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OFFERING CIRCULAR

The Republic of Ecuador
U.S.$1,000,000,000 10.750% Notes due 2029

The Republic of Ecuador (the "Republic" or "Ecuador") is offering U.S.$1,000,000,000 aggregate principal amount of 10.750% Notes due 2029 (the "Notes"). Interest on the Notes will be payable semi-annually in arrears on January 31 and July 31 of each year, commencing on July 31, 2019. 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 those provisions, the Republic may: (a) amend the payment provisions of each Series of Notes and certain other reserved matters with the consent of the holders of 75% of the aggregate amount of the outstanding Series of Notes and other non-reserved matters with the consent of the holders of 66⅔% of the aggregate amount of the outstanding Series of 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 24 regarding certain risk factors investors should consider before investing in the Notes.

Notes Price: 100.000%

plus accrued interest, if any, from January 31, 2019.

Delivery of the Notes will be made on or about January 31, 2019.

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 ("Regulation S"). Investors 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 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 Banking, *société anonyme*. See "*Book-Entry Settlement and Clearance*."

Initial Purchasers and Global Coordinators

Citigroup **Deutsche Bank Securities** **J.P. Morgan**

The date of this Offering Circular is January 28, 2019.

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ECUADOR

International boundary
Road
Railroad *(some segments of the rail network may be inoperable)*
National capital
Major airport
Major port

Scale 1:4,500,000

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

Investors should rely only on the information contained in this Offering Circular or to which the Republic of Ecuador has referred investors. This Offering Circular supersedes any other materials dated prior to the date hereof. Ecuador has not, and the Initial Purchasers have not, authorized anyone to provide 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. Each Series of 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 each Series of 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") 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 Initial Purchasers 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 Initial Purchasers 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 person acquiring a Regulation S Global Note will be deemed to have represented that it is not acquiring Notes with a view to distribution thereof in the United States.

Each person acquiring a Restricted Global Note will be deemed to:

- represent that it is acquiring 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 acquiring a Restricted Global Note 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 Initial Purchasers or any person affiliated with the Initial Purchasers in connection with its investigation of the accuracy of the information contained in this Offering Circular or its investment decision;
- 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 Initial Purchasers; and
- the Notes are not intended to be offered, sold or otherwise made available, to and should not be offered, sold or otherwise made available to, any retail investor in the European Economic Area ("EEA"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU ("MiFID II"); (ii) a customer within the meaning of Directive 2002/92/EC ("IMD"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended, the "Prospectus Directive"). Consequently no key information document required by Regulation (EU) No 1286/2014 (the "PRIIPs Regulation") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

IN CONNECTION WITH THIS ISSUANCE OF NOTES, THE INITIAL PURCHASERS MAY, THEMSELVES OR THROUGH THEIR 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 *Asamblea Nacional* (the "National Assembly"), a single chamber national assembly elected through direct popular vote for a four-year period, 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 "Summary," "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;
- damage to and volatility in the international capital markets for emerging markets issuers caused by economic conditions in other emerging markets or changes in policy of Ecuador's trading partners 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 and, in particular, oil;
- 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). This submission to arbitration has been approved by the Office of the Attorney General as the competent body of the Republic which allows 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 under an indenture between the Republic and The Bank of New York Mellon (the "Trustee"), expected to be dated on the Issue Date (the "Indenture"):

(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 is otherwise 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 and as modified by the Indenture, in which LCIA Rules are deemed to be incorporated by reference. The provisions in the LCIA Rules regarding an Emergency Arbitrator shall not apply. 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 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 thereby 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 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 LCIA Rules 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 defense 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;

(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 as a local arbitration award, without a homologation process.

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.

SUMMARY

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.

Recent Measures Decreed by President Moreno

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 won 28 seats and PSC won 15 seats. 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 won with 51.16% of the vote. The *Consejo Nacional Electoral* (the "National Electoral Council" or "CNE") declared President Moreno president elect on April 4, 2017. Both the Organization of American States ("OAS") and the Union of South American Nations ("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 presidency of Ecuador on May 24, 2017 with Jorge Glas as vice president for a four-year term.

President Moreno has 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. Since taking office, President Moreno has announced and implemented a series of measures geared towards austerity principles, the fight against corruption and the reactivation of the economy.

More recently, on April 2, 2018, President Moreno presented an economic plan to (i) stabilize Ecuador's fiscal profile, (ii) restructure and reduce the size of the Government and enact institutional austerity measures, (iii) increase exports and sustain dollarization, and (iv) stimulate the economy through measures strengthening the private sector. This plan includes, among other measures, the merging of certain Ministries.

On August 21, 2018, President Moreno announced a series of austerity measures as part of the new 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 primary fiscal balance and a global fiscal balance below 1% by 2021. The Plan of Prosperity focuses on (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, together with the assistance of the Andean Development Corporation and the Inter-American Development Bank, a corporate reform with respect to state-owned companies including 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 to analyze the allocation of fuel subsidies.

With a portion of the savings derived from the measures discussed above, President 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 economic growth. This reform will include a plan for the full repayment of government debts owed to the Central Bank within the next five 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. The merger was implemented in September 2018. On September 20, 2018, by executive decree No. 517, President Moreno confirmed Carlos Pérez in his post as Minister of Energy and Non-Renewable Natural Resources.

On August 21, 2018, President Moreno announced a new round of austerity measures, which include a further reduction in the number of Ministries, to 20 from 40 when he became president. Entities that will be merged include the *Ministerio de Industrias y Productividad* (the "Ministry of Industries and Productivity") (to be merged with the *Ministerio de Comercio Exterior e Inversiones* (the "Ministry of Foreign Trade and Investments")), the *Ministerio de Justicia* ("Ministry of Justice"), the *Secretaría de Gestión de Riesgos* ("Secretariat for Risk-Management") (to be merged with the *Ministerio de Defensa* ("Ministry of Defense")), the *Secretaría del Agua* ("Secretariat for Water") (to be merged with the *Ministerio del Ambiente* ("Ministry of the Environment")), and the *Servicio Nacional de Aduanas* ("National Customs Service") (to be merged with the *Servicio de Rentas Internas* ("Internal Revenue Service")). Additionally, the *Instituto Espacial Ecuatoriano* ("Ecuadorian Space Institute"), the *Secretaría Técnica del Comité Nacional de Límites Internos* ("Secretariat for Internal Boundaries") and the *Secretaría Nacional de Comunicación* ("National Secretariat of Communication") will disappear. These measures are being implemented through several executive decrees.

On August 23, 2018, the *Consejo de Participación Ciudadana y Control Social Transitorio* (the "Transitional Citizen Participation and Social Control Council") resolved to prematurely end the tenure of all justices of the Constitutional Court based on alleged irregularities in their appointment and lack of judicial independence and impartiality, and declared a 60-day recess period from the day of approval of the rules that would be followed to appoint the new members of the court. As of the date of this Offering Circular, the court is still in recess, and the Transitional Citizen Participation and Social Control Council finished conducting public evaluations and examinations on 23 candidates. The new court is expected to start mid-January, 2019.

On September 20, 2018, by executive decree No. 520, President Moreno merged the Ministry of Foreign Trade and Investments, the Ministry of Industries and Productivity and the *Instituto de Promoción de Exportaciones e Inversiones Extranjeras* (the "Institute for the Promotion of Foreign Exports and Investments") to become the *Ministerio de Producción, Comercio Exterior e Inversiones* (the "Ministry of Production, Foreign Trade and Investment"). Additionally, the *Ministerio de Acuacultura y Pesca* (the "Ministry of Aquaculture and Fisheries") would be downsized to a secretariat within the Ministry of Production, Foreign Trade and Investment. A 60-day period was established for the implementation of the merger and downsizing. However, on November 14, 2018, by executive decree No. 559 derogating executive decree No. 520, President Moreno re-issued the order to merge the abovementioned ministries into the new Ministry of Production, Foreign Trade and Investment, this time rendering ineffective the downsizing of the Ministry of Aquaculture and Fisheries by instead merging it into the new ministry and establishing a new 60-day period to complete the merger. This merger became effective in January 2019, resulting in the *Ministerio de Producción, Comercio Exterior, Inversiones y Pesca* ("Ministry of Production, Foreign Trade, Investments and Fisheries."). On January 11, 2019, by executive decree No. 636, President Moreno created three vice ministries under the new Ministry of Production, Foreign Trade, Investments and Fisheries, one for each of the three eliminated agencies, and designated Pablo Campana as the new Minister of Production, Foreign Trade, Investment and Fisheries to oversee them.

President Moreno merged, by executive decrees dated September 21, 2018 and October 3, 2018, the Ministry of the Environment and the Secretariat for Water, and downsized the Secretariat for Risk-Management and the *Secretaría de Inteligencia* ("Secretariat of Intelligence") to the *Servicio Nacional de Gestión de Riesgos* ("National Service for Risk Management") and the *Centro de Inteligencia Estratégica* ("Center of Strategic Intelligence"), respectively. On October 11, 2018, by executive decree, President Moreno eliminated the National Secretariat of Communication, delegating all its competencies to the *Secretaría de Comunicación de la Presidencia* ("Secretariat of Communication of the Presidency").

Also on November 14, 2018, President Moreno decreed the transformation of the *Ministerio de Justicia, Derechos Humanos y Cultos* ("Ministry of Justice, Human Rights and Religions") into the *Secretaría de Derechos Humanos* ("Secretariat for Human Rights"), the creation of the *Servicio Nacional de Atención Integral a Personas Adultas Privadas de la Libertad y a Adolescentes Infractores* ("National Service for Integral Assistance to Adults Deprived of their Liberty and Young Offenders"), and the transfer of some of the Secretariat of Human Rights' competencies to the National Service for Integral Assistance to Adults Deprived of their Liberty and Young Offenders. The transformation became effective on January 14, 2019, with the exception of the transfer of competencies to the National Service for Integral Assistance to Adults Deprived of their Liberty and Young Offenders which will be completed by February 14, 2019, as decreed by President Moreno in the executive decree No. 631 dated January 4, 2019.

For the second time in his presidency, on November 22, 2018, President Moreno requested his entire cabinet to submit their resignation while a performance evaluation is carried out the results of which are still pending. On November 25, President Moreno ratified the Minister of Economy and Finance, Richard Martínez, and the Minister of Foreign Affairs and Human Mobility, José Valencia.

On December 21, 2018, President Moreno issued decree No. 619 eliminating the subsidy on certain types of gasoline and diesel, consequently increasing their prices for consumers. On January 7, 2019, following negotiations with representatives of the transportation sector, and in order to prevent a surge in general consumer prices, the Government agreed to keep in place the subsidy on automotive diesel. On January 12, 2019, the Government agreed with the shrimp industry to establish a compensation system for shrimp producers to minimize the effects of decree No. 619 on the shrimp sector.

On December 21, 2018, President Moreno issued decree No. 624 reducing by 10% and 5% the salaries of high and mid-level government officials, respectively.

Organic Law for Productive Development

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 Fiscal* (the "Organic Law for Productive Development, Investment, Employment and Fiscal Stability", or the "Organic Law for Productive Development")

and, after a Presidential partial veto, it became effective 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 (eight years if the investment is in Quito or Guayaquil and 15 years for investments in the industrial and agricultural sectors, including agricultural cooperatives, in the border regions of the country) for new productive investments in priority sectors, such as food production, forestry and agricultural land reforestation (agroforestry), 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 the incentives in the law.

The Organic Law for Productive Development also includes other incentives, such as the option for investors to agree to settle disputes with the Republic through national or international arbitration under the UNCITRAL Arbitration Rules (the "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 a prior homologation process (*exequátur*). As a result, international arbitral awards will be directly enforceable as is the case with domestic awards.

The Organic Law for Productive Development 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 that it will be excluded from the calculation of public debt for the period for which it remains contingent. A contingent liability will only be considered public debt, and included in the calculation of total public debt to GDP ratio, in such amount and to the extent the obligation become due and payable. A contingent liability may originate when:

- the Central Government issues sovereign guarantees for the benefit of public sector entities that enter into public debt, together with all provisions made for their payment;
- notes linked to duly documented payment obligations are issued;
- guarantee agreements to secure the proper use of non-reimbursable contributions received by any applicable entity are entered into; and
- the public sector incurs contingent liabilities in accordance with applicable law, or other liabilities are incurred within the context of agreements with international credit agencies.

In addition, the Organic Law for Productive Development provides that for the period from 2018 to 2021 and until the public debt reaches a level below the public debt ceiling of 40% of GDP, such public debt ceiling will not apply. This new law provides that for the period from 2018 to 2021, a fiscal stability plan will be implemented by 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 from 2018 to 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 relative to GDP, until it reaches a level below the 40% debt to GDP ratio. The new law also mandates that the Ministry of Economy and Finance issue within 90 days from August 21, 2018, a new regulation implementing a new accounting methodology, which will 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 Productive Development, Investment, Employment and Fiscal Stability*." On October 15, 2018, President Moreno enacted decree No. 537 ("Decree 537") repealing Decree 1218 in its entirety, which became effective on October 30, 2018, see "*Public Debt—Decree 1218*."

On November 19, 2018, the Ministry of Economy and Finance issued the *Reglamento para la Implementación de la Metodología de Cálculo para la Relación entre el Saldo de la Deuda Pública Total y el PIB* ("Regulation Implementing the Public Debt to GDP Ratio Calculation Methodology") setting out the definitions and methodology for calculating and divulging the country's public debt to GDP ratio. It provides that the calculation of the public debt to GDP ratio will be based on total public debt as published in the official aggregate financial statements and the latest nominal GDP as published by the Central Bank. It defines total public debt as the sum of the public debt incurred by the entities comprising the public sector. This regulation provides for a transition period ending on May 31, 2019, when the Ministry of Economy and Finance will issue the first report on public debt following the methodology set out in this regulation. Once this transition period is over, public debt figures as presented in this Offering Circular may vary.

On December 18, 2018, by executive decree No. 617, President Moreno issued the *Reglamento para la Aplicación de la Ley Orgánica para el Fomento Productivo, Atracción de Inversiones, Generación de Empleo, y Estabilidad y Equilibrio Fiscal* ("Regulation to the Organic Law for Productive Development") supplementing the Organic Law for Productive Development, which became effective on December 20, 2018. The Regulation to the Organic Law for Productive Development, among others, creates the procedures to implement and simplify the tax benefits that the Organic Law for Productive Development created for new investments and entrepreneurship; clarifies different concepts used in the Organic Law for Productive Development such as the concept of 'new investment;' creates the framework under which the value added tax ("VAT") and exit tax returns on exports and other tax incentives will be carried out; closes any loopholes on the elimination of the excise tax; and creates the procedures to oversee compliance with fiscal rules with the goal of achieving sustainability of public finances.

The Regulation to the Organic Law for Productive Development also amends the Rules to the Public Planning and Finance Code to include a new section on fiscal rules and to amend certain articles. Article 133 of the Rules to the Public Planning and Finance Code is amended to provide that the Ministry of Economy and Finance will produce both aggregated and consolidated financial statements of the public debt for the public sector, the non-financial public sector and the central government in a period of no more than 60 days after the end of each month. These amendments also provide that in establishing the total amount of public debt, the Ministry of Economy and Finance will consider the aggregate public debt/GDP indicator of the entities constituting the public sector. This indicator will be calculated and projected based on the public debt aggregate statements, at least for the final balances, for the following four years. Among other provisions, the regulation provides guidance for calculating the debt to GDP ratio for these purposes, as well as for reducing the balance of the public debt below 40% and for ensuring that the balance of the public debt does not exceed 40% of GDP after it has been reduced.

Special Audit by the Office of the Comptroller General

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 General, and a former Minister of Economy and Finance (the "Citizen Oversight Commission"), 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.

The CGR Audit Report concluded that certain rules that defined the methodology to calculate public debt were replaced with laws and regulations that allowed for discretion in the application and use of certain concepts related to public debt and, specifically, 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 included in the calculation of the public debt to GDP ratio. The CGR Audit Report also concluded that Decree 1218 of 2016 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 deviated from the practice of using the aggregation of public debt methodology for the purpose of establishing whether the public debt to GDP ceiling of 40% had been exceeded. Consequently, Decree 1218 allowed the Government to enter into certain debt transactions 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 set forth 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"); and found 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 nature 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 indications of (i) of administrative liability of certain public officials, which may lead to the dismissal of those officials; (ii) civil liability of certain current or former public officials, which may lead to fines if those officials acted in breach of their duties; and (iii) criminal liability of certain 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 such 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 to the district administrative courts.

In April 2018, the Office of the Comptroller General delivered to the Office of the Prosecutor General a report regarding the indications of criminal liability of certain former or current public officials. Based on that report, the Office of the Prosecutor General initiated a preliminary criminal investigation against former President 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 review evidence 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 to hold an indictment hearing with respect to any of the officials currently under investigation. If a 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 criminal court but the alleged offenders will not be found guilty unless, after trial, the offenders are found to be criminally liable.

The CGR Audit Report recommended that, in order to reconcile amounts comprising public debt, the Public Planning and Finance Code should be amended and Decree 1218 should be repealed with respect to the calculation of the total public debt to GDP ratio to ascertain the actual value of total public debt and determine if that amount exceeded the 40% debt to GDP ratio 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. On October 15, 2018, President Moreno enacted Decree 537 repealing Decree 1218 in its entirety, which became effective on October 30, 2018, see "*Public Debt—Decree 1218*". On December 20, 2018, the Regulation to the Organic Law for Productive Development became effective amending, among others, article 133 of the Rules to the Public Planning and Finance

Code to provide that in establishing the total amount of public debt, the Ministry of Economy and Finance will consider the aggregate public debt/GDP indicator of the entities constituting the public sector. This indicator will be calculated and projected based on the public debt aggregate statements, at least for the final balances, for the following four years, see "*Public Debt—Organic Law for Productive Development, Investment, Employment and Fiscal Stability.*"

The Special Audit has resulted in additional audits, including: (i) an examination finalized in July 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; and (ii) five ongoing examinations, including an examination of the contracts with service providers (including lawyers, banks, financial agents and other firms) involved in public debt transactions; an examination regarding the GSI Loan Facility, the Gold Derivative Transaction and the Bond Derivative Transaction, see "*Public Debt-GSI Loan Facility*;" an examination regarding the Republic's use of shares of public banks to pay the Central Bank of Ecuador; an examination on the entry, registration and use of funds from oil pre-sale contracts; and a follow-up examination on the application of the recommendations under the CGR Audit Report.

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 concluded that (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 partially repealing Decree 1218 so that short-term securities with a term of less than 360 days are excluded from the calculation of the total public debt, instead of short-term securities with a term of up to 360 days as it was set forth in Decree 1218. Pursuant to Decree 537, Decree 1218 was repealed in its entirety on October 30, 2018, when Decree 537 was published, see "*Public Debt—Decree 1218*". 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 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 with respect to any of the officials currently under investigation. If a judge determines that there are grounds for an indictment, the Office of the Prosecutor General will conclude its investigation and issue a final report within 90 days to the criminal court. Following their indictment, the court will hold a hearing to call the alleged offenders to trial. The alleged offenders will not be considered criminally liable unless and until the court determines, after a trial, that the offenders are criminally liable.

The Ecuadorian Economy

The U.S. dollar is the legal tender in Ecuador. In each of the four years from 2012 through 2015 the Ecuadorian economy registered positive rates of growth, in real terms, while in 2016, the Ecuadorian economy contracted in real terms as described below. In 2015 the economy of Ecuador grew by 0.1% in real terms, compared to 5.6%, 4.9% and 3.8% for 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. On April 10, 2017, the Central Bank published information regarding GDP for 2016. Real GDP for 2016 was U.S.$69,314 million, compared to U.S.$70,175 million in 2015, representing a decrease of 1.2% 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. From 2011 to 2016, the average real GDP rate growth of Ecuador was 3.5% compared to the 1.6% average real GDP rate growth of other Latin American and Caribbean countries. Real GDP for 2017 was U.S.$70,956 million, compared to U.S.$69,314 million in 2016, representing an increase of 2.4% 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. According to the Central Bank's quarterly bulletin for the third quarter of 2018, real GDP for the first nine months of 2018 was U.S.$53,768 million, compared to U.S.$53,003 million for the first nine months of 2017, representing an increase of 1.4% in real terms. This increase is mainly due to an increase in each of household final consumption expenditure by

2.8%, general government final consumption expenditure by 2.5%, gross fixed capital formation by 2.8%; and exports by 0.9%.

From 2013 to 2015, the Ecuadorian economy grew from a nominal GDP of U.S.$95,130 million in 2013 to U.S.$99,290 million in 2015. From 2013 to 2015, nominal GDP per capita grew from U.S.$6,031 in 2013 to U.S.$6,099 in 2015. In 2016, the nominal GDP reached U.S.$99,938 million representing an increase from the U.S.$99,290 million in 2015. In 2016, nominal GDP per capita decreased to U.S.$6,046. In 2017, the nominal GDP reached U.S.$104,296 million representing an increase from U.S.$99,938 million in 2016. In 2017, nominal GDP per capita increased to U.S.$6,217. In the first nine months of 2018, the nominal GDP reached U.S.$81,032 million representing an increase from U.S.$77,955 million in the first nine months of 2017.

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 increased from -0.20% for the 12-month period ended December 31, 2017 to 0.27% for the 12-month period ended December 31, 2018. This increase was primarily due to an increase in each of the prices of alcoholic beverages and tobacco by 2.43%, health products by 2.15%, and other goods and services by 1.79%.

