7.73
Commercial and Bonds	7.74	12.59
Total Public Sector External Debt	23.62	28.66

Source: Ministry of Economy and Finance August 2017 Bulletin.

Table 24: Material Public External Debt

(in millions U.S.\$)

(in millions U.S.\$)

Creditor	Balance as of August 31, 2017
Multilateral	
IBD	4,674.40
CAF	3,230.52
FLAR	77.20
Others ⁽¹⁾	357.92
Total Multilateral Debt	8,340.04
Bilatera	
China	6,716.32
Brazil	190.72
Spain	164.47
Italy	4.2
Japan	35.40
Others ^{(2) (3)}	619.47
Total Bilateral Debt	7,730.60
Other Debt ⁽⁴⁾	12,588.79
Total External Debt	28,659.43

Source: Ministry of Economy and Finance as of August 2017.

(1) Other multilateral loans include loans with the International Fund for Agricultural Development and the Banco Internacional de Reconstrucción y Fomento.

(2) Includes amounts from loans from Paris Club members.

(3) Other bilateral lenders include South Korea, Germany, France, and the United States, among others.

(4) "Other debt" includes commercial debt and amounts owed under the 2030 Bonds, the 2020 Bonds, the 2022 Bonds, the 2024 Bonds, the 2026 Bonds, the 2023 and 2027 Bonds and the Brady Bonds.

Table 25: Interest on Public Sector External Debt

(in millions of U.S. dollars, except percentages)

	At August 31, 2017	
	Amount	Percentage
Fixed Rate	1,441.9	5.03%
0-3%	574.0	2.00%
3-5%	8,730.7	30.46%
5-8% ⁽¹⁾	7,639.1	26.65%
More than 8% ⁽²⁾	10,273.7	35.85%
Floating	28,659.4	100.00%
Total	1,441.9	5.03%

Source: Ministry of Economy and Finance August 2017 Bulletin.

(1) Reflect the amounts under the 2024 Bonds

(2) Reflects the amounts under the 2015 Bonds, the 2020 Bonds, the 2022 Bonds, the 2026 Bonds, the 2023 Bonds, the 2027 Bonds and the 2030 Bonds.

Table 26: Public Sector External Debt Service Maturity 2017-2027

(in millions of U.S. dollars)

	For the Year Ending December 31,										
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Central Government	4,043	3,856	3,572	4,810	2,797	4,583	3,296	3,919	1,620	3,045	3,393
Principal	2,426	2,134	1,941	3,317	1,497	3,462	2,397	3,209	1,042	2,505	3,148
Interest	1,617	1,723	1,631	1,493	1,301	1,121	899	710	578	540	245
Rest of Public Sector	672	1,021	954	497	267	193	170	150	128	112	88
Principal	497	863	838	417	210	145	127	114	96	84	65
Interest	176	158	116	79	57	48	42	37	32	28	24
Total Debt Service	4,715	4,877	4,526	5,306	3,065	4,776	3,466	4,070	1,748	3,157	3,482

Source: Ministry of Economy and Finance as of August 2017

Table 27: Public Sector Internal Debt

(in billions of U.S. dollars, except percentage)

	As of August 31,	
	2016	2017
Central Government Notes	12.42	14.19
Governmental Entities ⁽¹⁾	0.76	0.76
Total ⁽²⁾	13.18	14.95
Internal public debt as a percentage of nominal GDP ⁽³⁾	13.7%	14.8%

(1) Direct issuances backed by IESS and the Ecuadorian Development Bank. Government is the debtor under all internal debt issuances.
(2) Total public sector internal debt under the aggregation methodology.
(3) Calculated using Central Bank GDP data.

Table 28: Public Sector Internal Debt

(in millions of U.S.\$, except percentages)

	As of August 31	
	2017	
	U.S.\$	%
Short-term notes	—	—
Long-term notes ⁽¹⁾	14,187	94.9
AGD notes ⁽²⁾	—	—
CFN notes ⁽³⁾	—	—
Total notes	14,187	94.9
Governmental Entities ⁽⁴⁾	765.4	5.1
Total internal debt ⁽⁵⁾	14,952	100%

Source: Ministry of Economy and Finance August 2017.