The rate of unemployment decreased to 4.62% as of December 31, 2017, compared to 5.20% as of December 31, 2016. The rate of unemployment decreased from 4.62% as of December 31, 2017 to 3.69% as of December 31, 2018.

In 2017, manufacturing was the largest sector of the economy measured by percentage of GDP (13.29%), followed by construction (11.59%), trade (9.55%), community services (8.90%) and agriculture (8.18%). In the first nine months of 2018, manufacturing was the largest sector of the economy measured by percentage of GDP (13.16%), followed by construction (11.38%), trade (9.63%), community services (9.02%) and agriculture (8.08%).

According to the Central Bank's Monthly Bulletin for December 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 198.2 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 December 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 for the year 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 December 2018 monthly bulletin, oil field crude production, including that of private and state-owned companies, reached 172.7 million barrels in the first eleven months of 2018, representing a 2.9% decrease from the 177.9 million barrels produced in the first eleven months of 2017 (and a decrease of 2.8% in barrels per day). In the first eleven months of 2018, state-owned companies were responsible for 77.5% of production, compared to 78.5% of production in the first eleven months of 2017.

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 eleven months of 2018, crude oil exports totaled U.S.$7,346 million, a 30.9% increase from U.S.$5,614 million in the first eleven months of 2017. This increase was due to a 38% increase in the price per barrel from U.S.$44.8 to U.S.$61.8, despite a 5.2% decrease in volume, from 17,522 to 16,615 thousand metric ton.

Balance of Payments and Foreign Trade

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. 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.$372.2 million in the current account and a deficit of U.S.$1,542.5 in the financial account. For the third quarter of 2018, there was a balance of payments deficit of U.S.$466.8 million, a decrease in the deficit compared to the U.S.$2,115.5 million balance of payments deficit for the third quarter of 2017. This decrease in the deficit was primarily due to a decrease in payments of liabilities arising from the external public debt.

In 2017, foreign direct investment reached U.S.$618.4 million, a decrease compared to the U.S.$767.4 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.

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 third quarter of 2018, imports totaled U.S.$5,822.9 million compared to U.S.$5,046.1 million for the third quarter of 2017. This increase in the level of imports was primarily due to an increase in imports of fuels and lubricants by 33.3%, construction materials by 22.5%, agricultural commodities by 22.5% and capital assets for agriculture by 20.2%.

Monetary System

As of December 31, 2018, 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.

Banking deposits, primarily composed of demand deposits and time deposits, constitute the principal source of financing for the banking system. As of December 31, 2017, time and demand deposits totaled U.S.$29,352 million, an increase of 6.8% since December 31, 2016. As of December 31, 2018, time and demand deposits totaled U.S.$29,845 million, an increase of 1.7% compared to December 31, 2017. This increase was principally due to an increase in time deposits of U.S.$948 million.

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 December 31, 2018, the balance of foreign liabilities in the banking sector amounted to approximately U.S.$1,799 million, which is an increase of 12.9% from the balance of foreign liabilities in December 31, 2017, which was U.S.$1,593 million.

As of December 31, 2017, the banking system represented 81.9% 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 0.4% 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 October 31, 2018, the banking system represented 74.94% of the total assets of the private financial system. For the period from January 1, 2017 to October 31, 2017, the banking system made a profit of U.S.$326.3 million which increased to U.S.$ 459.2 million for the period from January 1, 2018 to October 31, 2018. This increase is mainly due to an increase in interest and discounts earned in the amount of U.S.$267 million. The assets of the banking system increased from U.S.$37,936 million in November 30, 2017 to U.S.$39,879 million in November 30, 2018, an increase of 5.1%. As of December 31, 2018, the assets of the banking system totaled U.S.$40,984 million, an increase of 5.15% from U.S.$38,975 million as of December 31, 2017. This increase was principally due to an increase in the loan portfolio of U.S.$2,656 million.

In 2017, the delinquency rate on loans from the private banking sector decreased to 3% from 3.5% in 2016. As of December 31, 2018, the delinquency rate decreased to 2.62% compared to the 2.96% delinquency rate as of

December 31, 2017. This decrease is principally due to a 14.31% decrease in past-due loans (not including the portfolio of loans that do not accrue interest), while the total gross loan portfolio increased by 11.08%. As of December 31, 2018, 48.1% of all current loans were commercial, 35.8% were consumer, 8.5% were housing, 6.2% were microcredit and 1.5% were education related. As of December 31, 2018, banking deposits, including guarantee deposits and restricted deposits, totaled U.S.$31,257 million, an increase from the U.S.$30,689 million as of December 31, 2017. Total current loans to the private sector from the private banking sector increased from U.S.$23,873 million as of December 31, 2017 to U.S.$26,609 million as of December 31, 2018.

Public Sector Finances

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 resulted 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 ten months of 2018, Central Government revenues totaled U.S.$16,418 million, while total expenditures were U.S.$18,382 million. This resulted in a deficit of U.S.$1,964 million for the first ten months of 2018, a decrease in the deficit compared to the U.S.$3,036 million deficit for the first ten months of 2017. This decrease in the deficit is primarily due to an increase in oil revenue as well as an optimization of investment projects.

In 2017, the non-financial public sector registered a deficit of U.S.$4,653 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.$33,426 million, an increase from U.S.$30,314 million in 2016. In 2017, total expenditures for the non-financial public sector totaled U.S.$38,079 million, an increase compared to U.S.$37,628 million in 2016.

For the first ten months of 2018, the non-financial public sector registered a surplus of U.S.$1,064 million compared to a deficit of U.S.$2,032 million for the first ten months of 2017. This shift is principally due to an increase in petroleum and tax revenues, as a result of an increase in the price per barrel of petroleum, the rebate on interest, penalties and surcharges accrued on tax obligations, and the lowering of trade barriers; as well as a decrease in expenses as a result of the optimization of investment projects during that period.

For the first ten months of 2018, total revenues for the non-financial public sector totaled U.S.$31,935 million, an increase from U.S.$27,416 million for the first ten months of 2017. For the first ten months of 2018, total expenditures for the non-financial public sector totaled U.S.$30,871 million, an increase compared to U.S.$29,448 million for the first ten months of 2017.

For 2019, the Ministry of Economy and Finance's estimated projection for financing needs (both internal and external debt) is U.S.$8,148.0 million. The Ministry of Economy and Finance estimates that approximately U.S.$6,980.1 million will derive from international financing and approximately U.S.$1,167.9 million 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 such as the monetization of receivables, 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, and new lending facilities from domestic banks. 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.

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 provided 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 assumed an average crude oil price of U.S.$41.92 per barrel, estimated a GDP rate growth of 2.04% and an average annual inflation rate of 1.38%. The 2018 Budget provided 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.

On October 31, 2018, the Ministry of Economy and Finance presented the 2019 Draft Budget (the "2019 Draft Budget") to the National Assembly. The 2019 Draft Budget provided for a budget of approximately U.S.$31,319 million, which represented a 2.8% decrease from the 2018 Draft Budget. The 2019 Draft Budget assumed an average crude oil price of U.S.$58.29 per barrel, estimated a GDP rate growth of 1.43% and an average annual inflation rate of 1.07%. The 2019 Draft Budget provided for about U.S.$22,361 million in total revenues and U.S.$26,016 million in total expenses, for an expected global deficit of U.S.$3,655 million, representing 3.2% of the GDP. On November 29, the National Assembly made 17 proposed changes, or recommendations, to the 2019 Draft Budget recommending, among others, maintaining the 2018 budget allocations for several ministries and agencies, including allocations to higher education, health and foreign commerce, that present cuts in the 2019 Draft Budget. On December 10, 2018, the Ministry of Economy and Finance sent the National Assembly a revised 2019 Draft Budget accepting nine of the 17 recommendations and reducing the Draft Budget by U.S.$17 million to US$31,301 million, by, among other changes, adjusting the projected oil price per barrel to U.S.$50.05 and overturning the originally proposed cuts to health and higher education. On December 18, 2018 the National Assembly failed to ratify its objections into law and the 2019 Draft Budget (as sent to the National Assembly on December 10, 2018) became effective (the "2019 Budget"). The 2019 Budget provides for a budget of approximately US$31,301 million. The 2019 Budget provides for about 22,362 million in total revenues and U.S.$25,998 million in total expenses, for an expected global deficit of U.S.$3,637 million. The 2019 Draft Budget assumes an average crude oil price of U.S.$50.05 per barrel, estimates a GDP rate growth of 1.43% and an average annual inflation rate of 1.07%.

Public Debt

Between October 2016 and October 2018, pursuant to Decree 1218, the consolidated methodology was the legal methodology in Ecuador to calculate public sector debt to GDP in Ecuador and was in accordance with the IMF methodology, the IMF GFS. However, on October 30, 2018, the repeal of Decree 1218 became effective. On December 20, 2018, the Regulation to the Organic Law for Productive Development became effective amending, among others, article 133 of the Rules to the Public Planning and Finance Code to provide that the Ministry of Economy and Finance will produce both aggregated and consolidated financial statements of the public debt for the public sector, the non-financial public sector and the central government in a period of no more than 60 days after the end of each month, see "*Public Debt—Organic Law for Productive Development, Investment, Employment and Fiscal Stability*". 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 Offering Circular. 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. 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.

Since April 2018, Ecuador has been 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.$49,429.2 million as of December 31, 2018, compared to U.S.$46,535.6 as of December 31, 2017. The ratio of total public sector aggregate debt to GDP increased from 44.6 as of December 31, 2017 to 45.2% as of December 31, 2018. As of December 31, 2018, interest payments on all debt obligations represent approximately 2.82% of GDP. The Organic Law for Productive Development, which became effective on August 21, 2018, provides that for the period from 2018 to 2021 and until the public debt reaches a level below the public debt ceiling of 40% of GDP, such public debt ceiling will not apply.

The total external debt of the public sector in Ecuador was U.S.$31,749.8 million as of December 31, 2017 compared to U.S.$25,679.3 million as of December 31, 2016. Public external debt as of December 31, 2018 was U.S.$35,695.5 million, an increase from U.S.$31,749.8 million as of December 31, 2017.

As of November 30, 2018, the top three bilateral lenders to Ecuador were China, the United States, and Spain, with debt levels of U.S.$6,402.7 million (65.2% of the total bilateral debt), U.S.$1,010.6 million (10.3% of the total bilateral debt) and U.S.$466.2 million (4.8% of the total bilateral debt), respectively. As of November 30, 2018, total indebtedness owed to bilateral entities was U.S.$9,813.8 million. The Republic is current on all of its obligations to bilateral lenders.

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 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.

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 loan was disbursed on July 5, 2018.

On August 28, 2018, the Republic and Goldman Sachs International ("GSI") entered into a master repurchase agreement governed by English law which is based upon the standard Global Master Repurchase Agreement published by the International Securities Market Association, together with a negotiated annex and a confirmation, pursuant to which the Republic sold and transferred to GSI U.S.$1,201,616,000 nominal amount of Series 2020 Notes and Series 2022 Notes (with an aggregate 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 value of the Republic's residual interest in the repurchase transaction and the interest amounts three business days prior to the date on which they are paid by the Republic on the Series 2020 Notes and Series 2022 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. On October 10, 2018, the Republic and GSI amended and restated the August 28, 2018 repurchase transaction to decrease the price differential spread payable by the Republic by 135bps (as compared to the price differential spread payable by the Republic under the August 28, 2018 repurchase transaction), in exchange for the Republic repaying the purchase price in euro based on an agreed upon exchange rate, although the purchase price was disbursed in US dollars.

On September 7, 2018, the Republic entered into a U.S.$250 million additional loan facility with a final amortization date of May 15, 2040, with IDB to finance costs related to the construction of a subway system in Quito.

On September 7, 2018, the Republic entered into a U.S.$237.6 million loan facility with a final amortization date of December 15, 2042, with IDB to finance the phase I of a project to improve quality in the provision of social services.

On September 14, 2018, Ecuador entered into a U.S.$150 million loan with the *Corporación Andina de Fomento* (the "CAF") with a term of 12 years, with a 12-month grace period for the payment of principal, to partially finance projects relating to the generation, distribution and transmission of electricity.

On September 26, 2018, the Republic increased an existing financing agreement with Credit Suisse for an additional amount of CHF100 million. This financing facility establishes a repayment term of seven years.

On October 29, 2018, the Republic and Credit Suisse AG, London Branch ("CS") entered into a master repurchase agreement governed by English law which is based upon the standard Global Master Repurchase Agreement published by the International Securities Market Association, together with a negotiated annex and a confirmation, pursuant to which the Republic sold and transferred to CS U.S.$1,187,028,000 nominal amount of reopened 2022 Notes (the "CS Reopened Notes") (with an aggregate market value at the date of the transaction of U.S.$1,249,999,835.40) and in return received from CS a purchase price of EUR439,251,515.42 (which the Republic and CS agreed would be settled in US dollars by the payment by CS of U.S.$500,000,000 to the Republic), the value of the Republic's residual interest in the repurchase transaction and the interest amounts three business days prior to the date on which they are paid by the Republic on the CS Reopened Notes. The Republic is also required to pay to CS, on a quarterly basis, a price differential based upon LIBOR plus a spread.

On November 28, 2018 the Municipality of the Metropolitan District of Quito and CAF entered into a US$ 152.2 million loan agreement to partially finance the Quito subway system currently under construction. This loan agreement is guaranteed by Ecuador acting through the Ministry of Economy and Finance.

On November 29, 2018, the Municipality of the Metropolitan District of Quito and the International Bank for Reconstruction and Development ("IBRD") entered into a U.S.$230 million loan agreement, to be repaid by March 15, 2038, to finance the construction of two subway stations as well as other infrastructure and facilities, and the provisioning of equipment and technical and implementation support for line one of the Quito subway system currently under construction. This loan agreement is guaranteed by Ecuador acting through the Ministry of Economy and Finance.

On November 29, 2018, the *Empresa Municipal de Agua Potable y Alcantarillado de Guayaquil* ("EMAPAG EP"), and the IBRD entered into a U.S.$233.6 million loan agreement, to be repaid by March 1, 2053, to finance the increase of access to improved sanitation services and to reduce wastewater pollution in selected areas of Guayaquil. This loan agreement is guaranteed by Ecuador acting through the Ministry of Economy and Finance.

On December 11, 2018, the Republic and IDB entered into a U.S.$100 million loan agreement to be disbursed in two installments in two years, with a final amortization date of October 15, 2038, to finance a program of reforms in Ecuador promoting gender equality and equality for the disabled.

On December 12, 2018, the Republic and CAF entered into an up-to U.S.$210 million loan agreement, with a term of 15 years and a 42-month grace period for the payment of the principal, to partially finance programs supporting the management of the Republic's fiscal policy and the sustainability of public finance, among other related goals.

On December 12, 2018, the Republic and the Export-Import Bank of China entered into an up-to RMB485.7 million loan facility agreement, with a 240-month maturity period, a 60-month grace period and a 180-month repayment period, to cover the Republic's financing needs for the construction of infrastructure projects agreed with the joint venture China Road and Bridge Corporation & China National Electronics Import & Export Corporation on November 30, 2017.

On December 12, 2018, the Republic and the China Development Bank entered into a U.S.$675 million (tranche A) and RMB1,530 million (tranche B) facility agreement where each loan made under the facility shall be repaid in 16 installments, each payable every three months. Under the tranche A facility, the amounts borrowed will be used by the Republic in eligible projects under the agreement, whereas tranche B loans will be used to invest in or finance eligible projects involving approved contractors.

Selected Economic Indicators

	For the Year Ended December 31,					For the Nine Months Ended September 30,	
	2013	2014	2015	2016	2017	2017	2018
	(in millions of U.S. dollars, except percentages)						
The Economy							
Nominal GDP	95,130	101,726	99,290	99,938	104,296	77,955	81,032
Real GDP [1]	67,546	70,105	70,175	69,314	70,956	53,003	53,768
Real GDP growth	4.9%	3.8%	0.1%	-1.2%	2.4%	2.2%	1.4%

	For the Year Ended December 31,					
	2013	2014	2015	2016	2017	2018
	(in percentages)					
Annual inflation	2.70%	3.67%	3.38%	1.12%	-0.20%	0.27%

	For the Year Ended December 31,					
	2013	2014	2015	2016	2017	2018
	(in millions of U.S. dollars)					
International Reserves[2]	4,361	3,949	2,496	4,258	2,451	2,677

	For the year ended December 31,					For the quarter ended September 30,	
	2013	2014	2015	2016	2017	2017	2018
	(in millions of U.S. dollars)						
Balance of Payments [3] [6]							
Exports [3]	25,587	26,597	19,049	17,425	19,618	4,744	5,738
Imports [3]	-26,115	-26,660	-20,699	-15,858	-19,307	-5,046	-5,823
Trade balance [3]	-529	-64	-1,650	1,567	311	-303	-85
Services balance [3]	-1,420	-1,171	-805	-1,055	-994	-227	-58
Current account surplus/deficit of the balance of payments [3]	-944	-678	-2,223	1,322	-373	-414	-126

	For the Year Ended December 31,					
	2013	2014	2015	2016	2017	2018
The Economy						
Unemployment Rate[4]	4.15%	3.80%	4.77%	5.20%	4.62%	3.69%

	For the Year Ended December 31,					January 1 – October 31	
	2013	2014	2015	2016	2017	2017	2018
	(in millions of U.S. dollars, except percentages)						
Non-Financial Public Sector							
Total revenues	37,260	39,032	33,322	30,314	33,426	27,416	31,935
Total expenditures	41,607	44,346	39,262	37,628	38,079	29,448	30,871
Surplus/Deficit	-4,348	-5,314	-5,940	-7,314	-4,653	-2,032	1,064
As % of GDP [1]	-4.6	-5.2	-6.0	-7.4	-4.5	n/a	n/a
General State Budget							
Total revenues	20,400	20,381	20,345	18,556	18,170	15,205	16,418
Total expenditures	25,861	26,794	24,285	24,103	24,312	18,241	18,382
Surplus/Deficit	-5,461	-6,413	-3,941	-5,548	-6,142	-3,036	-1,964
As % of GDP [1]	-5.7	-6.3	-4.0	-5.6	-6.0	n/a	n/a

Public Debt [5]

(in millions of U.S.$, other than percentages)

	As of December 31,					
	2013	2014	2015	2016	2017	2018[7]
Aggregate Total Debt	22,847	30,140	32,771	38,137	46,536	49,429
Aggregate Debt to GDP Ratio	24.0	29.6	33.0	38.2	44.6	45.2[1]

(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 2018. Percentages of GDP are calculated on the basis of nominal GDP.
(2) 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, 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. Beginning on August 9, 2016, due to methodological revisions, figures were recalculated, due to the existence of amounts registered in the account for obligations with the IMF that should be registered in the external indebtedness account.
(3) Figures reflect figures from "Balance of Payments" tables on pages 113-114.
(4) Unemployment figures based on figures from National Institute of Statistics. As a percentage of the economically active population.
(5) Debt figures in this Offering Circular are based on information from the Ministry of Economy and Finance's November 2018 Debt Bulletin and reflect data for November 2018 unless otherwise indicated.
(6) Balance of payments data is published by the Central Bank on an annual and quarterly basis. Numbers reflect third quarter 2018 information.
(7) Debt to GDP percentages for November 2018 are calculated based on the Ministry of Economy and Finance's estimate of projected GDP, which differs from look-back data from 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.

Terms of the Notes

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 2029.
Issue Format:	Rule 144A/Regulation S.
Issue Price:	100% plus accrued interest, if any, from January 31, 2019.
Issue Date:	January 31, 2019.
Maturity Date:	January 31, 2029.
Interest:	10.750% per annum, computed on the basis of a 360-day year of twelve 30 day months.
Interest Payment Dates:	Each January 31 and July 31 of each year, commencing on July 31, 2019.

Terms of the Notes

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 the Notes in accordance with the limitations of the Public Planning and Finance Code, 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 Series of Notes and other non-reserved matters with the consent of the holders of 66 ⅔% of the aggregate amount of the 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 Initial Purchasers cannot provide any assurances that a liquid market for the Notes will develop. The Initial Purchasers have advised the Republic that they currently intend to make a market in the Notes. However, they are 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 and Account Bank: The Bank of New York Mellon, London Branch.

Luxembourg Listing Agent and Luxembourg Paying Agent: The Bank of New York Mellon SA/NV, Luxembourg Branch.

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, 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 LCIA Rules as at present in force as modified by the Indenture which LCIA Rules are deemed to be incorporated by reference. The provisions in the LCIA Rules regarding an Emergency Arbitrator shall not apply. 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 thereby appoints Law Debenture Corporate Services Limited 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 days of the event taking place) appoint 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. Investors should consult their financial and legal advisors about the risk of investing in the Notes. Ecuador disclaims any responsibility for advising investors 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 Initial Purchasers that they intend to make a market in the Notes but are not obligated to do so, and in the event that they do so, they 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.

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 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. Investors should consult their financial or legal advisors for advice concerning applicable transfer restrictions with respect to the Notes.

Sovereign credit ratings may not reflect all risks of investment in the Notes.

Sovereign 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 sovereign 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 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. 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. On November 22, 2018, the European Union and the United Kingdom issued a draft political declaration for that purpose. This declaration is political in nature and not legally binding.