- (1) Securities placed by Ecuador according to decrees and resolutions issued to finance projects from the state budget and annual investment plan.
(2) Law 98-17 of November 26, 1998, published in Official Gazette No. 78 of December 1, 1998 ("Law 98-17") authorized the issuance of government bonds as part of the resources for the operations of the Deposit Guarantee Agency. These bonds were issued for a term of 15 years, with payment of principal at maturity and annual interest payments at a rate of 12%.
(3) These bonds issued under Law 98-17 as a capital contribution to the National Finance Corporation. The value of these bonds was U.S.\$424.9 million. They had 7-year and 11-year terms with semi-annual payments of principal and interest at Libor plus 180 days margin.
(4) Direct issuances backed by IESS and the Ecuadorian Development Bank.
(5) Total public sector internal debt under the aggregation methodology.

Table 29: Debt to GDP Ratio

(in millions of U.S.\$, other than percentages)

	As of August 31,	
	2016	2017
Consolidated Total Debt	24,705.4 ⁽¹⁾	29,569.1
Consolidated Debt to GDP Ratio	25.7	29.3 ⁽²⁾

Source: Ministry of Economy and Finance August 2017 Bulletin

- (1) December 2016 figures and August 2016 figures based on Ministry of Economy and Finance's December 2016 and August 2016 Bulletin respectively.
(2) Based on Ministry of Economy and Finance's estimate of projected GDP, which differs from look-back data from the Central Bank.

THE ADDITIONAL NOTES OFFERING

The following summary does not purport to be complete and is qualified in its entirety by, and is subject to, the detailed information appearing elsewhere in this Supplement and in the attached Offering Circulars, in particular in the sections entitled the “Offering” and “Description of the Notes” in each attached Offering Circular. Each series of Additional Notes will have identical terms and conditions as its respective series of Original Notes, other than the issue date and issue price as described below.

Issuer: The Republic of Ecuador.

Additional Notes Issue Amount: Additional 2022 Notes: U.S.\$378,000,000. Upon consummation of this Additional Notes offering, the aggregate principal amount of the 2022 Notes will be U.S.\$2,378,000,000.

Additional 2023 Notes: U.S.\$187,000,000. Upon consummation of this Additional Notes offering, the aggregate principal amount of the 2023 Notes will be U.S.\$1,187,000,000.

Additional 2026 Notes: U.S.\$41,000,000. Upon consummation of this Additional Notes offering, the aggregate principal amount of the 2026 Notes will be U.S.\$ 1,791,000,000.

Securities Offered: U.S.\$378,000,000 principal amount of 10.750% notes due 2022. Consolidated with and forming a single series, from and including the Issue Date, with the 2022 Notes issued originally on July 28, 2016 and reopened on September 30, 2016, in the aggregate principal amount of U.S.\$2,000,000,000.

U.S.\$187,000,000 principal amount of 8.750% notes due 2023. Consolidated with and forming a single series, from and including the Issue Date, with the 2023 Notes issued on June 2, 2017, in the aggregate principal amount of U.S.\$1,000,000,000.

U.S.\$41,000,000 principal amount of 9.650% notes due 2026. Consolidated with and forming a single series, from and including the Issue Date, with the 2026 Notes originally issued on December 13, 2016, and reopened on January 13, 2017, in the aggregate principal amount of U.S.\$1,750,000,000.

Issue Format: Rule 144A/Regulation S; however, with respect to the offer and sale of the Additional Notes by the Republic, no Additional Notes will be offered and sold in the United States or to U.S. persons.

Issue Price: 112.878% plus accrued interest from September 28, 2017 to but excluding October 16, 2017, which equals U.S.\$1,918.87500 per U.S.\$1,000 principal amount of Notes for a total of U.S.\$1,918,875.00.

104.412% plus accrued interest from June 2, 2017 to but excluding October 16, 2017, which equals U.S.\$6,045.03472 per U.S.\$1,000

principal amount of Notes for a total of U.S.\$ 6,045,034.72.

106.664% plus accrued interest from June 13, 2017 to but excluding October 16, 2017, which equals U.S.\$1,340.81389 per U.S.\$1,000 principal amount of Notes for a total of U.S.\$1,340,813.89.

Issue Date: October 16, 2017.

Maturity Date: 2022 Notes: March 28, 2022.
2023 Notes: June 2, 2023.
2026 Notes: December 13, 2026.

Interest: 2022 Notes: 10.750% per annum, computed on the basis of a 360-day year of twelve 30 day months.
2023 Notes: 8.750% per annum, computed on the basis of a 360-day year of twelve 30 day months.
2026 Notes: 9.650% per annum, computed on the basis of a 360-day year of twelve 30 day months.

Interest Payment Dates: 2022 Notes: Each March 28 and September 28, commencing on March 28, 2018.
2023 Notes: Each June 2 and December 2, commencing on December 2, 2017.
2026 Notes: Each June 13 and December 13, commencing on December 13, 2017.

Form: The Additional Notes will be represented in the form of global notes, without coupons, registered in the nominee name of the common depositary for Euroclear and Clearstream for the accounts of its participants. Additional Notes in definitive certificated form will not be issued in exchange for the global notes except under limited circumstances.

Denominations: The Republic will issue the Additional Notes only in denominations of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof.

Ranking: The Additional Notes will be general, direct, unsecured, unsubordinated and unconditional obligations of Ecuador, will be backed by the full faith and credit of Ecuador and will rank equally in terms of priority with Ecuador's External Indebtedness (other than Excluded Indebtedness), provided, that, such ranking is in terms of priority only and does not require that Ecuador make ratable payments on the Additional Notes with payments made on its other External

Indebtedness.

Use of Proceeds:

The Republic will use the proceeds of U.S.\$606 million of the Additional Notes in accordance with the limitations of the Public Planning and Finance Code, as further described in “*Use of Proceeds*” on page 27 of this Supplement. For more information regarding use of proceeds, see “*Recent Developments—Public Debt—GSI Loan Facility*”.

Trustee, Registrar and Transfer Agent:

The Bank of New York Mellon.

London Paying Agent:

The Bank of New York Mellon, London Branch.

**Luxembourg Listing Agent,
Transfer Agent and Luxembourg
Paying Agent:**

The Bank of New York Mellon (Luxembourg) S.A.

Governing Law:

The Additional Notes will be governed by the laws of the State of New York, except for the terms concerning submissions to arbitration which will be governed by English law.

Further Issues:

The Republic may, from time to time, without the consent of the holders of the Additional Notes, create and issue additional notes having the same terms and conditions as the Additional Notes in all respects (or in all respects except for the amount of the first interest payment and the issue price) provided that:

- (b) the notes are consolidated and form a single series with the outstanding Notes, and
- (c) such additional notes do not have, for purposes of U.S. federal income taxation, a greater amount of original issue discount than the outstanding Additional Notes have as of the date of the issue of such additional notes (regardless of whether any holders of such Notes are subject to U.S. federal income taxation).

USE OF PROCEEDS

The use of proceeds for public debt is limited by the Public Planning and Finance Code (defined in the Offering Circular). Under the Public Planning and Finance Code, proceeds of public debt transactions may only be used to: (1) finance Government programs, (2) finance infrastructure projects that have the capacity to repay the related debt obligations and (3) refinance an existing external debt obligation on more favorable terms. The Public Planning and Finance Code prohibits public transactions for the purpose of paying ongoing expenses, with the exception of expenses related to health, education, and justice, under exceptional circumstances as determined by the President of the Republic.

The Republic will use the proceeds of the Additional Notes in accordance with the limitations of the Public Planning and Finance Code. For more information regarding use of proceeds, see *“Recent Developments—Public Debt—GSI Loan Facility”*.

PLAN OF DISTRIBUTION

The Republic will sell the Additional Notes at the offering price set forth on the cover page of this Supplement outside the United States in reliance on Regulation S. The price at which the Additional Notes are offered may be changed at any time without notice.

The Additional Notes have not been and will not be registered under the Securities Act or any state securities law and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except in transactions exempt from, or not subject to, the registration requirements of the Securities Act. With respect to the offer and sale of the Additional Notes by the Republic, no Additional Notes will be offered and sold in the United States or to U.S. persons. See “*Transfer Restrictions*” on each Offering Circular.