On November 25, 2018, the European Council endorsed the withdrawal agreement laying out the terms of the relationship between the European Union and the United Kingdom during the transition period. Ratification by the respective European Union and United Kingdom parliaments is required. Under United Kingdom law, the United Kingdom parliament must hold a "meaningful vote" on the withdrawal agreement before it reaches the European Union Parliament. Said vote was deferred from its originally scheduled date of December 11, 2018. On December 11 and 12, 2018, both the President of the European Commission and the European Union Conference of

Presidents, respectively, reconfirmed that the current withdrawal agreement is the only deal possible. Despite this, on January 15, 2019, the United Kingdom parliament rejected the proposed withdrawal agreement, and there now remains considerable uncertainty as to the next steps.

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 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 Notes.

Ecuador may issue additional notes that are considered as "contingent liabilities" under Ecuadorian law.

Ecuador has previously entered into repurchase transactions and a bond derivative transaction, in connection with which it issued notes that are considered as "contingent liabilities" (*pasivos contingentes*) under Ecuadorian law. In each case, such notes were fully fungible with the relevant series of outstanding notes of Ecuador. For more information, see "*Public Debt-GSI Repo Transaction*", "*Public Debt-CS Repo Transaction*" and "*Public Debt-GSI Loan Facility*". The Notes do not contain any limitation on the ability of Ecuador to issue additional debt. Accordingly, Ecuador may issue additional notes that are considered as "contingent liabilities" (*pasivos contingentes*) for the purpose of substituting such additional notes for the notes that were sold by Ecuador under the GSI Repo Transaction or the CS Repo Transaction, or for the purpose of selling such additional notes under new similar transactions. If Ecuador were to issue such additional notes for any such purpose, then the outstanding principal amount of any relevant series of outstanding notes of Ecuador could increase. In addition, the holders of any relevant series of outstanding notes could therefore find that a significant number of the outstanding notes for that series are owned by the purchaser of such additional notes under the relevant transaction.

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, 2023 Notes, 2024 Notes, 2026 Notes, 2027 Notes, Second 2027 Notes and 2028 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 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 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, among others, 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 General, 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.

The CGR Audit Report concluded that certain rules that defined the methodology to calculate public debt were replaced with laws and regulations that allowed for discretion in the application and use of certain concepts related to public debt and, specifically, 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 included in the calculation of the public debt to GDP ratio. The CGR Audit Report also concluded that Decree 1218 of 2016 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 deviated from the practice of using the aggregation of public debt methodology for the purpose of establishing whether the public debt to GDP ceiling of 40% had been exceeded. Consequently, Decree 1218 allowed the Government to enter into certain debt transactions 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 set forth 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"), and found 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 nature 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 indications of: (i) administrative liability of certain public officials, which may lead to the dismissal of those officials; (ii) civil liability of certain current or former public officials, which may lead to fines if those officials acted in breach of their duties; and (iii) criminal liability of certain 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 such 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 to the district administrative courts.

In April 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 certain former or current public officials. Based on that report, the Office of the Prosecutor General initiated a preliminary criminal investigation against former President 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 review evidence 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 to hold an indictment hearing with respect to any of the officials currently under investigation. If a 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 criminal court but the alleged offenders will not be found guilty unless, after trial, the offenders are found to be criminally liable.

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, the Public Planning and Finance Code should be amended and Decree 1218 should be repealed with respect to the calculation of the total public debt to GDP ratio to ascertain the actual value of total public debt and determine if that amount exceeded the 40% debt to GDP ratio 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. On October 15, 2018, President Moreno enacted Decree 537 repealing Decree 1218 in its entirety, which became effective on October 30, 2018, see "*Public Debt—Decree 1218*".

On June 21, 2018, the National Assembly passed the Organic Law for Productive Development, Investment, Employment and Fiscal Stability (the "Organic Law for Productive Development") which became effective on August 21, 2018, which 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 that for the period from 2018 to 2021 and until the public debt reaches a level below the public debt ceiling of 40% of GDP, such public debt ceiling will not apply. This new law provides that for the period from 2018 to 2021, a fiscal stability plan will be implemented by the Ministry of Economy and Finance. The new law sets forth that in each subsequent fiscal year after the period from 2018 to 2021, the General State Budget must be presented with a fiscal program aimed at reducing over time the amount of total public debt relative to GDP, until it reaches a level below the 40% debt to GDP ratio. The new law also mandates that the Ministry of Economy and Finance issue within 90 days from August 21, 2018, a new regulation implementing a new accounting methodology, which will 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.

On November 19, 2018, the Ministry of Economy and Finance issued the Regulation Implementing the Public Debt to GDP Ratio Calculation Methodology setting out the definitions and methodology for calculating and divulging the country's public debt to GDP ratio. It provides that the calculation of the public debt to GDP ratio will be based on total public debt as published in the official aggregate financial statements and the latest nominal GDP as published by the Central Bank. It defines total public debt as the sum of the public debt incurred by the entities comprising the public sector. This regulation provides for a transition period ending on May 31, 2019, when the Ministry of Economy and Finance will issue the first report on public debt following the methodology set out in this regulation. Once this transition period is over, public debt figures as presented in this Offering Circular may vary.

On December 20, 2018, the Regulation to the Organic Law for Productive Development became effective amending, among others, article 133 of the Rules to the Public Planning and Finance Code to provide that the Ministry of Economy and Finance will produce both aggregated and consolidated financial statements of the public debt for the public sector, the non-financial public sector and the central government in a period of no more than 60 days after the end of each month, see "*Public Debt—Organic Law for Productive Development, Investment, Employment and Fiscal Stability.*"

The Special Audit has resulted in additional audits, including: (i) an examination finalized in July 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; and (ii) five ongoing examinations, including an examination of the contracts with service providers (including lawyers, banks, financial agents and other firms) involved in public debt transactions; an examination regarding the GSI Loan Facility, the Gold Derivative Transaction and the Bond Derivative Transaction, see "*Public Debt-GSI Loan Facility*;" an examination regarding the Republic's use of shares of public banks to pay the Central Bank of Ecuador; an examination on the entry, registration and use of funds from oil pre-sale contracts; and a follow-up examination on the application of the recommendations under the CGR Audit Report.

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 concluded that: (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 partially repealing Decree 1218 so that short-term securities with a term of "less than 360 days" are excluded from the calculation of the total public debt, instead of short-term securities with a term of "up to 360 days" as it was set forth in Decree 1218. Pursuant to Decree 537, Decree 1218 was repealed in its entirety on October 30, 2018, when Decree 537 was published, see "*Public Debt—Decree 1218*". 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 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 an indictment hearing with respect to any of the officials currently under investigation. If a judge determines that there are grounds for an indictment, the Office of the Prosecutor General will conclude its investigation and issue a final report within 90 days to the criminal court. Following their indictment, the court will hold a hearing to call the alleged offenders to trial. The alleged offenders will not be considered criminally liable unless and until the court determines, after a trial, that the offenders are criminally liable.

Any series of notes issued by the Republic (including the Notes) and any other financing transactions could in the future be subject to the review of the Office of the Comptroller General within its powers granted by Ecuadorian law to examine acts of public entities.

Since President 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, Mr. Martínez 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 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 won 28 seats and PSC won 15 seats. 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 won 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 presidency 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 relieved vice president Glas of his official duties pursuant to Executive Decree 100. As part of the revocation of functions assigned to the then vice president Glas under Decree 9, Decree 100 removed the then vice president 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 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 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 Glas. Otherwise, Mr. Glas then retained the post of vice president. The then vice president 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, Mr. 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. Mr. Glas' 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 Glas received a six-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.

On December 3, 2018, President Moreno relieved vice president María Alejandra Vicuña Muñoz of her official duties amidst an undergoing corruption scandal that spurred a criminal investigation into her vice presidency. Secretary of the Presidency, José Augusto Briones, was temporarily assigned the duties of the office of the vice president. The day after, on December 4, 2018, the vice president resigned her post. On December 6, 2018, a shortlist of three candidates proposed by the President was submitted to the National Assembly. On December 11, 2018, the National Assembly appointed economist Otto Ramón Sonnenholzner Sper as the new vice president of Ecuador.

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 and mining;
- 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 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. 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, 23.8% 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.$50.05 per barrel as estimated by the 2019 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 global recessions, 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, in the first eleven months of 2018, 87.0% of Ecuador's petroleum exports by destination were to four countries: the United States (45.3%), Peru (14.3%), Panama (14.2%) and Chile (13.2%). 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 compared to its initial goal of 421,414 bpd. In January 2018, Petroamazonas produced 394,401 bpd barrels of oil compared to its initial goal of 394,401 bpd. In February 2018, Petroamazonas produced 394,525 bpd compared to its initial goal of 394,522 bpd. In March 2018, Petroamazonas produced 396,495 bpd barrels of oil compared to its initial goal of 396,153 bpd. In April 2018, Petroamazonas produced 400,272 bpd compared to its

initial goal of 399,928 bpd. In May 2018, Petroamazonas produced 398,872 bpd compared to its initial goal of 399,330 bpd. In June 2018, Petroamazonas produced 398,929 bpd compared to its initial goal of 398,928 bpd. In July 2018, Petroamazonas produced 406,064 bpd compared to its initial goal of 412,027 bpd. In August 2018, Petroamazonas produced 413,053 bpd compared to its initial goal of 424,109 bpd. In September 2018, Petroamazonas produced 402,605 bpd compared to its initial goal of 427,901 bpd. In October 2018, Petroamazonas produced 398,579 bpd compared to its initial goal of 433,041 bpd. In November 2018, Petroamazonas produced 400,919 bpd compared to its initial goal of 438,654 bpd. In December 2018, Petroamazonas produced 406,299 bpd compared to its initial goal of 444,045 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 was not affected by this agreement.

On December 7, 2018, the 5th OPEC and non-OPEC Ministerial Meeting held in Vienna, Austria, decided to reduce the overall production by 1.2 mbpd, starting in January 2019 for an initial period of six months. The contributions from OPEC participating countries and the voluntary contributions from non-OPEC participating countries will be to 0.8 mbpd (2.5%) and 0.4 mbpd (2.0%), respectively. Ecuador's oil production is not expected to be affected by that OPEC agreement to reduce production starting in January 2019.

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.

Ecuador's growth outlook is conditioned upon successful implementation of its austerity policies that aim to strengthen fiscal institutions and re-establish a competitive private-sector driven economy.

Ecuador is currently implementing policies to address fiscal imbalances and bolster the competitiveness of the private sector through its economic plan, which is complemented by a number of defined austerity measures published on August 28, 2018, in the Plan of Prosperity. If the policies and measures necessary to strengthen fiscal institutions and the private sector do not materialize at the required pace, this could result in slower rates of economic growth and fiscal adjustment than anticipated, and could have adverse effect on the Government's revenues, affecting its ability to service its debt.

As part of the ongoing plan to optimize the administration of the State, a committee was created among the *Empresa Coordinadora de Empresas Públicas* ("Public Companies Coordinator Company"), the General Secretariat of the Presidency, the *Secretaría Nacional de Planificación y Desarrollo* ("National Secretariat for Planning and Development") and the Ministry of Energy and Non-Renewable Resources, along with technical teams from Petroecuador and Petroamazonas, to start carrying out the process to merge Petroecuador and Petroamazonas. This merger is expected to be completed by 2020.

Failure to reduce greenhouse gas (GHG) emissions could curtail the profitability of Ecuador's hydrocarbon and industrial sectors.

In the years ahead, hydrocarbon and industrial sectors will face increased international regulation relating to GHG emissions. Like any significant changes in the regulatory environment, GHG regulation could have the impact of curtailing profitability in the hydrocarbon and industrial sectors reducing Ecuador's income from oil and gas operations and in tax revenues. In the long term, Ecuador's oil and gas operations could become economically infeasible.

International agreements and regulatory measures that aim to limit or reduce GHG emissions are currently in various stages of implementation. For example, the Paris Agreement went into effect in November 2016, and a number of countries are studying and adopting policies to meet their Paris Agreement goals. Other jurisdictions are considering adopting or are in the process of implementing laws or regulations to directly regulate GHG emissions through similar or other mechanisms such as, for example, via a carbon tax (e.g., Singapore and Canada) or via a cap-and-trade program (e.g., Mexico and China). The landscape continues to be in a state of constant re-assessment and legal challenge with respect to these laws and regulations, making it difficult to predict with certainty if this will have an adverse effect on, among other things, GDP growth, Government revenues, balance of payments and foreign trade.

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 14.5% and 14.9% of Ecuador's total exports for the first eleven 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. The risk with respect to the offering includes that the Initial Purchasers 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 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 Offering Circular, 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 Rules to the Public Planning and Finance Code. Decree 1218 changed the methodology that the Ministry of Economy and Finance used 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 had 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 Productive Development, approved by the National Assembly on June 21, 2018. On the other hand, 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. On October 15, 2018, President Moreno enacted Decree 537 repealing Decree 1218 in its entirety, which became effective on October 30, 2018, see "*Public Debt—Decree 1218*".

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 Productive Development (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 Productive Development, Investment, Employment and Fiscal Stability*", and provides that for the period from 2018 to 2021 and until the public debt reaches a level below the public debt ceiling of 40% of GDP, such public debt ceiling will not apply. This new law provides that for the period from 2018 to 2021, a fiscal stability plan will be implemented by the Ministry of Economy and Finance. The new law sets forth that in each subsequent fiscal year after the period from 2018 to 2021, the General State Budget must be presented with a fiscal program aimed at reducing over time the amount of total public debt relative to GDP, until it reaches a level below the 40% debt to GDP ratio.

The new law also mandates that the Ministry of Economy and Finance issue within 90 days from August 21, 2018, a new regulation implementing a new accounting methodology, which will 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.

On November 19, 2018, the Ministry of Economy and Finance issued the Regulation Implementing the Public Debt to GDP Ratio Calculation Methodology setting out the definitions and methodology for calculating and divulging the country's public debt to GDP ratio. It provides that the calculation of the public debt to GDP ratio will be based on total public debt as published in the official aggregate financial statements and the latest nominal GDP as published by the Central Bank. It defines total public debt as the sum of the public debt incurred by the entities comprising the public sector. This regulation provides for a transition period ending on May 31, 2019, when the Ministry of Economy and Finance will issue the first report on public debt following the methodology set out in this regulation. Once this transition period is over, public debt figures as presented in this Offering Circular may vary.

On December 20, 2018, the Regulation to the Organic Law for Productive Development became effective amending, among others, article 133 of the Rules to the Public Planning and Finance Code to provide that the Ministry of Economy and Finance will produce both aggregated and consolidated financial statements of the public debt for the public sector, the non-financial public sector and the central government in a period of no more than 60 days after the end of each month. These amendments also provide that in establishing the total amount of public debt, the Ministry of Economy and Finance will consider the aggregate public debt/GDP indicator of the entities constituting the public sector. This indicator will be calculated and projected based on the public debt aggregate statements, at least for the final balances, for the following four years. Among other provisions, the regulation provides guidance for calculating the debt to GDP ratio for these purposes, as well as for reducing the balance of the public debt below 40% and for ensuring that the balance of the public debt does not exceed 40% of GDP after it has been reduced.

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 its 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.$52.1 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 "*Exchange Rate Information*."

USE OF PROCEEDS

The use of proceeds for public debt is limited by 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 related debt obligations and (3) refinance existing external debt obligations 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 Notes in accordance with the limitations of the Public Planning and Finance Code. The total expenses of this offering, including the Initial Purchasers' fees, are estimated to be approximately U.S.$3,000,000.

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.

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 then 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 2019, the total population of Ecuador is approximately 17.3 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 0.61 million 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	2018	2019
Total population (*million*)	15.8	16.0	16.3	16.5	16.7	17.0	17.3
Female (%)	50.5	50.5	50.5	50.5	50.5	50.5	50.5
Male (%)	49.5	49.5	49.5	49.5	49.5	45.5	49.5
Urban (%)	63.2	63.3	63.4	63.6	63.7	63.8	63.9
Rural (%)	36.8	36.7	36.6	36.4	36.3	36.2	36.1
Functional age groups (*%*)							
Child (0–14)	31.5	31.1	30.7	30.3	29.9	29.5	29.1
Adult (15–64)	61.9	62.2	62.5	62.8	63.1	63.3	63.6
Elderly (65+)	6.7	6.7	6.8	6.9	7.0	7.2	7.4
Demographic Indicators							
Average Annual Growth (%)	1.6	1.6	1.6	1.5	1.6	1.5	1.4
Birth Rate (per thousand) [1]	18.7	18.1	17.7	16.5	17.2	n/a	n/a
Infant Mortality Rate (per 1,000 live births)	8.8	8.5	8.9	9.2	9.7	n/a	n/a
Fertility Rate (per woman)	2.6	2.6	2.5	2.5	n/a	n/a	n/a
Average Life Expectancy (*age*)[1]							
Female	78.6	78.8	79.1	79.3	79.5	n/a	n/a
Male	72.9	73.2	73.4	73.7	73.9	n/a	n/a
Overall	75.8	76.0	76.2	76.5	76.7	n/a	n/a

Source: Based on data from INEC. 2018 and 2019 figures based on INEC projections.

(1) Figures for 2018 and 2019 of Birth Rate (per thousand) and Average Life Expectancy (age) are not yet available.

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 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.

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 International Bank for Reconstruction and Development ("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

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 Offering Circular, 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 fueled 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 "Electoral Dispute Settlement Court") 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, 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 won 28 seats and PSC won 15 seats. 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 won 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 presidency 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 Sáenz 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 Politica Económica* (the "Ministry of Coordination and Economic Politics") and the *Ministerio de Finanzas* (the "Finance Ministry") which became 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, will 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 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 the 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 though 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 relieved vice president Glas of his official duties pursuant to Executive Decree 100. As part of the revocation of functions assigned to the then vice president Glas under Decree 9, Decree 100 removed the then vice president 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 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 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 Glas. Otherwise, Mr. Glas then retained the post of vice president. The then vice president 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, Mr. 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. Mr. Glas' 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 Glas received a six-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 December 3, 2018, President Moreno relieved vice president María Alejandra Vicuña Muñoz of her official duties amidst an undergoing corruption scandal that spurred a criminal investigation into her vice presidency. Secretary of the Presidency, José Augusto Briones, was temporarily assigned the duties of the office of the vice president. The day after, on December 4, 2018, the vice president resigned her post. On December 6, 2018, a shortlist of three candidates proposed by the President was submitted to the National Assembly. On December 11, 2018, the National Assembly appointed economist Otto Ramón Sonnenholzner Sper as the new vice president of Ecuador.

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 selected 40 organizations for the campaign, 36 of which promoted the "YES" vote and 4 of which promoted 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 Moreno presented an economic plan to (i) stabilize Ecuador's fiscal profile, (ii) restructure and reduce the size of the Government and enact institutional austerity measures, (iii) increase exports

and sustain dollarization, and (iv) stimulate the economy through measures strengthening the private sector. This plan includes, among other measures, the merging of certain Ministries.

On August 21, 2018, President Moreno announced a series of austerity measures as part of the new 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 primary fiscal balance and a global fiscal balance below 1% by 2021. The Plan of Prosperity focuses on (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, together with the assistance of the Andean Development Corporation and the Inter-American Development Bank, a corporate reform with respect to state-owned companies including 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 to analyze the allocation of fuel subsidies.

With a portion of the savings derived from the measures discussed above, President 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 economic growth. This reform will include a plan for the full repayment of government debts owed to the Central Bank within the next five 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 Ministry of Education, the Ministry of Sport and the Institute of Languages, Sciences and Ancestral Knowledge which became 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 Secretariat of Sports.

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 this 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. The merger was implemented in September 2018. On September 20, 2018, by executive decree No. 517, President Moreno confirmed Carlos Pérez in his post as Minister of Energy and Non-Renewable Natural Resources.

On August 21, 2018, President Moreno announced a new round of austerity measures, which include a further reduction in the number of Ministries, to 20 from 40 when he became president. Entities that will be merged include the Ministry of Industries and Productivity (to be merged with the Ministry of Foreign Trade and Investments), the Ministry of Justice, the Secretariat for Risk-Management (to be merged with the Ministry of Defense), the Secretariat for Water (to be merged with the Ministry of the Environment), and the National Customs Service (to be merged with the Internal Revenue Service). Additionally, the Ecuadorian Space Institute, the Secretariat for Internal Boundaries and the Secretariat for National Communication will disappear. These measures are being implemented through several executive decrees.

On August 23, 2018, the Transitional Citizen Participation and Social Control Council resolved to prematurely end the tenure of all justices of the Constitutional Court based on alleged irregularities in their appointment and lack of judicial independence and impartiality, and declared a 60-day recess period from the day of

approval of the rules that would be followed to appoint the new members of the court. As of the date of this Offering Circular, the court is still in recess, and the Transitional Citizen Participation and Social Control Council finished conducting public evaluations and examinations on 23 candidates. The new court is expected to start mid-January, 2019.

On September 20, 2018, by executive decree No. 520, President Moreno merged the Ministry of Foreign Trade and Investments, the Ministry of Industries and Productivity and the Institute for the Promotion of Foreign Exports and Investments to become the Ministry of Production, Foreign Trade and Investment. Additionally, the Ministry of Aquaculture and Fisheries would be downsized to a secretariat within the Ministry of Production, Foreign Trade and Investment. A 60-day period was established for the implementation of the merger and downsizing. However, on November 14, 2018, by executive decree No. 559 derogating executive decree No. 520, President Moreno re-issued the order to merge the abovementioned ministries into the new Ministry of Production, Foreign Trade and Investment, this time rendering ineffective the downsizing of the Ministry of Aquaculture and Fisheries by instead merging it into the new ministry and establishing a new 60-day period to complete the merger. This merger became effective in January 2019, resulting in the Ministry of Production, Foreign Trade, Investments and Fisheries. On January 11, 2019, by executive decree No. 636, President Moreno created three vice ministries under the new Ministry of Production, Foreign Trade, Investments and Fisheries, one for each of the three eliminated agencies, and designated Pablo Campana as the new Minister of Production, Foreign Trade, Investment and Fisheries to oversee them.

President Moreno merged, by executive decrees dated September 21, 2018 and October 3, 2018, the Ministry of the Environment and the Secretariat for Water, and downsized the Secretariat for Risk-Management and the Secretariat of Intelligence to the National Service for Risk Management and the Center of Strategic Intelligence, respectively. On October 11, 2018, by executive decree, President Moreno eliminated the National Secretariat of Communication, delegating all its competencies to the Secretariat of Communication of the Presidency.

Also on November 14, 2018, President Moreno decreed the transformation of the Ministry of Justice, Human Rights and Religions into the Secretariat for Human Rights, the creation of the National Service for Integral Assistance to Adults Deprived of their Liberty and Young Offenders, and the transfer of some of the Secretariat of Human Rights’s competencies to the National Service for Integral Assistance to Adults Deprived of their Liberty and Young Offenders. The transformation became effective on January 14, 2019, with the exception of the transfer of competencies to the National Service for Integral Assistance to Adults Deprived of their Liberty and Young Offenders which will be completed by February 14, 2019, as decreed by President Moreno in the executive decree No. 631 dated January 4, 2019.

For the second time in his presidency, on November 22, 2018, President Moreno requested his entire cabinet to submit their resignation while a performance evaluation is carried out, the results of which are still pending. On November 25, President Moreno ratified the Minister of Economy and Finance, Richard Martínez, and the Minister of Foreign Affairs and Human Mobility, José Valencia.

On December 21, 2018, President Moreno issued decree No. 619 eliminating the subsidy on certain types of gasoline and diesel, consequently increasing their prices for consumers. On January 7, 2019, following negotiations with representatives of the transportation sector, and in order to prevent a surge in general consumer prices, the Government agreed to keep in place the subsidy on automotive diesel. On January 12, 2019, the Government agreed with the shrimp industry to establish a compensation system for shrimp producers to minimize the effects of decree No. 619 on the shrimp sector.

On December 21, 2018, President Moreno issued decree No. 624 reducing by 10% and 5% the salaries of high and mid-level government officials, respectively.

The following table shows the composition of the National Assembly as of December 31, 2018:

Political Party	**As of December 31, 2018** **Number of Members**
Alianza PAIS	44
Fuerza EC	1
Independientes	5
Izquierda Democrática	1
Movimiento CREO	31
Movimientos Provinciales	4
Otros Movimientos	28
Pachakutik	5
Partido Social Cristiano	16
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. Provincial and municipal elections will be held on March 24, 2019.

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 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 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.

In July 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, 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, 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 commission composed of nationally recognized professionals to participate in different stages of the special audit, a possibility not expressly regulated by law.

On January 8, 2018, the Comptroller General announced the creation of the Citizen Oversight Commission 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, to observe the procedures and methodology relating to the Republic's incurrence of debt from January 2012 through May 2017. 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 Commission 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 Commission will promote transparency.

In relation to the Special Audit and the creation of the Citizen Oversight Commission, 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 will 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.

The CGR Audit Report concluded that certain rules that defined the methodology to calculate public debt were replaced with laws and regulations that allowed for discretion in the application and use of certain concepts related to public debt and, specifically, 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 included in the calculation of the public debt to GDP ratio. The CGR Audit Report also concluded that Decree 1218 of 2016 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 deviated from the practice of using the aggregation of public debt methodology for the purpose of establishing whether the public debt to GDP ceiling of 40% had been exceeded. Consequently, Decree 1218 allowed the Government to enter into certain debt transactions 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 set forth some conclusions and recommendations regarding certain inter-institutional agreements between the Ministry of Economy and Finance and Petroecuador, and found 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 nature 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 indications of: (i) administrative liability of certain public officials, which may lead to the dismissal of those officials; (ii) civil liability of certain current or former public officials, which may lead to fines if those officials acted in breach of their duties; and (iii) criminal liability of certain 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 such 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 to the district administrative courts.

In April 2018, the Office of the Comptroller General delivered to the Office of the Prosecutor General a report regarding the indications of criminal liability of certain former or current public officials. Based on that report, the Office of the Prosecutor General initiated a preliminary criminal investigation against former President 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 review evidence 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 to hold an indictment hearing with respect to any of the officials currently under investigation. If a 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 criminal court but the alleged offenders will not be found guilty unless, after trial, the offenders are found to be criminally liable.

The CGR Audit Report recommended that, in order to reconcile amounts comprising public debt, the Public Planning and Finance Code should be amended and Decree 1218 should be repealed with respect to the calculation of the total public debt to GDP ratio to ascertain the actual value of total public debt and determine if that amount exceeded the 40% debt to GDP ratio 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 Productive Development which became effective on August 21, 2018, which expressly confirms that certain activities and instruments are considered a contingent liability, and therefore are not included in the calculation of the total public debt to GDP ratio, and provides that for the period from 2018 to 2021 and until the public debt reaches a level below the public debt ceiling of 40% of GDP, such public debt ceiling will not apply. This new law provides that for the period from 2018 to 2021, a fiscal stability plan will be implemented by the Ministry of Economy and Finance. The new law sets forth that in each subsequent fiscal year after the period from 2018 to 2021, the General State Budget must be presented with a fiscal program aimed at reducing over time the amount of total public debt relative to GDP, until it reaches a level below the 40% debt to GDP ratio. The new law also mandates that the Ministry of Economy and Finance issue within 90 days from August 21, 2018, a new regulation implementing a new accounting methodology, which will 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 Productive Development, Investment, Employment and Fiscal Stability.*" On October 15,

2018, President Moreno enacted Decree 537 repealing Decree 1218 in its entirety, which became effective on October 30, 2018, see "*Public Debt—Decree 1218*".

On November 19, 2018, the Ministry of Economy and Finance issued the Regulation Implementing the Public Debt to GDP Ratio Calculation Methodology setting out the definitions and methodology for calculating and divulging the country's public debt to GDP ratio. It provides that the calculation of the public debt to GDP ratio will be based on total public debt as published in the official aggregate financial statements and the latest nominal GDP as published by the Central Bank. It defines total public debt as the sum of the public debt incurred by the entities comprising the public sector. This regulation provides for a transition period ending on May 31, 2019, when the Ministry of Economy and Finance will issue the first report on public debt following the methodology set out in this regulation. Once this transition period is over, public debt figures as presented in this Offering Circular may vary.

On December 20, 2018, the Regulation to the Organic Law for Productive Development became effective amending, among others, article 133 of the Rules to the Public Planning and Finance Code to provide that the Ministry of Economy and Finance will produce both aggregated and consolidated financial statements of the public debt for the public sector, the non-financial public sector and the central government in a period of no more than 60 days after the end of each month. These amendments also provide that in establishing the total amount of public debt, the Ministry of Economy and Finance will consider the aggregate public debt/GDP indicator of the entities constituting the public sector. This indicator will be calculated and projected based on the public debt aggregate statements, at least for the final balances, for the following four years. Among other provisions, the regulation provides guidance for calculating the debt to GDP ratio for these purposes, as well as for reducing the balance of the public debt below 40% and for ensuring that the balance of the public debt does not exceed 40% of GDP after it has been reduced, see "*Public Debt—Organic Law for Productive 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 Special Audit has resulted in additional audits, including: (i) an examination finalized in July 2018, regarding the issuance, placement and payment of CETES by the Republic; and (ii) five ongoing examinations, including an examination of the contracts with service providers (including lawyers, banks, financial agents and other firms) involved in public debt transactions; an examination regarding the GSI Loan Facility, the Gold Derivative Transaction and the Bond Derivative Transaction, see "*Public Debt-GSI Loan Facility*;" an examination regarding the Republic's use of shares of public banks to pay the Central Bank of Ecuador; an examination on the entry, registration and use of funds from oil pre-sale contracts; and a follow-up examination on the application of the recommendations under the CGR Audit Report.

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 concluded that: (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 partially repealing Decree 1218 so that short-term securities with a term of "less than 360 days" are excluded from the calculation of the total public debt, instead of short-term securities with a term of "up to 360 days" as it was set forth in Decree 1218. Pursuant to Decree 537, Decree 1218 was repealed in its entirety on October 30, 2018, when Decree 537 was published, see "*Public Debt—Decree 1218*". 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 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 an indictment hearing with respect to any of the officials currently under investigation. If a judge determines that there are grounds for an indictment, the Office of the Prosecutor General will conclude its investigation and issue a final

report within 90 days to the criminal court. Following their indictment, the court will hold a hearing to call the alleged offenders to trial. The alleged offenders will not be considered criminally liable unless and until the court determines, after a trial, that the offenders are criminally liable.

Any series of notes issued by the Republic (including the Notes) and any other financing transactions could in the future be subject to the review of the Office of the Comptroller General within its powers granted by Ecuadorian law to examine acts of public entities.

Since President 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, Mr. Martínez 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 is preparing an Article IV report which is expected to be issued in the weeks following this Offering Circular.

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 Organic Law for Productive Development 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."

On January 23, 2019, President Moreno and Christine Lagarde, Managing Director of the IMF, met at the World Economic Forum in Davos, paving the way for potential IMF financing to help balance Ecuador's budget and reduce its fiscal deficit, with a view to reducing the country's international debt over time. Ecuador emphasized that any agreement would be compatible with the Government's current economic agenda under the Plan of Prosperity. The IMF applauded Ecuador's recent achievements in reducing its fiscal deficit.

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 November 2018, the World Bank (through the International Bank for Reconstruction and Development) increased by U.S.230 million its financing for the Quito Metro line project. See "*The Ecuadorian Economy—Strategic Sectors—Transportation*," and "*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 nine 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 Auditoria 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 regard 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. In May, 2017, Ecuador formally denounced and terminated bilateral investment treaties with Argentina, Bolivia, Canada, Chile, China, France, Germany, Italy, the Netherlands, Peru, Spain, Sweden, Switzerland, the United Kingdom, the United States and Venezuela. However, those signed with Italy, the Netherlands and Spain will remain in force until 2020, 2021 and 2022, respectively.

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 Jomhouri 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, visited Ecuador as part of efforts to reinvigorate the bilateral relationships between Ecuador and the United States. 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, 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, to Ecuador. President Moreno and vice president 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 discussed 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 called the Ambassadors of those countries in Ecuador to meet to discuss their countries' positions on the matter. Ecuador also called its Ambassador to Bolivia for consultations regarding this matter. Subsequently, the Government declared the Ambassador to Venezuela in Ecuador "persona non grata" and Ecuador's Chargé d'Affaires was recalled. As of the date of this Offering Circular, Ecuador's Ambassador to Venezuela remains in Ecuador and a Third Secretary in Ecuador's diplomatic rank is the highest ranking diplomat representing Venezuela.

Furthermore, on July 5, 2018, the Ecuadorian Parliament voted to approve a debate on the humanitarian crisis in Venezuela which has resulted in an increase in the number of Venezuelan citizens entering Ecuador. According to the Ministry of Interior, as of July 2018, 453,000 Venezuelan citizens have entered Ecuador, and 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 inter-ministerial 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. On September 3, 2018, delegates of 13 Latin American countries and other representatives of international organizations met in Quito with the purpose of exchanging information, criteria and good practices to articulate a response to the constant and increasing influx of Venezuelan immigrants. The delegates of 11 of those 13 countries signed a declaration in which, among others measures, they agreed that Venezuelan nationals may enter their countries legally by carrying a valid Passport, even if it is expired, or a legitimate *cédula* (identity card).

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 participant 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. 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 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.

On October 16, 2018, Ecuador's *Comité de Comercio Exterior* ("Committee on Foreign Trade") issued a favorable opinion for initiating negotiations for Ecuador to join the *Alianza del Pacífico* ("Pacific Alliance"), a regional integration mechanism created by and currently composed of Mexico, Perú, Colombia and Chile, in which Ecuador currently is an observer State. It was reported that negotiations with Ecuador, among others, would start after the current round of negotiations with Canada, Singapore, Australia and New Zealand.

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 represented 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. According to the Central Bank, inflation increased from -0.20% for the 12-month period ended December 31, 2017 to 0.27% for the 12-month period ended December 31, 2018. This increase was primarily due to an increase in each of the prices of alcoholic beverages and tobacco by 2.43%, health products by 2.15%, and other goods and services by 1.79%.

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.$70,956 million, compared to U.S.$69,314 million in 2016, representing an increase of 2.4% 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.$104,296 million representing an increase from U.S.$99,938 million in 2016.

According to the Central Bank's quarterly bulletin for the third quarter of 2018, real GDP for the first nine months of 2018 was U.S.$53,768 million, compared to U.S.$53,003 million for the first nine months of 2017, representing an increase of 1.4% in real terms. This increase is mainly due to an increase in each of household final consumption expenditure by 2.8%, general government final consumption expenditure by 2.5%, gross fixed capital formation by 2.8%; and exports by 0.9%. In the first nine months of 2018, the nominal GDP reached U.S.$81,032 million representing an increase from U.S.$77,955 million in the first nine months of 2017.

Real and Nominal GDP

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

	For the Year Ended December 31,					For the Nine Months Ended September 30,	
	2013	2014	2015	2016	2017	2017	2018
Real GDP (in millions of U.S.$)	67,546	70,105	70,175	69,314	70,956	53,003	53,768
Real GDP growth	4.9%	3.8%	0.1%	-1.2%	2.4%	2.2%	1.4%
Nominal GDP	95,130	101,726	99,290	99,938	104,296	77,955	81,032

Source: Based on figures from the Central Bank Quarterly National Accounts for the Third Quarter of 2018.

Nominal GDP by Economic Sector (1)

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

	For the Year Ended December 31,						For the Nine Months Ended September 30,			
	2015	% of GDP	2016	% of GDP	2017	% of GDP	2017	% of GDP	2018	% of GDP
Manufacturing[2]	13,513	13.61	13,592	13.60	13,866	13.29	10,338	13.26	10,665	13.16
Construction	11,125	11.20	11,976	11.98	12,087	11.59	9,077	11.64	9,221	11.38
Petroleum and mining	4,690	4.73	3,800	3.80	5,024	4.82	3,650	4.68	4,475	5.52
Trade (commerce)	10,218	10.29	9,632	9.64	9,960	9.55	7,395	9.49	7,802	9.63
Agriculture	8,406	8.47	8,441	8.45	8,533	8.18	6,354	8.15	6,546	8.08
Community services	8,489	8.55	8,777	8.78	9,280	8.90	6,893	8.84	7,312	9.02
Government services[3]	6,660	6.71	6,885	6.89	7,062	6.77	5,292	6.79	5,337	6.59
Administrative activity[4]	6,887	6.94	6,574	6.58	7,072	6.78	5,258	6.74	6,028	7.44
Transportation	4,773	4.81	5,414	5.42	5,387	5.17	4,034	5.18	4,005	4.94
Finance and insurance	3,165	3.19	3,073	3.07	3,536	3.39	2,628	3.37	2,788	3.44
Telecommunications	1,984	2.00	1,916	1.92	1,932	1.85	1,444	1.85	1,481	1.83
Electricity and water	1,509	1.52	1,685	1.69	1,826	1.75	1,354	1.74	1,346	1.66
Shrimp	445	0.45	501	0.50	660	0.63	482	0.62	537	0.66
Others [5]	17,427	17.55	17,670	17.68	18,070	17.33	13,758	17.65	13,489	16.65
Total GDP	**99,290**	**100**	**99,938**	**100**	**104,296**	**100**	**77,955**	**100**	**81,032**	**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,					For the Nine Months Ended September 30,	
	2013	2014	2015	2016	2017	2017	2018
Real GDP Growth	4.9	3.8	0.1	-1.2	2.4	2.2	1.4
Import of goods & services [(1)]	7.0	4.8	-8.2	-9.6	12.2	12.4	7.1
Total Supply of Goods & Services	**5.4**	**4.0**	**-1.9**	**-3.1**	**4.4**	**4.3**	**2.7**
Public Sector Consumption	10.3	6.7	2.1	-0.2	3.2	2.8	2.5
Private Consumption	3.9	2.7	-0.1	-2.4	3.7	3.5	2.8
Gross Fixed Capital Formation	10.4	2.3	-6.2	-8.9	5.3	4.5	2.8
Exports of goods and services[(1)]	2.6	6.2	-0.6	1.4	0.7	0.8	0.9
Total Final Demand	**5.4**	**4.0**	**-1.9**	**-3.1**	**4.4**	**4.3**	**2.7**

Source: Based on figures from the Central Bank Quarterly National Accounts for the Third Quarter of 2018.

(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	6,046	6,217
Per capita Real GDP	4,282	4,374	4,311	4,194	4,229
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 November 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,					For the Nine Months Ended September 30,	
	2013	2014	2015	2016	2017	2017	2018
Consumption							
Public Sector Consumption	9,609.8	10,252.3	10,471.8	10,453.9	10,790.0	8,056.1	8,260.2
Private Consumption	41,942.3	43,088.8	43,049.2	42,011.6	43,577.6	32,498.9	33,420.8
Total Consumption	51,552.1	53,341.2	53,521.0	52,465.5	54,367.6	40,554.9	41,681.0
Gross Investment							
Gross Fixed Capital Formation	18,214.1	18,626.3	17,465.3	15,917.1	16,762.3	12,506.9	12,857.0
Change in Inventory	261.3	471.2	-123.1	-568.2	388.0	160.3	374.8
Exports of goods and services[(1)]	18,210.3	19,342.0	19,218.8	19,491.9	19,631.7	14,732.4	14,871.6
Imports of goods and services [(1)]	20,691.6	21,675.4	19,907.4	17,992.2	20,193.8	14,951.2	16,016.1
Real GDP	67,546.1	70,105.4	70,174.7	69,314.1	70,955.7	53,003.3	53,768.4

Source: Based on figures from the Central Bank Quarterly National Accounts for the Third Quarter of 2018.

(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

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 will 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 will 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. María Alejandra Vicuña Muñoz resigned her post on December 4, 2018, following the start of a criminal investigation against her into alleged corrupt acts. Economist Otto Ramón Sonnenholzner Sper was appointed as the new vice president by the National Assembly on December 11, 2018.

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 Productive Development 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 Productive Development, enacted on August 21, 2018, expanded some of the tax incentives under the Production Code (including income tax exemption for eight years instead of five 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 Productive 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 Productive Development, 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 will 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 Productive Development, 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 Productive 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, the Public Planning and Finance Code should be amended and Decree 1218 should be repealed with respect to the calculation of the total public debt to GDP ratio to ascertain the actual value of total public debt and determine if that amount exceeded the 40% debt to GDP ratio 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 Productive

Development which became effective on August 21, 2018, which expressly confirms that certain activities and instruments are considered a contingent liability, and therefore are not included in the calculation of the total public debt to GDP ratio, and provides that for the period from 2018 to 2021 and until the public debt reaches a level below the public debt ceiling of 40% of GDP, such public debt ceiling will not apply. This new law provides that for the period from 2018 to 2021, a fiscal stability plan will be implemented by the Ministry of Economy and Finance. The new law sets forth that in each subsequent fiscal year after the period from 2018 to 2021, the General State Budget must be presented with a fiscal program aimed at reducing over time the amount of total public debt relative to GDP, until it reaches a level below the 40% debt to GDP ratio. The new law also mandates that the Ministry of Economy and Finance issue within 90 days from August 21, 2018, a new regulation implementing a new accounting methodology, which will 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 Productive Development, Investment, Employment and Fiscal Stability.*" On October 15, 2018, President Moreno enacted decree No. 537 ("Decree 537") repealing Decree 1218 in its entirety, which became effective on October 30, 2018, see "*Public Debt—Decree 1218.*" On October 15, 2018, President Moreno enacted Decree 537 repealing Decree 1218 in its entirety, which became effective on October 30, 2018, see "*Public Debt—Decree 1218*".

On November 19, 2018, the Ministry of Economy and Finance issued the Regulation Implementing the Public Debt to GDP Ratio Calculation Methodology setting out the definitions and methodology for calculating and divulging the country's public debt to GDP ratio. It provides that the calculation of the public debt to GDP ratio will be based on total public debt as published in the official aggregate financial statements and the latest nominal GDP as published by the Central Bank. It defines total public debt as the sum of the public debt incurred by the entities comprising the public sector. This regulation provides for a transition period ending on May 31, 2019, when the Ministry of Economy and Finance will issue the first report on public debt following the methodology set out in this regulation. Once this transition period is over, public debt figures as presented in this Offering Circular may vary.