Although an application has been made to list the Additional Notes on the Official List of the Luxembourg Stock Exchange and to have the Additional Notes trade on the Euro MTF Market, the listing does not assure that a trading market for the Additional Notes will develop. No assurance can be given as to how liquid the trading market for the Additional Notes will be. The Republic cannot provide any assurances that the prices at which the Additional Notes will trade in the market after this offering will not be lower than the initial offering price or that an active trading market for the Additional Notes will develop and continue after this offering.

See sections “Selling Restrictions” in each of the Offering Circulars.

No action has been taken by the Republic that would, or is intended to, permit a public offer of the Additional Notes in any country or jurisdiction where any such action for that purpose is required.

Accordingly, the Republic will not, directly or indirectly offer or sell any Additional Notes or distribute or publish any offering circular, this Supplement and the Offering Circulars, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of Additional Notes by it will be made on the same terms.

We expect that delivery of the Additional Notes will be made to investors on or about October 16, 2017, which we expect will be the third business day following the date of this Supplement (such settlement being referred to as “T+3”). Under Rule 15c6-1 under the Exchange Act, trades in the secondary market are required to settle in two business days, unless the parties to any such trade expressly agree otherwise.

Notice to Ecuadorian Residents

The Additional Notes are not registered in the Securities Market Public Registry of Ecuador (Catastro Público del Mercado de Valores, CPMV) subject to the control and supervision of the Superintendence of Companies, Securities and Insurance (SCVS).

As unregistered securities, the Republic is not required to disclose public information about the Additional Notes in Ecuador. The Additional Notes may not be publicly offered in Ecuador unless they are registered in the CPMV.

This Supplement and other offering materials relating to the offer of the Additional Notes do not constitute a public offer of, or an invitation to subscribe for or purchase, the Additional Notes in the Republic of Ecuador, and the contents herein have not been approved by the SCVS.

VALIDITY OF THE NOTES

The validity of the Additional Notes will be passed upon on behalf of the Republic by the *Coordinador General Jurídico* of the Ministry of Economy and Finance of the Republic, Ecuadorian counsel to the Republic, and by Hogan Lovells US LLP, U.S. counsel to the Republic. As to all matters of Ecuadorian law, Hogan Lovells US LLP will rely on the opinion of the *Coordinador General Jurídico* of the Ministry of Economy and Finance of the Republic.

In connection with the issuance of the Additional Notes, the Attorney General will issue a “Pronouncement” in relation to the Additional Notes, which will constitute the required authorizations for the Ministry of Economy and Finance to be able to agree to the laws of the State of New York as the governing law of the Additional Notes, as well as the submission to arbitration provisions set out therein.

GENERAL INFORMATION

1. The Global Notes have been accepted for clearance and settlement through Euroclear and Clearstream, Luxembourg.

The common codes for the Regulation S Global Note and the Restricted Global Note with respect to the 2022 Notes are 145851467 and 145851696, respectively, and the International Securities Identification Numbers for the Regulation S Global Note and the Restricted Global Note are XS1458514673 and XS1458516967, respectively.

The common codes for the Regulation S Global Note and the Restricted Global Note with respect to the 2023 Notes are 162676873 and 162676865, respectively, and the International Securities Identification Numbers for the Regulation S Global Note and the Restricted Global Note are XS1626768730 and XS1626768656, respectively.

The common codes for the Regulation S Global Note and the Restricted Global Note with respect to the 2026 Notes are 153507198 and 153507210, respectively, and the International Securities Identification Numbers for the Regulation S Global Note and the Restricted Global Note are XS1535071986 and XS1535072109, respectively.

2. The Republic has obtained all necessary consents, approvals and authorizations in the Republic of Ecuador in connection with the issue and performance of the Additional Notes.

The issue of the original 2022 Notes was authorized by the Republic's Debt and Finance Committee under *Acta Resolutiva* No.013 dated June 20, 2016.

The issue of the reopened 2022 Notes was authorized by the Republic's Debt and Finance Committee under *Acta Resolutiva* No.020 dated September 27, 2016.