On December 20, 2018, the Regulation to the Organic Law for Productive Development became effective amending, among others, article 133 of the Rules to the Public Planning and Finance Code to provide that the Ministry of Economy and Finance will produce both aggregated and consolidated financial statements of the public debt for the public sector, the non-financial public sector and the central government in a period of no more than 60 days after the end of each month. These amendments also provide that in establishing the total amount of public debt, the Ministry of Economy and Finance will consider the aggregate public debt/GDP indicator of the entities constituting the public sector. This indicator will be calculated and projected based on the public debt aggregate statements, at least for the final balances, for the following four years. Among other provisions, the regulation provides guidance for calculating the debt to GDP ratio for these purposes, as well as for reducing the balance of the public debt below 40% and for ensuring that the balance of the public debt does not exceed 40% of GDP after it has been reduced.

In addition, the Organic Law for Productive Development 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 entity in charge of public finances will approve a plan to strengthen public finances to achieve and restore fiscal balance.

The CGR CETES Report concluded that: (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 partially repealing Decree 1218 so that short-term securities with a term of "less than 360 days" are excluded from the calculation of the total public debt, instead of short-term securities with a term of "up to 360 days" as it was set forth in Decree 1218. Pursuant to Decree 537, Decree 1218 was repealed in its entirety on October 30, 2018, when Decree 537 was published, see "*Public Debt—Decree 1218*". 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 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 an indictment hearing with respect to any of the officials currently under investigation. If a judge determines that there are grounds for an indictment, the Office of the Prosecutor General will conclude its investigation and issue a final report within 90 days to the criminal court. Following their indictment, the court will hold a hearing to call the alleged offenders to trial. The alleged offenders will not be considered criminally liable unless and until the court determines, after a trial, that the offenders are criminally liable.

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 Reformatoria 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, circulation of electronic currency in Ecuador reached its highest point of U.S.$11.3 million in January 2018. 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 Financian 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 Rules to the Public Planning and Finance Code. Decree 1218 changed the methodology that the Ministry of Economy and Finance used 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 Offering Circular. 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.

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 Productive Development (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 contingent liabilities for purposes of the calculation of the debt to GDP ratio, and provides that for the period from 2018 to 2021 and until the public debt reaches a level below the public debt ceiling of 40% of GDP, such public debt ceiling will not apply. This new law provides that for the period from 2018 to 2021, a fiscal stability plan will be implemented by the Ministry of Economy and Finance. The new law sets forth that in each subsequent fiscal year after the period from 2018 to 2021, the General State Budget must be presented with a fiscal program aimed at reducing over time the amount of total public debt relative to GDP, until it reaches a level below the 40% debt to GDP ratio. The new law also mandates that the Ministry of Economy and Finance issue within 90 days from August 21, 2018, a new regulation implementing a new accounting methodology, which will 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 Productive Development, Investment, Employment and Fiscal Stability.*" On October 15, 2018, President Moreno enacted decree No. 537 ("Decree 537") repealing Decree 1218 in its entirety, which became effective on October 30, 2018, see "*Public Debt—Decree 1218.*"On October 15, 2018, President Moreno enacted Decree 537 repealing Decree 1218 in its entirety. On October 30, 2018, Decree 537 was published and the repeal of Decree 1218 became effective.

On November 19, 2018, the Ministry of Economy and Finance issued the Regulation Implementing the Public Debt to GDP Ratio Calculation Methodology setting out the definitions and methodology for calculating and divulging the country's public debt to GDP ratio. It provides that the calculation of the public debt to GDP ratio will be based on total public debt as published in the official aggregate financial statements and the latest nominal GDP as published by the Central Bank. It defines total public debt as the sum of the public debt incurred by the entities comprising the public sector. This regulation provides for a transition period ending on May 31, 2019, when the Ministry of Economy and Finance will issue the first report on public debt following the methodology set out in this regulation. Once this transition period is over, public debt figures as presented in this Offering Circular may vary.

On December 20, 2018, the Regulation to the Organic Law for Productive Development became effective amending, among others, article 133 of the Rules to the Public Planning and Finance Code to provide that the Ministry of Economy and Finance will produce both aggregated and consolidated financial statements of the public debt for the public sector, the non-financial public sector and the central government in a period of no more than 60 days after the end of each month. These amendments also provide that in establishing the total amount of public debt, the Ministry of Economy and Finance will consider the aggregate public debt/GDP indicator of the entities constituting the public sector. This indicator will be calculated and projected based on the public debt aggregate statements, at least for the final balances, for the following four years. Among other provisions, the regulation provides guidance for calculating the debt to GDP ratio for these purposes, as well as for reducing the balance of the public debt below 40% and for ensuring that the balance of the public debt does not exceed 40% of GDP after it has been reduced.

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 became 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 Reestructuración 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 became 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 Reformatoria 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 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.

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 Amazónica* (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 Productive Development

On June 21, 2018, the National Assembly approved the Organic Law for Productive Development and, after a Presidential partial veto, it became effective 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 (eight years if the investment is in Quito or Guayaquil and 15 years for investments in the industrial and agricultural sectors, including agricultural cooperatives, in the border regions of the country) for new productive investments in priority sectors, such as food production, forestry and agricultural land reforestation (agroforestry), 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 the incentives in the law.

The Organic Law for Productive Development also includes other incentives, such as the option for investors to agree to settle disputes with the Republic through national or international arbitration under the UNCITRAL Arbitration Rules (the "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 a prior homologation process (*exequátur*). As a result, international arbitral awards will be directly enforceable as is the case with domestic awards.

The Organic Law for Productive Development reforms Article 123 of the Public Planning and Finance Code by expressly confirming that a contingent liability may originate from the activities listed below, and that it will be excluded from the calculation of public debt for the period for which it remains contingent. A contingent liability will only be considered public debt, and included in the calculation of total public debt to GDP ratio, in such amount and to the extent the obligation become due and payable. A contingent liability may originate when:

- the Central Government issues sovereign guarantees for the benefit of public sector entities that enter into public debt, together with all provisions made for their payment;

- notes linked to duly documented payment obligations are issued;

- guarantee agreements to secure the proper use of non-reimbursable contributions received by any applicable entity are entered into; and

- the public sector incurs contingent liabilities in accordance with applicable law, or other liabilities are incurred within the context of agreements with international credit agencies.

For further information regarding amendments to certain provisions of the Public Planning and Finance Code, see "*Public Debt—Organic Law for Productive Development, Investment, Employment and Fiscal Stability*."

Organic Law for the Optimization and Efficiency of Bureaucratic Procedures

On October 23, 2018, the *Ley Orgánica para la Optimización y Eficiencia de Trámites Administrativos* (the "Organic Law for the Optimization and Efficiency of Bureaucratic Procedures") was published and became effective. The law aims to simplify and cheapen bureaucratic procedures across the board to further expand people's access to the public administration. To achieve this, the law limits the ability of regulated entities to create bureaucratic procedures and requirements without first proving that they are not an unnecessary burden to users; requires that new bureaucratic requirements and procedures be published and accessible to the population with appropriate instructions; creates a presumption for the user that their affidavits and filings required for a bureaucratic procedure are true until proven false; prohibits regulated entities within the public administration from requiring original documents or more documentation or forms of ID than necessary for a bureaucratic procedure when the relevant information is available in the public registry to that effect; mandates the creation of an online platform to make payments for bureaucratic procedures; and, among others, orders the creation of a system to cancel tax debt owed by government contractors against any credit that they might have against the State for the goods or services provided.

Law Creating the Del Río University-UDR

On December 6, 2018, the *Ley de Creación de la Universidad del Rio-UDR* ("Law Creating the Del Río University-UDR") was published and became effective. The law creates a public university, Universidad Del Río ("UDR"), with legal personhood and academic, administrative and financial autonomy. UDR will have its main campus in Guayaquil.

Organic Law for the Institutionalization of the Live Arts Festival in Loja as a Place for the Gathering and Promotion of Ecuador's Cultural Expressions and Identity

On January 14, 2019, the *Ley Orgánica para la Institucionalización del Festival Internacional de Artes Vivas de Loja como Espacio de Encuentro y Fomento de las Expresiones Culturales e Identidad del Ecuador* ("Organic Law for the Institutionalization of the Live Arts Festival in Loja as a Place for the Gathering and Promotion of Ecuador's Cultural Expressions and Identity") was published and became effective. This law provides that the "*Festival Internacional de Artes Vivas de Loja*" and the National Program "*Camino a Loja*" shall be held annually in the city of Loja.

Organic Law Interpreting the Ninth General Section of the Organic Law on Intercultural Education

On January 16, 2019, the *Ley Orgánica Interpretativa de la Disposición General Novena de la Ley Orgánica de Educación Intercultural* ("Organic Law Interpreting the Ninth General Section of the Organic Law on Intercultural Education") was published and became effective. This law reinterprets the *Ley Orgánica de Educación Intercultural* ("Organic Law for Intercultural Education") to allow retirees in the public education sector who retired between 2008 and 2011 to benefit from a stimulus package that did not previously apply to them.

Anti-Corruption Measures in Ecuador

Since President 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 September 13, 2018, President Moreno, in his efforts to fight corruption, submitted a new law proposal to the National Assembly aimed at providing protection to whistle blowers of proven corruption. As of the date of this Offering Circular 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 resulted 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*") 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.

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	**6,529**	**7,017**	**5,734**	**4,409**

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 is a state-owned company created by Executive decree in 2011 tasked with evaluating project proposals submitted by municipalities, administering and distributing funds towards approved projects, and supervising the completion and progress of each project. *Ecuador Estratégico* also acts as supervisor in public procurement for the financing of infrastructure projects. These financings are procured through public tender carried out by the Ministries under the supervision of *Ecuador Estratégico*, in consultation with the Ministry of Economy and Finance. A project is assigned to the financing entity through a points-based evaluation system that considers the bidders' qualifications as well as compares the Ministry's particular needs and preferences with the

different elements of the bids (e.g. price, experience of the financing entity in the type of project, and overall experience, among others). The financing entity with the most points is chosen to finance the project. Financing can be procured through joint venture contracts and direct investment through a concession grant or service contract.

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. The merger was implemented in September 2018. On September 20, 2018, by executive decree No. 517, President Moreno confirmed Carlos Pérez in his post as Minister of Energy and Non-Renewable Natural Resources.

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 Energy and Non-Renewable Natural Resources acting through the Hydrocarbons Regulation and Control Agency.

The Ministry of Energy and Non-Renewable Natural Resources 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 eleven months of 2018, crude oil exports totaled U.S.$7,346 million, a 30.9% increase from U.S.$5,614 million in the first eleven months of 2017. This increase was due to a 38% increase in the price per barrel from U.S.$44.8 to U.S.$61.8, despite a 5.2% decrease in volume, from 17,522 to 16,615 thousand metric ton. 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.$25,758 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.$25,758 million in 2015. This decrease was due to certain factors including a reduced collection in taxes mainly in income taxes and value-added tax which decreased by 23% and 15% 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 ten months of 2018, revenues from non-petroleum sources in the non-financial public sector totaled U.S.$22,756 million, a 6.7% increase from U.S.$21,334 million in the first ten 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 5.6% of GDP and 17.5% of non-financial public sector revenues and non-petroleum revenues represented 24.4% of GDP and 76.2% 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 Ministry of Energy and Non-Renewable Natural Resources 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.

As part of the ongoing plan to optimize the administration of the State, a committee was created among the Public Companies Coordinator Company, the General Secretariat of the Presidency, the National Secretariat for Planning and Development and the Ministry of Energy and Non-Renewable Resources, along with technical teams from Petroecuador and Petroamazonas, to start carrying out the process to merge Petroecuador and Petroamazonas. This merger is expected to be completed by 2020.

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 (now the Ministry of Energy and Non-Renewable Natural Resources) implements the hydrocarbon policies defined by the Republic's president;
- the Secretariat of Hydrocarbons (now part of the Ministry of Energy and Non-Renewable Natural Resources) 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 above 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,					January – October,	
	2013	**2014**	**2015**	**2016**	**2017**	**2017**	**2018**
Petroleum (1)	526	557	543	548	531	533	517
Public Companies(2)(3)	144,921	157,976	154,308	158,118	152,092	127,585	121,731
Other operators	47,198	45,166	43,922	42,593	41,837	34,598	35,506
Total	**192,119**	**203,142**	**198,230**	**200,711**	**193,929**	**162,183**	**157,237**
Natural Gas Production (4)	**18,052**	**20,410**	**17,550**	**18,633**	**16,337**	**13,877**	**10,636**

Source: Petroleum data is based on figures from the Central Bank November 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 December 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 198.2 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 December 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 for the year 2016 (and a decrease of 3.1% in barrels per day). 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 December 2018 monthly bulletin, oil field crude production, including that of private and state-owned companies, reached 172.7 million barrels in the first eleven months of 2018, representing a 2.9% decrease from the 177.9 million barrels produced in the first eleven months of 2017 (and a decrease of 2.8% in barrels per day). In the first eleven months of 2018, state-owned companies were responsible for 77.5% of production, compared to 78.5% of production in the first eleven 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.

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 EOP Operaciones Petroleras S.A. (owned by Chile's state-owned ENAP Sipetrol S.A.) and Belarus' Belorusneft. Under the agreement, EOP Operaciones Petroleras 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 EOP Operaciones Petroleras 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 Offering Circular, 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 peaked at 77,346 bpd in August 2018, and it is expected to surpass the level of 160,000 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 December 31, 2018, the following platforms were in operation: Tiputini A with 20 drilled wells and an average production of 11,110.48 bpd; Tiputini B with 3 drilled wells and no production; Tiputini C with 33 drilled wells (27 production wells) and an average production of 14,181.17 bpd; Tiputini D with 13 drilled wells and an average production of 10,005.42 bpd; Tiputini E with 11 drilled wells and an average production of 3,045.35 bpd; Tambococha A with 14 drilled wells and an average production of 15,026.57 bpd; and Tambococha D with 17 drilled wells and an average production of 12,857.27 bpd. As of October 31, 2018, 39 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, Vinccler C.A. and Cementaciones Petroleras Venezolanas were awarded with the contracts for 7 blocks in the regions of Orellana and Sucumbíos, 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

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 the first eleven months of 2018, crude oil exports totaled U.S.$7,346 million, a 30.9% increase from U.S.$5,614 million in the first eleven months of 2017. This increase was due to a 38% increase in the price per barrel from U.S.$44.8 to U.S.$61.8, despite a 5.2% decrease in volume, from 17,522 to 16,615 thousand metric ton.

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. In the first eleven months of 2018, the three main destinations of oil exports were the United States, Peru and Chile with 49.9%, 15.9%, and 14.7%, 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 Unipec Asia Co., Ltd ("Unipec"), 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, Unipec 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. The new amendments are effective as of May 1, 2018.

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 eleven months of 2018, the SOTE transported 115.0 million barrels, averaging 344.3 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 Energy and 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 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 eleven months of 2018, the OCP pipeline transported 56.1 million barrels, averaging 168.0 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 2018, the three main refineries produced 80.5 million barrels of oil derivatives including gasoline, diesel, fuel oil, jet fuel and liquefied petroleum, which represented an increase of 3.5% compared to the 77.7 million barrels of oil derivatives produced in 2017. This increase was due to the Parsons Plant at the La Libertad Refinery having restarted operations as of May 13, 2017, after being shut down for maintenance for a year.

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 2018, the domestic consumption of oil derivatives was 93.2 million barrels, which represents a 7.7% increase compared to the 86.6 million barrels during 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, the Government estimated that oil derivatives production totaled 44,803,229 barrels. 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 December 31, 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 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. On October 11, 2018, the Government announced that the British company RPS Energy Ltd. had won the bid to audit the works performed in this refinery project. On January 9, 2019, RPS Energy Ltd. released the results of the audit finding, among others, certain technical anomalies in the project and that there had been price overcharges.

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, is expected to be granted in concession for a term between 20 and 25 years to private investors via a public tender. The total estimated investment for Refinería de Manabí is approximately between U.S.$8 billion and U.S.$10 billion.

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 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.

On December 21, 2018, President Moreno issued decree No. 619 eliminating the subsidy on certain types of gasoline and diesel, consequently increasing their prices for consumers. On January 7, 2019, following negotiations with representatives of the transportation sector, and in order to prevent a surge in general consumer prices, the Government agreed to keep in place the subsidy on automotive diesel. On January 12, 2019, the Government agreed with the shrimp industry to establish a compensation system for shrimp producers to minimize the effects of decree No. 619 on the shrimp sector.

Also, as part of the austerity measures under the Prosperity Plan, on December 21, 2018, President Moreno issued decree No. 624 reducing by 10% and 5% the salaries of high and mid-level government officials, respectively.

Several private multinational petroleum companies, including ExxonMobil and PDVSA Ecuador, have established service stations in Ecuador. As of December 31, 2018, Petroecuador maintains a network of 46 service stations of its own and 204 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 December 31, 2018, Ecuador had approximately 156,753 million cubic feet of proven natural gas reserves and 317,101 million cubic feet of proven and probable natural gas reserves. As of the date of this Offering Circular, CELEC consumes an average of approximately 26 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 eleven months of 2018, Petroamazonas produced approximately 34.6 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 (0.48% in 2017, 0.47% in 2016, 0.35% in 2015, 0.35% in 2014, 0.32% in 2013 and 0.33% in 2012. In the first nine months of 2018, the mining sector represented 0.48% of the GDP, compared to 0.47% of the GDP for the first nine months of 2017. 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 tons of copper per day during the first three years, increasing afterwards to 60,000 tons of copper per day. The Republic expects that the project will generate approximately U.S.$5.79 billion in revenue for the Republic. In March 2018, the Project was partially suspended over environmental concerns and is expected to fully re-open at the end of January 2019.

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, Lunding 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 tons of ore and silver per day. The Republic expects that the project will generate approximately U.S.$1,523 million.

The Río 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 tons 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. The *Río Blanco* project is currently suspended under court order finding in favor of the people of the communities surrounding the project. On August 3, 2018, the lower court order to suspend the project's mining activities was affirmed on appeal.

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). On November 29, 2018, the then Ministry of Energy confirmed the project's technical and economic feasibility, citing the results of a study performed on the project by an international consortium led by the firm DRA Americas Inc.

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, more than 274 concessions have been granted through a mining concession request process, with a commitment of a 4-year investment totaling more than U.S.$1,298 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 can generate an average of 8.73 GWh per year and has the potential to 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. However, due to lower-than-expected demand in 2017, the plant supplied 25% of the country's electricity needs, or 5,838 GWh. The plant is expected 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 joined 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. On November 5, 2018, the German multinational TÜV SÜD was selected to diagnose the state of the structure and establish a viable plan of action for any necessary repairs, after a draft report by the Government found certain structural deficiencies in the project.

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. The Minas San Francisco power station was completed and inaugurated on January 15, 2019, and will benefit 220,000 families in Southern Ecuador.

In March 2014, former President Correa announced a new program to substitute electricity use in place of 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. However, as of the date of this Offering Circular, eliminating gas subsidies for domestic use is not an immediate goal for this administration.

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, *Secretaría 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.$1,826.5 million to the GDP, an increase compared to U.S.$1,685.2 million in 2016. Since 2013, the sectors represent an average of approximately 1.5% of GDP per year. In the first nine months of 2018, the electric and water sectors contributed a total of U.S.$1,346 million to the GDP, a decrease compared to U.S.$1,354 million for the same period of 2017. This decrease was principally due to a decrease in power generation in the Coca Codo Sinclair and Paute plants.

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.$1,932 million (1.85% of the GDP), an increase of 0.84% compared to U.S.$1,916 million in 2016 (1.92% of the GDP). In the first nine months of 2018, the telecommunications sector accounted for U.S.$1,481 million (1.83% of the GDP), an increase of 2.6% compared to U.S.$1,444 million (1.85% of the GDP) for the same period in 2017. This increase was principally due to among others, an increase in the average number of active mobile service lines.

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. In the first nine months of 2018, the agricultural sector represented 8.08% of the GDP compared to 8.15% of the GDP for the first nine months of 2017.

Between 2013 and 2017, Ecuador's banana exports increased by 30.7%. The value of these exports increased by 11.7% in 2013, 11.0% in 2014 and 9.0% in 2015. 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 eleven months of 2018, banana exports totaled U.S.$2,891 million, a 4.6% increase from U.S.$2,764 million in the first eleven months of 2017 primarily due to a 2.2% increase in the volume exported from 5,997 to 6,130 thousand metric tons, as well as due to an 2.3% increase in the unit price per metric ton from U.S.$461 to U.S.$472.

Ecuador also exports significant amounts of cacao. In 2013, exports increased to U.S.$423 million, a 22.6% increase from 2012. 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 10.3% 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 eleven months of 2018, cacao exports totaled U.S.$578 million, a 7.9% increase from U.S.$535 million in the first eleven months of 2017 primarily due to a 6% increase in the unit price per metric ton from U.S.$2,106 to U.S.$2,240, despite a 1.4% decrease in volume exported from 257.9 thousand metric tons to 254.2 thousand metric tons.

Flowers and flower products are among one of the newest, but fastest growing exports for Ecuador, making up 5.1% of Ecuador's total exports in 2017. 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 eleven months of 2018, flower exports totaled U.S.$793 million, a 3.3% decrease from the U.S.$820 million in the first eleven months of 2017 primarily due to a decrease in volume exported from 147 to 146 thousand metric tons, and a 2.9% decrease in the unit price per metric ton from U.S.$5,576 to U.S.$5,413.

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 was due to the effects of the El Niño phenomenon 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 an 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 eleven months of 2018, shrimp exports totaled U.S.$2,972 million, an 8.2% increase from U.S.$2,747 million in the first eleven months of 2017 primarily due to a 16.5% increase in the volume exported from 396 to 461 thousand metric tons, despite a 7.2% decrease in the unit price per metric ton from U.S.$6,937 to U.S.$6,440.

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 eleven months of 2018, fishing exports, other than shrimp, totaled U.S.$285 million, a 34.0% increase from U.S.$213 million in the first eleven months of 2017 primarily due to a 12.2% increase in the volume exported from 65 to 72 thousand metric tons, as well as a 19.5% increase in the unit price per metric ton from U.S.$3,297 to U.S.$3,940.

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.$13,622 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. In the first nine months of 2018, manufacturing reached U.S.$10,665 million, an increase of 3.2% compared to U.S.$10,338 million in the first nine months of 2017.

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 eleven months of 2018, 25.5% of Ecuador's non-petroleum exports, or U.S.$2,981 million, were sold in the European Union, compared to 26.3%, or U.S.$2,913.8 million, for the same period in 2017.

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. In the first nine months of 2018, construction activity increased by 1.6% in nominal terms compared with the first nine months of 2017.

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 an 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 2013 to 2014, slightly decreasing in 2015 and again in 2016. 1.36 million in 2013, 1.56 million in 2014, 1.54 million in 2015, 1.41 million in 2016 and 1.61 million in 2017. 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 attributed 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 allocate a total of U.S.$22.7 million. 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.

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 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 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, 2018, 78% 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 has been increased by U.S.$230 million in November 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 on September 7, 2018, and a U.S.$250 million loan from CAF which has agreed to increase it by U.S.$152.2 million. 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.$394 for 2019. 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 2019.

Monthly Minimum Wage [(1)]
(in U.S.$)

2014	2015	2016	2017	2018	2019
340	354	366	375	386	394

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 will 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,					
	2013	2014	2015	2016	2017	2018
Total Population[(1)]	15,775	16,027	16,279	16,529	16,777	17,085
Labor Force [(2)]	11,200	11,159	11,399	11,696	11,938	12,239
Labor Force Participation [(3)]	6,953	7,195	7,499	7,874	8,086	8,027
Labor Force Participation Rate	62.08%	64.47%	65.78%	67.32%	67.73%	65.59%
Employed Labor Force	6,664	6,921	7,141	7,464	7,712	7,731
Unemployed Labor Force	289	273	358	410	374	296
Unemployment Rate [(4)]	4.15%	3.80%	4.77%	5.20%	4.62%	3.69%

Source: Based on figures from INEC as of December 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 2013 to 2017, the unemployment rate increased by 0.47%. In 2014, unemployment decreased to 3.80% from 4.15% in 2013 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 31, 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 to 4.62% as of December 31, 2017. The rate of unemployment decreased from 4.62% as of December 31, 2017 to 3.69% as of December 31, 2018.

From 2013 to 2017, the rate of individuals who were unable to obtain full-time work to receive a salary meeting the official minimum wage, or underemployment, increased from 47.77% to 52.95%. The

underemployment rate decreased from 47.77% in 2013 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. As of December 31, 2018 the underemployment rate was 55.25%.

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 and underemployment increased by 0.47% and 5.18%, respectively, for that same period. In 2018, the labor force participation rate decreased to 65.59% from 67.73% in 2017; the underemployment rate increased to 55.25% from 52.95% in 2017, but the unemployment rate decreased to 3.69% from 4.62% in 2017.

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,					
	2013	2014	2015	2016	2017	2018
Unemployment rate (% of economically active population)[1]	4.15	3.80	4.77	5.20	4.62	3.69
Underemployment rate (% of economically active population)[2]	47.77	46.69	48.09	53.39	52.95	55.25

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

In 2018, however, urban poverty and extreme poverty increased to 15.3% and 40.0%, from 13.2% and 39.3% in 2017, respectively. The rate of poverty in 2018 increased to 23.2% from 21.5% in 2017.

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

Percentage of Households in Poverty
(in percentages)

	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
December 2018	15.3	40.0	23.2	4.1	17.7	8.4	21.4	59.5	33.5

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

(1) Persons whose income is below the poverty line. As of December 2018, the poverty line, as determined by Ecuador, is U.S.$84.79/month, per person.

(2) As of December 2018, the extreme poverty line is U.S47.78/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 November 2018, ISSFA had 41,352 pensioners and 41,263 contributors. As of October 2018, ISSPOL had 23,705 pensioners and 49,105 contributors.

In 2017, total non-financial public sector contributions to social security were U.S.$5,414 million, or 5.2% of GDP, an increase from U.S.$4,741 million, or 4.7% of GDP in 2016. 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.

In May 2018, the Office of the Comptroller General announced it would carry 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. On December 7, 2018, the Office of the Comptroller General issued a draft report finding irregularities in the way hundreds of employees of the IESS had been deducted approximately U.S.$378,932 from their salaries since 2013. The draft report also finds inconsistencies and improper accounting practices in the payment of benefits and the handling of the national health fund. 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 UNCITRAL Rules 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 will 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. On August 30, 2018, the tribunal issued a second partial award on Track 2 declaring that Ecuador is liable for denial of justice under the standards of fair and equitable treatment under the U.S.-Ecuador Bilateral Investment Treaty and under customary international law, and declaring that Ecuador is liable to make full

reparation to Chevron. The tribunal established that, not later than 90 days following the date of the award, any party may apply to the tribunal for permission to add any further issue or request for relief to be addressed by the parties in Track 3. All issues as to reparation in the form of compensation for any injuries sustained by Chevron and all issues relating to the allocation and assessment of costs and expenses were assigned by the tribunal for further submissions by the parties to Track 3. The arbitral tribunal has not yet determined any financial compensation owed by Ecuador to Chevron.

On September 28, 2018, Ecuador filed a request for interpretation and clarification of the Track 2 award, pursuant to Article 35 of the UNCITRAL Arbitration Rules. This request was filed before the Arbitral Tribunal. Chevron filed its opposition to Ecuador's request on October 13, 2018. Ecuador filed a reply to Chevron's opposition on November 1, 2018. The Arbitral Tribunal issued a decision on November 6, 2018 denying Ecuador's request for interpretation and clarification of the award. On November 28, 2018, Ecuador and Chevron filed their respective submissions on costs in connection with the arbitration. On December 10, 2018, Ecuador filed a request to set aside the second partial award on Track 2 before the District Court of The Hague, in the Netherlands. No reparation or compensation amounts have been discussed yet. These issues are assigned for Track 3 of the arbitration which is not yet scheduled.

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 ICSID arbitration brought by Burlington Resources, Inc. against Ecuador. 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. The tribunal informed the parties that the expert's report was delayed and was expected before year-end. The Republic received the expert's report on December 19, 2018. The parties have until February 22, 2019 to file any comments on it.

William and Roberto Isaías Dassum

In 2009, Ecuador commenced an action against William and Roberto Isaias, 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 Isaias. The case was remanded to the trial court to determine damages in favor of Ecuador.

Zamora Gold

On July 7, 2011, Ecuador was notified of an arbitration proceeding against it 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 against it 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. The arbitral tribunal opened a discovery phase until January 21, 2019. The parties will then have eight weeks to file their respective replies.

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 will be held in order to allow the parties to present their arguments regarding the recognition of the award before a decision is made. That hearing remains to be scheduled.

On March 16, 2017, before the *Sala Cuarta de la Corte Suprema de Justicia* 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. Synohydro 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 Offering Circular, 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, 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 out of which Ecuador retained approximately U.S.$189,000,000 in order for the plaintiffs to fulfill their pending labor and tax obligations. Ecuador paid the remaining U.S.$318,712,249 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, 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 Coazúcar 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 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. The arbitrators have been legally appointed and the first hearing was held on September 19, 2018. The parties and the arbitral tribunal are in discussions of a potential settlement agreement.

Gente Oil

On April 13, 2018 Ecuador was notified of 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 UNCITRAL Rules and administered under the Permanent Court of Arbitration in the Hague. The amount of the claim has not been determined and the arbitrators have not been appointed.

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 (Penades II). Ecuador was served with a notification of the claim on September 16, 2015. On January 15, 2016, Ecuador filed a motion to dismiss. On September 30, 2016, the United States District Court for the Southern District of New York granted Ecuador's motion to dismiss. On October 27, 2016, Mr. Penades filed a notice of appeal to the United States Court of Appeals for the Second Circuit. On May 17, 2017, the Second Circuit entered a summary order affirming the judgment of the District Court, granting Ecuador's motion to dismiss Mr. Penades' complaint. On May 31, 2017, Mr. Penades filed a petition for a rehearing en banc of the Second Circuit's summary order. On July 5, 2017, the Second Circuit denied Mr. Penades' petition for a rehearing en banc.

On May 22, 2018, Mr. Penades filed another lawsuit against the Republic of Ecuador in the United District Court for the Southern District of New York concerning his alleged US$455,000 holding of 2030 Bonds and US$50,000 holding of 2012 Bonds (Penades III). The Republic of Ecuador was served with process on October 16, 2018. In this new complaint, Mr. Penades demands payment of full principal and accrued interests under the indentures of both his alleged holdings of 2012 and 2030 Bonds, and demands that the court order such interest payments be made pro rata with payments made under subsequent bonds issued by the Republic. On December 17, 2018, the Republic filed a motion to dismiss Mr. Penades' complaint. The court has not ruled on this motion.

Notifications under Bilateral Investment Treaties

AECON

On January 19, 2018, Ecuador was notified of a controversy by 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 Offering Circular, the parties are in direct negotiations.

AMDOCS

On April 17, 2018, Ecuador was notified of a controversy by AMDOCS founded on Articles 2, 5 and 8 of the bilateral investment treaty between Ecuador and the United Kingdom. The AMDOCS claims arise from a

contract dispute in a project with CNT in which CNT alleged a breach of its contract by AMDOCS. Such alleged breach 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 of its investments in Ecuador. The amount of the claim has not been determined and the parties are in direct negotiations.

PDVSA

On May 15, 2018, Ecuador was notified by PDVSA of 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 Efluents 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.

Ecuador and WorleyParsons have had several meetings in which WorleyParsons has stated its position regarding the actions of the Office of the Comptroller General and the status of its contracts with Petroecuador and with the Mixed Economy Pacific Refinery Company. 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

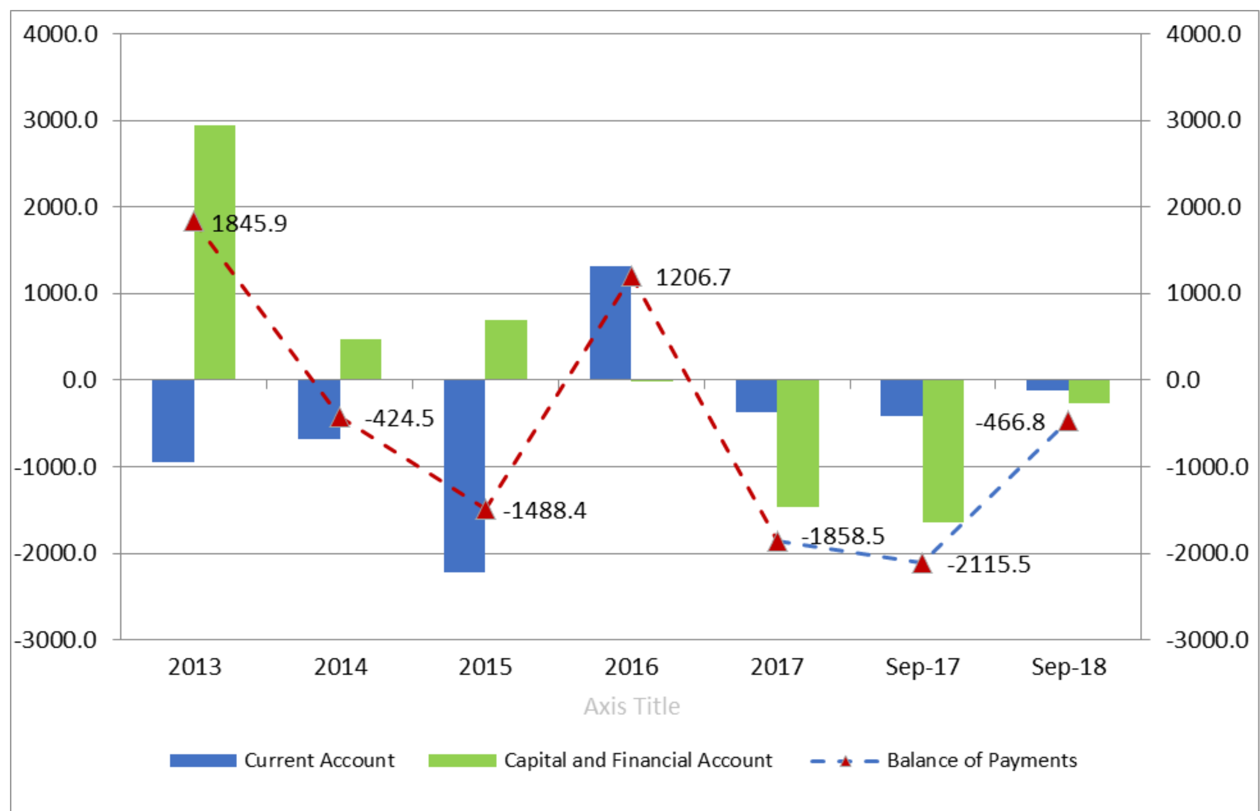
On February 20, 2018, Ecuador was notified of a controversy from Indra Sistemas, S.A. ("INDRA") founded on the fair and equitable treatment and indirect expropriation provisions and on the protection and effective measures principles under the clause of most favored nation of the bilateral investment 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. There were balance of payments deficits for both quarters ended in September 2017 and September 2018.



Source: Based on Figures from the Central Bank Balance of Payments Quarterly Bulletin for the Third 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.$2,935.5 million in 2013 to U.S.$477.6 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.$944.3 million in 2013 to a deficit of U.S.$677.5 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.$677.5 million in 2014 to a deficit of U.S.$2,223.3 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, 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.$372.2 million in the current account and a deficit of U.S.$1,542.5 in the financial account.

For the third quarter of 2018, there was a balance of payments deficit of U.S.$466.8 million, a decrease in the deficit compared to the U.S.$2,115.5 million balance of payments deficit for the third quarter of 2017. This decrease in the deficit was primarily due to a decrease in the liabilities payments from the external public debt.

The current account increased from a deficit of U.S.$2,223.3 million in 2015 to a surplus of U.S.$1,321.8 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. In the first three quarters of 2018, remittances increased to U.S.$2,250.4, an 8.4% increase from the U.S.$2,076.8 for the same period in 2017.

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	**-944.3**	**-677.5**	**-2,223.3**	**1,321.8**	**-372.2**
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	**-1,372.1**	**-1,551.8**	**-1,730.8**	**-1,844.9**	**-2,354.0**
Inflows (credit)	112.6	120.7	140.3	161.7	187.1
Outflows (debit)	-1,484.7	-1,672.5	-1,871.1	-2,006.6	-2,541.1
Employees' remuneration	-9.8	-11.4	-13.5	-14.4	-14.5
Direct investment income	-680.5	-663.6	-598.1	-433.9	-364.8
Portfolio investment income	-63.7	-143.2	-230.9	-300.7	-808.4
Other	-730.7	-854.2	-1,028.7	-1,257.6	-1,353.4
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	**2,935.5**	**477.6**	**699.6**	**-14.3**	**-1,473.8**
Capital account	**66.1**	**66.8**	**-69.1**	**-813.8**	**68.7**
Financial account	**2,869.4**	**410.9**	**768.8**	**799.6**	**-1,542.5**
Direct Investment	727.0	772.3	1,322.5	767.4	618.4
Portfolio Investment	-909.8	1,500.4	1,473.4	2,200.9	6,490.6
Other Investment	3,052.2	-1,861.8	-2,027.1	-2,168.8	-8,651.5
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 Third 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.$)

	June 2017	September 2017	June 2018	September 2018
Current Account	**29.0**	**-414.2**	**-127.4**	**-126.4**
Trade balance	**196.8**	**-302.5**	**-16.0**	**-84.5**
Exports [2]	4,823.5	4,743.5	5,556.8	5,738.4
Imports	-4,626.7	-5,046.1	-5,572.9	-5,822.9
Services	**-274.3**	**-226.6**	**-23.3**	**-57.5**
Rendered services (credit)	530.5	595.9	729.1	766.5
Transportation	102.5	108.7	107.2	114.7
Travel	372.4	429.7	571.0	597.9
Other	55.5	57.5	50.9	54.0
Rendered services (debit)	-804.8	-822.5	-752.4	-824.0
Transportation	-357.3	-399.2	-363.2	-396.1
Travel	-170.5	-186.1	-152.5	-168.8
Other	-276.9	-237.2	-236.8	-259.1
Investment income	**-564.7**	**-588.0**	**-705.0**	**-676.7**
Inflows (credit)	44.7	44.6	61.0	60.2
Outflows (debit)	-609.3	-632.7	-766.1	-737.0
Employees' remuneration	2.2	2.2	2.1	2.2
Other outflows investment income[3]	42.5	42.4	58.9	58.0
Net transfers	**671.2**	**703.0**	**616.9**	**692.3**
Emigrant remittances	698.9	752.2	767.3	768.1
Other transfers	119.6	147.3	117.0	115.3
Outgoing transfers	-147.3	-196.5	-267.5	-191.1
Capital and financial account	**644.5**	**-1,646.2**	**-1,586.6**	**-262.2**
Capital account	**16.7**	**18.1**	**-245.6**	**17.8**
Financial account	**627.8**	**-1,664.3**	**-1,341.0**	**-280.0**
Direct Investment	188.8	148.8	209.5	200.4
Portfolio Investment	2,372.1	188.6	-91.6	-59.9
Other Investment	-1,933.1	-2,001.7	-1,458.8	-420.5
Errors and omissions	**-21.3**	**-55.1**	**-8.5**	**-78.1**
Total balance of payments	**652.3**	**-2,115.5**	**-1,722.5**	**-466.8**
Financing	**-652.3**	**2,115.5**	**1,722.5**	**466.8**
International Reserves [4]	-657.5	2,104.8	1,701.3	473.7
IMF loans	-	-	-	-
Exceptional Financing, net [5]	5.3	10.8	21.2	-6.9

Source: Based on figures from the Central Bank 2018 Quarterly Balance of Payments Bulletin for the Third 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.$944.3 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.$677.5 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.$2,223.3 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.$1,321.8 million (1.34% 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.$372.2 million (0.36% of GDP), a decrease of U.S.$1,694.0 million compared to the U.S.$1,321.8 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.$509.1 million in the investment income account. In the third quarter of 2018, the current account registered a deficit of U.S.$126.4 million, a decrease of U.S.$287.8 million in the deficit compared to the U.S.$414.2 million deficit in the third quarter of 2017. This decrease in the deficit was mainly due to a decrease in the deficit in the balance of goods and services (U.S.$84.5 million and U.S.$57.5 million, respectively.)

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 an increase of 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 third quarter of 2018, imports totaled U.S.$5,822.9 million compared to U.S.$5,046.1 million for the third quarter of 2017. This increase in the level of imports was primarily due to an increase in imports of fuels and lubricants by 33.3%, construction materials by 22.5%, agricultural commodities by 22.5% and capital assets for agriculture by 20.2%.

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 million 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 third quarter of 2018 resulted in a deficit of U.S.$84.5 million, a decrease in the deficit compared to the U.S.$302.5 million deficit in the third quarter of 2017. This decrease in the deficit was mainly due to the price increase in the international market for crude oil and an increase in the volume of shrimp exports, which resulted in a more accelerated growth of exports compared to the growth of imports.

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 third quarter of 2018 resulted in a deficit of U.S.$57.5 million, a decrease in the deficit compared to the U.S.$226.6 million deficit in the third quarter of 2017. This decrease in the deficit was mainly due to an increase in services rendered by U.S.$170.6 million compared to an increase of services received by U.S.$1.5 million.

The investment income balance registered a deficit of U.S.$1,844.9 million in 2016, which was an increase from the deficits of U.S.$1,730.8 million, U.S.$1,551.8 million, U.S.$1,372.1 million and U.S.$1,300.8 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.$2,354.0 million, an increase in the deficit compared to the U.S.$1,844.9 million deficit in 2016. This increase in the deficit was due to an increase in investment outflows as a result of the payment of interest from the investment portfolio and from external debt. The investment income balance for the third quarter of 2018 resulted in a deficit of U.S.$676.7 million, an increase in the deficit compared to the U.S.$588.0 million deficit in the third quarter of 2017. This increase in the deficit was mainly due to an increase in the payment in interests on portfolio investments from U.S.$191.8 million to U.S.$312.5 million.

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 third quarter of 2018, remittances totaled U.S.$768.1 million, an increase compared to the U.S.$752.2 million for the third 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.

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.$2,935.5 million primarily due to the net proceeds from the 2024 Notes. In 2015, the capital and financial account registered U.S.$699.6 million, an increase from a surplus of U.S.$477.6 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.$14.3 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.$1,473.8 compared to the deficit of U.S.$14.3 million in 2016. This increase in the deficit of the capital and financial account was due to a decrease in foreign direct investment and the repayment of external debt. In the third quarter of 2018, the capital and financial account registered a deficit of U.S.$262.2 million, a decrease in the deficit compared to the U.S.$1,646.2 million in deficit for the third quarter of 2017. This decrease in the deficit in the capital and financial account was primarily due to a decrease in the amortization of liabilities related to external public debt.