The issue of the 2023 Notes was authorized by the Republic's Debt and Finance Committee under *Acta Resolutiva* No. 011 dated May 30, 2017.

The issue of the original 2026 Notes was authorized by the Republic's Debt and Finance Committee under *Acta Resolutiva* No. 029 dated December 8, 2016.

The issue of the reopened 2026 Notes was authorized by the Republic's Debt and Finance Committee under *Acta Resolutiva* No.02 dated January 10, 2017.

The issue of the Additional Notes was authorized by the Republic's Debt and Finance Committee under *Acta Resolutiva* No. 014 dated October 10, 2017.

3. The Republic is involved in certain litigation and administrative arbitration proceedings. See "*Legal Proceedings*" on each of the Offering Circulars and "*Recent Developments – Legal Proceedings*" in this Supplement.

4. On November 23, 2016, Moody's Investors Service affirmed the Republic's long-term Government bond ratings at "B3" with a "stable outlook." On September 30, 2016, Standard & Poor's Ratings Services affirmed the Republic's foreign long-term issuer rating at "B" with a "stable outlook." On June 29, 2017, Standard & Poor's Ratings Services revised the Republic's foreign long-term issuer rating to "B-" and affirmed the "stable" rating outlook. On September 6, 2016, the Republic's long-term foreign currency issuer default rating by Fitch Ratings was affirmed at "B," but the rating outlook was revised from "stable" to "negative." On August 25, 2017, Fitch Ratings affirmed the Republic's long-term foreign currency issuer default rating at "B" with a "negative" rating outlook.

Ratings are not a recommendation to purchase, hold or sell securities and may be changed, suspended or withdrawn at any time. The Republic's current ratings and the rating outlooks currently assigned to the Republic are dependent upon economic conditions and other factors affecting credit risk that are outside the control of the Republic. Any adverse change in the Republic's credit ratings could adversely affect the trading price for the Additional Notes. Each rating should be evaluated independently of the others. Detailed explanations of the ratings may be obtained from the rating agencies.

5. Application has been made to list the Additional Notes on the Official List of the Luxembourg Stock Exchange and to have the Additional Notes admitted to trading on the Euro MTF Market. So long as any of the Additional Notes are listed on the Luxembourg Stock Exchange, the Republic will maintain a paying agent and transfer agent in Luxembourg.

6. Copies of the following documents may be obtained, free of charge, on any business day (Saturdays, Sundays and public holidays excepted) at the office of the Paying Agent in Luxembourg so long as any of the Additional Notes are listed on the Luxembourg Stock Exchange:

- (a) each Indenture incorporating the forms of the respective Global Notes,
- (b) this Supplement,
- (c) the Offering Circulars,
- (d) copies of the 2008 Constitution, and the Legislative Decrees of the Republic referred to in paragraph 2 above (in Spanish), and
- (e) copies of the Republic's consolidated public sector fiscal accounts for the last calendar year (as and when available (in English)).

7. Other than as disclosed herein and in the Offering Circulars, there has been no material adverse change in the financial condition of the Republic which is material in the context of the issue of the Additional Notes.

8. Save as disclosed in "*Legal Proceedings*" in the Offering Circulars and "*Recent Developments – Legal Proceedings*" in this Supplement, the Republic is not involved in any litigation or arbitration proceeding relating to claims or amounts which are material in the context of the issue of the Additional Notes nor, as far as the Republic is aware, is any litigation pending or threatened.

ISSUER

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Ministry of Economy and Finance
Ave. 10 de Agosto 1661 y Jorge Washington
Quito, Ecuador

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You should rely only on the information contained in the Offering Circulars and this Supplement or to which Ecuador has referred you. Ecuador has not authorized anyone to provide you with information that is different. This Supplement may only be used where it is legal to sell these securities. The information in this Supplement may only be accurate on the date of this Supplement.



The Republic of Ecuador

U.S.\$378,000,000 10.750%

Notes

due 2022

U.S.\$187,000,000 8.750% Notes

due 2023

U.S.\$41,000,000 9.650% Notes

due 2026

Offering Circular Supplement

October 11, 2017