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.$772.3 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.$767.4 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.$618.4 million. This decrease was mainly due to a lower inflow received from the shares and other equity security interests and reinvested earnings accounts. For the third quarter of 2018, direct investment totaled U.S.$200.4 million, an increase compared to the U.S.$148.8 million for the third quarter of 2017. This increase was principally due to an increase in reinvested earnings and to a positive net flow of debt between related companies where service of the debt outpaced amortization.

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 third quarter of 2018 registered a deficit of U.S.$59.9 million, an increase in the deficit compared to the U.S.$188.6 million surplus for the third quarter of 2017. This increase in the deficit was mainly due to debt settlements in the amount of U.S.$88.8, and to an increase in asset disaccumulation.

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.$4,258.8 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 December 31, 2018, Ecuador's International Reserves totaled U.S.$2,676.5 million, an increase from December 31, 2017 when International Reserves totaled U.S.$2,451.1 million. The increase in International Reserves during the 12-month period ending in December 31, 2018 compared to the period ending in December 31, 2017 was mainly due to an increase in net income of oil exports (U.S.$2,065 million) and net payment of external public debt (U.S.$2,065 million), which allowed to offset the net outflow of the private financial sector (mainly due to goods and services imports) by U.S.$2,091 million, the non-oil imports of the public sector and payments in arbitral awards by U.S.$1,927 million, and the net cash withdrawals from the financial system by U.S.$589 million.

On December 27, 2018, to face a temporary decrease in liquidity in the country's international reserves, the Central Bank announced it had activated a U.S.$300 million facility it had in place with one of its international counterparties at an annual 2.86% interest rate temporarily transferring a certain amount of gold reserves. On January 4, 2019, the Central Bank announced the country's gold reserves had been reestablished and the funds returned to the counterparty.

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 2017, 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 2013, 2014, 2015, 2016 and 2017 exports of petroleum and petroleum derivatives accounted for approximately 57.0%, 51.6%, 36.4%, 32.5% and 36.2% 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.$19,122 million, compared to U.S.$16.798 million in 2016. According to exports (FOB) data, for the period of January through October 2018, overall exports increased to U.S.$18,235 million, compared to U.S.$15,719 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 Third 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
First Quarter of 2017	4,855.4	-4,321.9	533.5
Second Quarter of 2017	4,823.5	-4,626.7	196.8
Third Quarter of 2017	4.743.5	-5,046.1	-302.5
First Quarter of 2018	5,359.6	-5,075.8	283.7
Second Quarter of 2018	5,556.8	-5,572.9	-16.0
Third Quarter of 2018	5,738.4	-5,822.9	-84.5

Source: Based on Figures from the Central Bank Balance of Payments Quarterly Bulletin for the Third 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 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 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 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 October 2018, overall exports amounted to U.S.$18,235 million, an increase of 16.0% compared to U.S.$15,719 million for the same period for 2017. This increase was primarily due to an increase in petroleum derivatives exports (47.0%), tuna and other fish (42.6%) and crude oil (34.5%).

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 – November			
	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	5,614	32.3	7,346	36.9
Bananas and plantains	2,323	9.4	2,577	10.0	2,808	15.3	2,734	16.3	3,035	15.9	2,764	15.9	2,891	14.5
Petroleum derivatives	695	2.8	259	1.0	305	1.7	405	2.4	724	3.8	657	3.8	879	4.4
Shrimp	1,784	7.2	2,513	9.8	2,280	12.4	2,580	15.4	3,038	15.9	2,747	15.8	2,972	14.9
Cacao	423	1.7	576	2.2	693	3.8	621	3.7	588	3.1	535	3.1	578	2.9
Coffee	28	0.1	24	0.1	18	0.1	18	0.1	17	0.1	15	0.1	11	0.1
Tuna and other fish	278	1.1	296	1.2	258	1.4	244	1.5	242	1.4	213	1.2	285	1.4
Flowers	830	3.4	918	3.6	820	4.5	802	4.8	881	4.6	820	4.7	793	4.0
Metal manufacturing[(2)]	508	2.1	519	2.0	510	2.8	402	2.4	440	2.3	405	2.3	483	2.4
Other products[(3)]	4,470	18.1	5,024	19.5	4,284	23.4	3,936	23.4	3,967	20.7	3,591	20.7	3,663	18.4
Total	**24,751**	**100**	**25,724**	**100**	**18,331**	**100**	**16,798**	**100**	**19,122**	**100**	**17,360**	**100**	**19,900**	**100**

Source: Based on figures from the Central Bank December 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 - November 2017		January - November 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	2,292	12.6	2,503	11.7
Durable goods	2,210	8.2	2,230	8.0	1,593	7.4	1,241	7.6	1,944	9.7	1,761	9.7	2,189	10.2
Postal traffic	240	0.9	208	0.8	131	0.6	136	0.8	165	0.8	147	0.8	156	0.7
Fuel and combustibles	6,110	22.6	6,617	23.9	4,171	19.4	2,632	16.1	3,350	16.7	3,037	16.7	4,163	19.5
Primary materials														
Agriculture	1,124	4.2	1,351	4.9	1,199	5.6	1,112	6.8	1,243	6.2	1,123	6.2	1,363	6.4
Industrial…	6,198	22.9	6,147	22.2	5,445	25.3	4,501	27.6	5,401	27.0	4,976	27.3	5,424	25.4
Construction materials	1,010	3.7	1,120	4.0	658	3.1	413	2.5	475	2.4	436	2.4	537	2.5
Capital goods														
Agriculture	125	0.5	128	0.5	144	0.7	117	0.7	141	0.7	127	0.7	152	0.7
Industrial…	5,077	18.8	4,898	17.7	3,948	18.3	2,978	18.2	3,427	17.1	3,105	17.0	3,377	15.8
Transportation equipment	1,863	6.9	1,954	7.0	1,471	6.8	992	6.1	1,308	6.5	1,173	6.4	1,455	6.8
Other	67	0.2	60	0.2	63	0.3	62	0.4	53	0.3	47	0.3	69	0.3
Total	**27,021**	**100**	**27,726**	**100**	**21,518**	**100**	**16,324**	**100**	**20,010**	**100**	**18,224**	**100**	**21,388**	**100**

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

Ecuador's largest trading partners are the United States, the European Union, Peru, Chile, China, 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 - November 2017		January - November 2018	
	U.S.$	%	U.S.$	%	U.S.$	%	U.S.$	%	U.S.$	%	U.S.$	%	U.S.$	%
Americas														
United States...........	11,043	44.6	11,240	43.7	7,226	39.4	5,436	32.4	6,057	31.7	5,566	32.1	6,130	30.8
Peru……..................	1,901	7.7	1,582	6.1	934	5.1	934	5.6	1,283	6.7	1,130	6.5	1,486	7.5
Colombia................	912	3.7	951	3.7	784	4.3	811	4.8	763	4.0	702	4.0	767	3.9
Chile……................	2,457	9.9	2,328	9.0	1,138	6.2	1,151	6.9	1,236	6.5	1,112	6.4	1,365	6.9
Other (Americas)[2]..	2,126	8.6	2,951	11.5	1,689	9.2	1,752	10.4	1,945	10.2	1,760	10.1	2,208	11.1
Total Americas......	18,439	74.5	19,052	74.1	11,771	64.2	10,083	60.0	11,284	59.0	10,271	59.2	11,955	60.1
Europe														
European Union (EU)	3,011	12.2	2,981	11.6	2,773	15.1	2,832	16.9	3,173	16.6	2,914	16.8	2,999	15.1
Italy…................	416	1.7	431	1.7	326	1.8	461	2.7	587	3.1	537	3.1	600	3.0
United Kingdom..	170	0.7	176	0.7	166	0.9	139	0.8	200	1.0	184	1.1	172	0.9
Germany	411	1.7	526	2.0	549	3.0	531	3.2	502	2.6	452	2.6	450	2.3
Spain…	777	3.1	525	2.0	484	2.6	547	3.3	601	3.1	564	3.3	545	2.7
Other (EU)[3]	1,237	5.0	1,323	5.2	1,249	6.8	1,153	6.9	1,283	6.7	1,177	6.8	0	0.0
Rest of Europe[4]......	1,097	4.4	1,072	4.2	903	5.0	902.5	5.4	970	5.1	878	5.1	0	0.0
Total Europe	4,108	16.6	4,053	15.8	3,676	20.1	3,734	22.2	4,144	21.7	3,792	21.8	3,878	19.5
Asia														
Taiwan…	8	0.0	7	0.0	6	0.0	9	0.1	12	0.1	11	0.1	6	0.0
Japan……	572	2.3	326	1.3	331	1.8	320	1.9	389	2.0	332	1.9	298	1.5
China……...............	564	2.3	485	1.9	723	3.9	656	3.9	772	4.0	688	4.0	1,353	6.8
South Korea	45	0.2	57	0.2	173	0.9	83	0.5	115	0.6	100	0.6	92	0.5
Other countries[5].....	864	3.5	1,558	6.1	1,475	8.0	1,775	10.6	2,307	12.1	2,074	11.9	0	0.0
Total Asia	2,053	8.3	2,433	9.5	2,708	14.8	2,842	16.9	3,595	18.8	3,206	18.5	3,940	19.8
Africa	99	0.4	122	0.5	105	0.6	65	0.4	43	0.2	38	0.2	75	0.4
Oceania	39	0.2	45	0.2	51	0.3	52	0.3	54	0.3	50	0.3	49	0.2
Other countries........	13	0.1	20	0.1	20	0.1	21	0.1	3	0.0	3	0.0	3	0.0
Total	**24,751**	**100**	**25,724**	**100**	**18,331**	**100**	**16,798**	**100**	**19,122**	**100**	**17,360**	**100**	**19,900**	**100**

Source: 2013 and 2014 figures based on figures from the Central Bank January 2017 and April 2018 Monthly Bulletin (Table 3.1.5), respectively; and 2015 through 2018 figures based on figures from the Central Bank December 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- November	
	2013	2014	2015	2016	2017	2017	2018
Americas[1]							
Mexico	963	967	656	491	660	599	680
United States	7,755	8,751	5,806	4,116	4,532	4,087	5,076
Central America	107	104	96	95	120	109	117
South America and the Caribbean							
Argentina	415	501	235	218	375	329	381
Brazil	871	863	712	672	867	791	886
Bolivia	110	114	183	192	196	185	214
Colombia	2,288	2,201	1,766	1,421	1,716	1,563	1,757
Chile	628	583	551	480	560	514	494
Panama	1,765	1,442	1,022	889	1,274	1,185	1,683
Peru	1,118	1,024	789	689	830	761	814
Rest of Americas and Caribbean[1]	676	678	487	368	468	444	408
TOTAL AMERICA	**16,697**	**17,227**	**12,302**	**9,630**	**11,598**	**10,566**	**12,510**
Europe							
Germany	578	578	497	398	481	440	481
Italy	292	326	344	258	262	235	286
Spain	738	618	430	357	620	578	510
UK	341	151	87	51	97	93	91
Rest of EU[2]	961	1,315	1,126	793	1,113	1,005	1,319
Rest of Europe[3]	301	302	313	313	248	234	252
TOTAL EUROPE	**3,210**	**3,288**	**2,796**	**2,170**	**2,821**	**2,584**	**2,938**
Asia							
China	3,476	3,613	3,266	2,549	3,064	2,779	3,321
Japan	599	574	478	293	408	369	385
Taiwan	205	213	182	123	139	127	150
South Korea	1,008	902	792	526	616	559	633
Rest of Asia[4]	1,442	1,548	1,431	783	1,049	959	1,175
TOTAL ASIA	**6,731**	**6,851**	**6,148**	**4,275**	**5,276**	**4,794**	**5,665**
Postal Traffic and regions excluding the Americas, Europe and Asia[5]	**383**	**360**	**272**	**249**	**315**	**280**	**274**
Total	**27,021**	**27,726**	**21,518**	**16,324**	**20,010**	**18,224**	**21,388**

Source: 2013 figures based on figures from the Central Bank December 2016 Monthly Bulletin (Table 3.1.9); 2014 through 2018 figures based on figures from the Central Bank December 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 Ministry of Energy and Non-Renewable Natural Resources (formerly with the then Secretariat of Hydrocarbons of Ecuador).

Foreign direct investment reached U.S.$727.0 million, U.S.$772.3 million, and U.S.$1,322.5 million, in 2013, 2014 and 2015, respectively. In 2017, direct foreign investment reached U.S.$618.4 million, a decrease compared to the U.S.$767.4 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. In 2017, the manufacturing sector represented the largest percentage of foreign direct investment with 23.3% of all investment; agriculture, forestry, hunting and fishing, and commerce followed representing 20.1% and 16.5% of foreign direct investment, respectively. In the first nine months of 2018, foreign direct investment reached U.S.$735.7 million, an increase compared to U.S.$522.4 million in the first nine months of 2017. This increase was principally due to a positive net flow of debt between related companies where service of the debt outpaced amortization.

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

Foreign Direct Investment by Sector

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

	For the Year Ended December 31										For January 1– September 30			
	2013		2014		2015		2016		2017		2017		2018	
	U.S.$	%	U.S.$	%	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	41.9	5.5	124.6	20.1	98.1	18.8	50.1	6.8
Commerce (1)	110.3	15.2	148.5	19.2	172.9	13.1	122.2	15.9	102.0	16.5	92.1	17.6	68.2	9.3
Construction	69.2	9.5	4.7	0.6	6.8	0.5	30.5	4.0	59.1	9.6	39.9	7.6	63.7	8.7
Electricity, gas and water	29.2	4.0	-4.7	-0.6	61.8	4.7	1.2	0.2	2.1	0.3	2.0	0.4	4.1	0.6
Petroleum (2)	252.9	34.8	685.6	88.8	559.8	42.3	462.8	60.3	68.3	11.0	67.7	13.0	296.0	40.2
Manufacturing	137.9	19.0	107.7	13.9	264.1	20.0	37.5	4.9	144.2	23.3	118.0	22.6	70.6	9.6
Social and personal services	-2.3	-0.3	14.1	1.8	-10.8	-0.8	-1.9	-0.2	-3.9	-0.6	-2.6	-0.5	0.1	0.0
Services rendered to businesses	117.7	16.2	24.4	3.2	243.8	18.4	33.3	4.3	75.0	12.1	60.8	11.6	149.0	20.2
Transportation, storage and telecommunications	-8.5	-1.2	-247.0	-32.0	-43.6	-3.3	40.0	5.2	47.0	7.6	46.4	8.9	34.2	4.6
Total	**727.0**	**100**	**772.3**	**100**	**1,322.5**	**100**	**767.4**	**100**	**618.4**	**100**	**522.4**	**100**	**735.7**	**100**

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

(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 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 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 December 31, 2018, the Ecuadorian Development Bank made a total of U.S.$423.9 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 though 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.$4,258.8 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 December 31, 2018, Ecuador's International Reserves totaled U.S.$2,676.5 million, an increase from December 31, 2017 when International Reserves totaled U.S.$2,451.1 million. The increase in International Reserves during the 12-month period ending in December 31, 2018 compared to the period ending in December 31, 2017 was mainly due to an increase in net income of oil exports (U.S.$2,065 million) and net payment of external public debt (U.S.$2,065 million), which allowed to offset the net outflow of the private financial sector (mainly due to goods and services imports) by U.S.$2,091 million, the non-oil imports of the public sector and payments in arbitral awards by U.S.$1,927 million, and the net cash withdrawals from the financial system by U.S.$589 million.

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 is preparing an Article IV report which is expected to be issued in the weeks following this Offering Circular.

On January 23, 2019, President Moreno and Christine Lagarde, Managing Director of the IMF, met at the World Economic Forum in Davos, paving the way for potential IMF financing to help balance Ecuador's budget and reduce its fiscal deficit, with a view to reducing the country's international debt over time. Ecuador emphasized that any agreement would be compatible with the Government's current economic agenda under the Plan of Prosperity. The IMF applauded Ecuador's recent achievements in reducing its fiscal deficit. 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 Offering Circular, Ecuador's solvency rules for financial institutions correspond to Basel I; however, when it comes to aspects such as risk measurement and disclosure of banking information, the majority of banks in Ecuador approach compliance with Basel II. As of the date of this Offering Circular, no time limit exists for banks in Ecuador to become compliant with Basel II or Basel III.

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 November 30, 2018.

Classification of Aggregate Assets of the Ecuadorian Private Financial System [(1)]

(as a % of total loans)

As of November 30, 2018

Category	Commercial loans	Consumer loans	Mortgage loans	Small business
A	78.93	93.84	96.55	94.70
B	15.34	1.91	1.61	1.36
C	4.86	1.35	0.41	0.81
D	0.25	0.56	0.54	0.40
E	0.63	2.33	0.89	2.73
Total	**100**	**100**	**100**	**100**

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

(1) As of December 31, 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 financial institutions formed under the popular and solidarity economic law consisting of segments from society including the community, voluntary, and cooperative sectors. Factors contributing to this increase included contributions from private financial institutions and financial institutions formed under the popular and solidarity economic law. As of November 30, 2018, the Liquidity Fund consisted of approximately U.S.$2,748 million, an increase of U.S.$166.81 million compared with November 30, 2017, when the Liquidity Fund amounted to U.S.$2,581 million. Of the U.S.$2,748 million in the Liquidity Fund on November 30, 2018, U.S.$2,589 million corresponded to private financial institutions and U.S.$159.26 million corresponded to popular and solidarity financial institutions. Factors contributing to this increase were increases in deposits subject to legal reserve. 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, 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 December 31, 2018, COSEDE had assets corresponding to its administration of deposit insurance funds from various financial institutions of U.S.$1,912 million, an increase from U.S.$1,678 million as of December 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 December 31,					As of October 31,	
	2013	**2014**	**2015**	**2016**	**2017**	**2017**	**2018**
Banks	26	24	22	23	24	24	24
National banks	25	23	21	22	23	23	23
Private	24	22	20	21	22	22	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	33	38
Savings and loans associations[(1)]	39	37	24	25	25	26	31
Small lending institutions	4	4	4	4	4	4	4
Financial institutions	10	9	10	5	0	0	0
Public banks	4	4	3	3	3	3	3
Insurance companies[(2)]	44	40	39	37	35	33	31
Insurance companies	42	38	37	35	33	32	30
Reinsurance companies	2	2	2	2	2	1	1
Credit-card issuing entities	2	2	1	0	0	0	0
Total	**129**	**120**	**103**	**97**	**91**	**90**	**93**

Source: Superintendent of Banks as of November 2018.

(1) Savings and Loans Associations include the *Cooperativas de Ahorro y Crédito 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) Insurance companies figures from *Superintendent of Companies.*

Banking System

Overview

As of December 31, 2018, 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 as of 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. As of December 31, 2018, the assets of the banking system totaled U.S.$40,984 million, an increase of 5.15% from U.S.$38,975 million as of December 31, 2017. This increase was principally due to an increase in the loan portfolio of U.S.$2,656 million.

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,					
	2013	**2014**	**2015**	**2016**	**2017**	**2018**
Total assets (in billions of U.S. dollars)	30.7	33.6	30.9	35.6	39.0	41.0
Non-performing loans (as % of total loans)	1.18%	1.33%	1.45%	1.34%	1.21%	2.6%

Source: Superintendent of Banks as of December2018.

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)

	Demand Deposits	Time Deposits	Total Time and Demand Deposits[(1)]	Annual growth rate of Time and Demand Deposits
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%
December 31, 2018	19,457	10,388	29,845	2%

Source: Superintendent of Banks as of December 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 was 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 December 31, 2018, time and demand deposits totaled U.S.$29,845 million, an increase of 1.7% compared to December 31, 2017. This increase was principally due to an increase in time deposits of U.S.$948 million.

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 December 31, 2018, the balance of foreign liabilities in the banking sector amounted to approximately U.S.$1,799 million, which is an increase of 12.9% from the balance of foreign liabilities in December 31, 2017, which was U.S.$1,593 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
December 31, 2018	53	29	5

Source: Superintendent of Banks as of December 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
December 31, 2018	65.0	13.1

Source: Superintendent of Banks as of December 2018.

As of December 31, 2017, the banking system represented 81.9% 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 0.4% 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 October 31, 2018, the banking system represented 74.94% of the total assets of the private financial system. For the period from January 1, 2017 to October 31, 2017, the banking system made a profit of U.S.$326.3 million which increased to U.S.$ 459.2 million for the period from January 1, 2018 to October 31, 2018. This increase is mainly due to an increase in interest and discounts earned in the amount of U.S.$267 million. The assets of the banking system increased from U.S.$37,936 million in November 30, 2017 to U.S.$39,879 million in November 30, 2018, an increase of 5.1%. As of December 31, 2018, the assets of the banking system totaled U.S.$40,984 million, an increase of 5.15% from U.S.$38,975 million as of December 31, 2017. This increase was principally due to an increase in the loan portfolio of U.S.$2,656 million.

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 December 31, 2018

Loans		**Deposits**	
Commercial, Productive and Consumer Loans	22,874	Demand Deposits	19,457
Microenterprise Loans	1,734	Time Deposits	10,388
Education Loans	401	Guarantee Deposits	1
Real Estate and Public Housing Loans	2,317	Others	1,411
Total	**27,325**	**Total**	**31,257**

Source: Superintendent of Banks as of December 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%
December 31, 2018	26,609	717	27,325	97.4%	2.6%

Source: Superintendent of Banks as of December 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.

In 2014, the delinquency rate increased to 2.9% from 2.6% in 2013, 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 December 31, 2018, the delinquency rate decreased to 2.62% compared to the 2.96% delinquency rate as of December 31, 2017. This decrease is principally due to a 14.31% decrease in past-due loans (not including the portfolio of loans that do not accrue interest), while the total gross loan portfolio increased by 11.08%. As of December 31, 2018, 48.1% of all current loans were commercial, 35.8% were consumer, 8.5% were housing, 6.2% were microcredit and 1.5% were education related.

As of December 31, 2018, banking deposits, including guarantee deposits and restricted deposits, totaled U.S.$31,257 million, an increase from the U.S.$30,689 million as of December 31, 2017. Total current loans to the private sector from the private banking sector increased from U.S.$23,873 million as of December 31, 2017 to U.S.$26,609 million as of December 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,											
	2013		**2014**		**2015**		**2016**		**2017**		**2018**	
	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	118	15.6	93	13.0
Consumer	284	63.4	383	68.0	438	63.7	428	59.3	448	61.6	466	65.0
Real estate	27	6.0	31	5.3	39	5.6	59	8.1	61	8.4	64	9.0
Microcredit	72	16.1	79	13.8	90	13.1	97	13.5	79	10.9	86	12
Education[(1]	-	-	-	-	22	3.2	20	2.8	21	2.9	3	0.4
Total	**448**	**100**	**565**	**100**	**687**	**100**	**721**	**100**	**728**	**100**	**717**	**100**

Source: Superintendent of Banks as of December 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 December 31, 2018, Banco del Pacífico had approximately U.S.$5,534 million in assets. According to the Superintendent of Banks, Banco del Pacífico's profits were U.S.$100,282 million for the period from January 1, 2018 to December 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 December 31, 2018, approximately 1.74% 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 Offering Circular, 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. Since 2012, the issuance of corporate bonds has increasingly become an important financing alternative for companies and issuers in Ecuador 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, 2018, the Ecuadorian Stock Exchanges combined listed the securities of approximately 369 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 December 31, 2018, U.S.$1,219.6 million worth of securities were traded in the secondary market, representing 16.3% of the Ecuadorian securities market. Repo trading represented 0.5% of the total market.

Aggregate Amounts of Traded Securities
(in millions of U.S. dollars)

	As of December 31,					
	2013	2014	2015	2016	2017	2018
Repos	168.1	203.3	23.0	14.2	44.6	37.2
Other [1]	3,554.2	7,340.8	5,023.8	8,318,5	6,578.2	7,438.2
Total	3,722.3	7,544.1	5,046.8	8,332.7	6,622.8	7,475.4

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 was 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 December 31, 2018, U.S.$7,475.4 million worth of securities were traded on the Ecuadorian Stock Exchanges, representing an increase compared to the U.S.$6,622.8 million of securities traded as of December 31, 2017. This increase was due to an increase in the amount of state and corporate bonds, certificates of treasury and commercial invoices.

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 prepayments;
- 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 December 31,
	2013	2014	2015	2016	2017	2018
Deposit interest rate	4.5	5.2	5.1	5.1	5.0	5.4
Lending interest rate	8.2	8.2	9.1	8.1	7.8	8.7
Corporate productive lending interest rate[(1)]	8.2	8.2	9.2	8.5	7.8	8.8
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	9.9
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	11.2
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	8.1
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	8.7
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	9.8
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	10.8
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	16.6
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	10.0
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	20.2
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	20.9
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	23.5
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	22.5
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	26.5
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	23.6
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 December 2018 Monthly Bulletin (Table 1.10.1) Other 2018 figures based on Central Bank December 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.$5,0000,000.00.
(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.$5,0000,000.00.
(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 Codification, 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 Codification, 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 December 31, 2018, the ordinary consumer lending interest rate was 16.6% and the priority consumer lending interest rate was 16.6%.

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. As of December 31, 2018, the ordinary commercial lending interest rate was 8.1% and the corporate productive lending interest rate was 8.8%.

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,	
	2013	**2014**	**2015**	**2016**	**2017**	**2017**	**2018**
Currency in circulation	7,367.1	9,539.9	11,753.7	13,261.2	14,858.7	14,170.5	15,324.7
Demand deposits	8,818.0	9,068.8	7,201.0	9,281.4	9,577.6	9,391.4	9,112.7
Fractional Currency	87.3	86.6	86.3	88.2	85.3	84.9	83.5
M1	**16,272.4**	**18,695.3**	**19,041.7**	**22,634.9**	**24,530.5**	**23,657.0**	**24,520.9**
Savings	3,898.1	3,506.1	3,053.5	6,044.1	5,244.5	4,655.7	4,238.6
Term deposits	18,778.7	21,409.1	20,609.0	23,553.5	26,260.3	25,178.5	27,625.1
M2 (M1 plus term deposits)	**35,051.1**	**40,104.4**	**39,650.6**	**46,188.4**	**50,790.8**	**48,835.5**	**52,146.0**

Source: Based on figures from the Central Bank December 2018 Monthly Bulletin (Table 1.1.1). Figures of 2013 based on the April 2016 Monthly Bulletin (Table 1.1.1) and figures of 2014 based on the January 2018 Monthly Bulletin (Table 1.1.1).

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. As a result, during 2011, 2012, 2013 and 2014 the inflation rate followed a downward trend, each year at 5.41%, 4.16%, 2.70% and 3.67%, respectively. The decrease in the inflation rate in 2013, particularly, 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 3.67%. This increase was 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 3.38%. 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 1.12% from 3.38% for the 12-month period ending December 31, 2015. This decrease was 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 increased from -0.20% for the 12-month period ended December 31, 2017 to 0.27% for the 12-month period ended December 31, 2018. This increase was primarily due to an increase in each of the prices of alcoholic beverages and tobacco by 2.43%, health products by 2.15%, and other goods and services by 1.79%.

Given the constrains 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 2013	2.70
December 2014	3.67
December 2015	3.38
December 2016	1.12
December 2017	-0.20
December 2018	0.27

Source: Based on figures from the Central Bank December 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 2017 to 2021 was released in September 22, 2017.

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 Productive Development, 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, the Public Planning and Finance Code should be amended and Decree 1218 should be repealed with respect to the calculation of the total public debt to GDP ratio to ascertain the actual value of total public debt and determine if that amount exceeded the 40% debt to GDP ratio 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 Productive Development which became effective on August 21, 2018, which expressly confirms that certain activities and instruments are considered a contingent liability, and therefore are not included in the calculation of the total public debt to GDP ratio, and provides that for the period from 2018 to 2021 and until the public debt reaches a level below the public debt ceiling of 40% of GDP, such public debt ceiling will not apply. This new law provides that for the period from 2018 to 2021, a fiscal stability plan will be implemented by the Ministry of Economy and Finance. The new law sets forth that in each subsequent fiscal year after the period from 2018 to 2021, the General State Budget must be presented with a fiscal program aimed at reducing over time the amount of total public debt relative to GDP, until it reaches a level below the 40% debt to GDP ratio. The new law also mandates that the Ministry of Economy and Finance issue within 90 days from August 21, 2018, a new regulation implementing a new accounting methodology, which will 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 Productive Development, Investment, Employment and Fiscal Stability.*" On October 15, 2018, President Moreno enacted Decree 537 repealing Decree 1218 in its entirety which became effective on October 30, 2018, see "Public Debt—Decree 1218."

On November 19, 2018, the Ministry of Economy and Finance issued the Regulation Implementing the Public Debt to GDP Ratio Calculation Methodology setting out the definitions and methodology for calculating and divulging the country's public debt to GDP ratio. It provides that the calculation of the public debt to GDP ratio will be based on total public debt as published in the official aggregate financial statements and the latest nominal GDP as published by the Central Bank. It defines total public debt as the sum of the public debt incurred by the entities comprising the public sector. This regulation provides for a transition period ending on May 31, 2019, when the Ministry of Economy and Finance will issue the first report on public debt following the methodology set out in this regulation. Once this transition period is over, public debt figures as presented in this Offering Circular may vary.

In addition, the Organic Law for Productive Development 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 entity in charge of public finances will propose a plan to strengthen public finances to achieve and restore fiscal balance.

On December 18, 2018, by executive decree No. 617, President Moreno issued the Regulation to the Organic Law for Productive Development supplementing the Organic Law for Productive Development, which became effective on December 20, 2018. The Regulation to the Organic Law for Productive Development, among others, creates the procedures to implement and simplify the tax benefits that the Organic Law for Productive Development created for new investments and entrepreneurship; clarifies different concepts used in the Organic Law for Productive Development such as the concept of 'new investment;' creates the framework under which the value added tax ("VAT") and exit tax returns on exports and other tax incentives will be carried out; closes any loopholes on the elimination of the excise tax; and creates the procedures to oversee compliance with fiscal rules with the goal of achieving sustainability of public finances.

The Regulation to the Organic Law for Productive Development also amends the Rules to the Public Planning and Finance Code to include a new section on fiscal rules and to amend certain articles. Article 133 of the Rules to the Public Planning and Finance Code is amended to provide that the Ministry of Economy and Finance will produce both aggregated and consolidated financial statements of the public debt for the public sector, the non-financial public sector and the central government in a period of no more than 60 days after the end of each month. These amendments also provide that in establishing the total amount of public debt, the Ministry of Economy and Finance will consider the aggregate public debt/GDP indicator of the entities constituting the public sector. This indicator will be calculated and projected based on the public debt aggregate statements, at least for the final balances, for the following four years. Among other provisions, the regulation provides guidance for calculating the debt to GDP ratio for these purposes, as well as for reducing the balance of the public debt below 40% and for ensuring that the balance of the public debt does not exceed 40% of GDP after it has been reduced.

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.$2,334,358,789.02 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, 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.$4,258.8 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 December 31, 2018, Ecuador's International Reserves totaled U.S.$2,676.5 million, an increase from December 31, 2017 when International Reserves totaled U.S.$2,451.1 million. The increase in International Reserves during the 12-month period ending in December 31, 2018 compared to the period ending in December 31, 2017 was mainly due to an increase in net income of oil exports (U.S.$2,065 million) and net payment of external public debt (U.S.$2,065 million), which allowed to offset the net outflow of the private financial sector (mainly due to goods and services imports) by U.S.$2,091 million, the non-oil imports of the public sector and payments in arbitral awards by U.S.$1,927 million, and the net cash withdrawals from the financial system by U.S.$589 million.

The Organic Law for Productive Development, 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 – October 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	6,487	6.5	5,402	5.4	5,840	5.6	4,663	6,632
Domestic sales	-	-	-	-	-	-	-	-	-	-	-	-
Total petroleum revenue (a)	**11,433**	**12.0**	**10,906**	**10.7**	**6,487**	**6.5**	**5,402**	**5.4**	**5,840**	**5.6**	**4,663**	**6,632**
Non-petroleum revenue												
Income tax	3,847	4.0	4,161	4.1	4,734	4.8	3,640	3.6	3,764	3.6	3,278	3,596
Value-added tax	6,056	6.4	6,376	6.3	6,352	6.4	5,400	5.4	5,979	5.7	4,944	5,263
Selected excise taxes	744	0.8	803	0.8	840	0.9	790	0.8	937	0.9	764	821
Taxes on international trade	1,352	1.4	1,357	1.3	2,026	2.0	1,633	1.6	1,468	1.4	1,208	1,295
Social security contributions	4,547	4.8	4,718	4.6	5,057	5.1	4,741	4.7	5,414	5.2	4,622	4,685
Other[3]	6,084	6.4	6,524	6.4	6,749	6.8	8,091	8.1	7,911	7.6	6,517	7,096
Total non-petroleum revenue (b)	**22,630**	**23.8**	**23,939**	**23.5**	**25,758**	**25.9**	**24,294**	**24.3**	**25,473**	**24.4**	**21,334**	**22,756**
Operating income of public companies (c)	**3,196**	**3.4**	**4,187**	**4.1**	**1,076**	**1.1**	**618**	**0.6**	**2,113**	**2.0**	**1,419**	**2,547**
Total revenue (a+b+c)	**37,260**	**39.2**	**39,032**	**38.4**	**33,322**	**33.6**	**30,314**	**30.3**	**33,426**	**32.0**	**27,416**	**31,935**
Expenses												
Current expenditures												
Interest	971	1.0	1,024	1.0	1,421	1.4	1,561	1.6	2,209	2.1	1,736	2,173
Foreign	714	0.7	829	0.8	1,143	1.1	1,335	1.3	1,850	1.8	1,438	1,858
Domestic	257	0.3	195	0.2	278	0.3	226	0.2	359	0.3	298	315
Wages and salaries	8,896	9.4	9,478	9.3	9,904	10.0	10,014	10.0	10,365	9.9	8,200	8,460
Purchases of goods and services	4,435	4.7	5,328	5.2	5,112	5.2	4,684	4.7	5,056	4.9	3,995	4,467
Social security	3,410	3.6	3,665	3.6	4,222	4.3	4,655	4.7	4,999	4.8	4,012	4,290
Others	9,265	9.7	9,497	9.3	6,890	6.9	5,691	5.7	5,777	5.5	4,709	6,547
Total current expenditure	**26,977**	**28.4**	**28,992**	**28.5**	**27,550**	**27.7**	**26,604**	**26.6**	**28,407**	**27.2**	**22,652**	**25,936**
Capital expenditure and net lending												
Gross capital formation	14,039	14.8	13,980	13.7	10,178	10.3	10,293	10.3	8,648	8.3	5,910	4,310
General state budget	8,506	8.9	8,290	8.1	5,532	5.6	6,105	6.1	5,086	4.9	3,190	1,859
Public companies	3,988	4.2	4,218	4.1	3,128	3.2	2,533	2.5	1,870	1.8	1,457	1,357
Rest of general government	1,545	1.6	1,472	1.4	1,518	1.5	1,655	1.7	1,692	1.6	1,262	1,093
Other capital expenditure	592	0.6	1,375	1.4	1,533	1.5	731	0.7	1,024	1.0	886	625
Total capital expenditure	**14,631**	**15.4**	**15,354**	**15.1**	**11,712**	**11.8**	**11,024**	**11.0**	**9,672**	**9.3**	**6,796**	**4,935**
Total expenditure	**41,607**	**43.7**	**44,346**	**43.6**	**39,262**	**39.5**	**37,628**	**37.7**	**38,079**	**36.5**	**29,448**	**30,871**
Surplus/Deficit	**-4,348**	**-4.6**	**-5,314**	**-5.2**	**-5,940**	**-6.0**	**-7,314**	**-7.3**	**-4,653**	**-4.5**	**-2,032**	**1,064**

Source: Based on figures from the Central Bank November 2018 Monthly Bulletin (Table 2.1 and Table 2.2). January to October 2017 data was based on figures from the Central Bank December 2017 Monthly Bulletin for the Fiscal Sector (Table e1.4)

(1) Figures for the period from January 1, 2018 to October 31, 2018 were calculated based on aggregation of figures for the first three periods of 2018 and the month of October as published in *Table 2.2*. Figures for the period from January 1, 2017 to October 31, 2017 were calculated based on monthly aggregations as presented by the Central Bank's Monthly Bulletin for the Fiscal Sector.

(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.

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 43.6% of GDP) and total revenues totaled U.S.$39,032 million (equivalent to 38.4% of GDP) in 2014.

In 2015, the non-financial public sector registered a deficit of U.S.$5,940 million, equivalent to -6.0% of GDP. This deficit was primarily the result of decreased petroleum revenue. Total expenditures totaled U.S.$39,262 million (equivalent to 39.5% of GDP) and total revenues totaled U.S.$33,322 million (equivalent to 33.6% 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.$5,940 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.$33,322 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.$39,262 million in 2015.

In 2017, the non-financial public sector registered a deficit of U.S.$4,653 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.$33,426 million, an increase from U.S.$30,314 million in 2016. In 2017, total expenditures for the non-financial public sector totaled U.S.$38,079 million, an increase compared to U.S.$37,628 million in 2016.

For the first ten months of 2018, the non-financial public sector registered a surplus of U.S.$1,064 million compared to a deficit of U.S.$2,032 million for the first ten months of 2017. This shift is principally due to an increase in petroleum and tax revenues, as a result of an increase in the price per barrel of petroleum, the rebate on interest, penalties and surcharges accrued on tax obligations, and the lowering of trade barriers; as well as a decrease in expenses as a result of the optimization of investment projects during that period.

For the first ten months of 2018, total revenues for the non-financial public sector totaled U.S.$31,935 million, an increase from U.S.$27,416 million for the first ten months of 2017. For the first ten months of 2018, total expenditures for the non-financial public sector totaled U.S.$30,871 million, an increase compared to U.S.$29,448 million for the first ten months of 2017.

Based upon available information, the Republic expects that the actual deficit for the non-financial public sector by the end of 2018 was reduced from U.S.$4,653 million for the year 2017 to U.S.$2,210 million, a reduction of U.S.$2,443 million.

For 2019, the Ministry of Economy and Finance's estimated projection for financing needs (both internal and external debt) is U.S.$8,148.0 million. The Ministry of Economy and Finance estimates that approximately U.S.$6,980.1 million will derive from international financing and approximately U.S.$1,167.9 million 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 such as the monetization of receivables, 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, and new lending facilities from domestic banks. 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 – October 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**	**1,411**	**1,700**
Non-petroleum revenue	**15,723**	**16.5**	**16,616**	**16.2**	**18,081**	**18.0**	**16,552**	**16.9**	**16,494**	**16.0**	**13,794**	**14,717**
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	4,944	5,263
Selected excise taxes	744	0.8	803	0.8	840	0.8	790	0.8	937	0.9	764	821
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	5,708	6,084
Income Tax	3,847	4.0	4,161	4.1	4,734	4.7	3,640	3.7	3,764	3.7	3,278	3,596
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	1,208	1,295
Export duties[3]	1,322	1.4	1,406	1.4	1,278	1.3	815	0.8	935	0.9	764	856
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	1,972	2,151
Vehicle tax	214	0.2	228	0.2	223	0.2	195	0.2	191	0.2	166	188
Other taxes........................	132	0.1	129	0.1	135	0.1	1,546	1.6	805	0.8	730	317
Total tax revenue	**13,668**	**14.4**	**14,460**	**14.1**	**15,588**	**15.6**	**14,017**	**14.3**	**14,078**	**13.7**	**11,855**	**12,336**
Non-tax revenue	**1,961**	**2.1**	**2,061**	**2.0**	**2,021**	**2.0**	**2,152**	**2.2**	**2,098**	**2.0**	**1,668**	**2,069**
Transfers	**95**	**0.1**	**95**	**0.1**	**471**	**0.5**	**383**	**0.4**	**318**	**0.3**	**272**	**311**
Total revenues	**20,400**	**21.4**	**20,381**	**19.9**	**20,345**	**20.3**	**18,556**	**19.0**	**18,170**	**17.6**	**15,205**	**16,418**
Current expenditure												
Interest accrual												
Foreign	652	0.7	715	0.7	971	1.0	1,148	1.2	1,614	1.6	1,248	1,669
Domestic	516	0.5	682	0.7	789	0.8	791	0.8	868	0.8	693	734
Total interest accrual	1,169	1.2	1,397	1.4	1,759	1.8	1,938	2.0	2,482	2.4	1,942	2,404
Wages and salaries	7,897	8.3	8,359	8.2	8,761	8.7	8,870	9.1	9,140	8.9	7,231	7,480
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	1,631	1,793
Other current expenditures	1,696	1.8	998	1.0	691	0.7	742	0.8	715	0.7	578	645
Transfers	1,511	1.6	1,737	1.7	863	0.9	1,028	1.1	1,155	1.1	797	1,208
Total current expenditure	**14,308**	**15.0**	**14,981**	**14.6**	**14,484**	**14.5**	**14,514**	**14.8**	**15,630**	**15.2**	**12,179**	**13,529**
Capital expenditure												
Fixed capital expenditure	8,506	8.9	8,290	8.1	5,532	5.6	6,105	6.2	5,087	4.9	3,191	1,859
Other	-	-	22	-	152	0.1	394	0.4	369	0.4	318	118
Capital Transfers	3,048	3.2	3,501	3.4	4,117	4.1	3,092	3.2	3,226	3.1	2,553	2,875
Total capital expenditure	**11,554**	**12.1**	**11,812**	**11.5**	**9,801**	**9.9**	**9,590**	**9.8**	**8,681**	**8.4**	**6,062**	**4,852**
Total Expenditure[3]	**25,861**	**27.2**	**26,794**	**26.2**	**24,285**	**24.5**	**24,103**	**24.6**	**24,312**	**23.6**	**18,241**	**18,382**
Adjustment on treasury accounts	-	-	-	-	-	-	n/a	n/a	n/a	n/a	-	-
Overall surplus or deficit	-5,461	-5.7	-6,413	-6.3	-3,941	-4.0	-5,548	-5.7	-6,142	-6.0	-3,036	-1,964

Source: Based on figures from the Central Bank December 2018 Monthly Bulletin (Table 2.2.1). January to October 2017 data was based on figures from the Central Bank December 2018 Monthly Bulletin for the Fiscal Sector (Table e1.4)

(1) Figures for the period from January 1, 2018 to October 31, 2018 were calculated based on aggregation of figures for the first three periods of 2018 and the month of October as published in Table 2.2.1. Figures for the period from January 1, 2017 to October 31, 2017 were calculated based on monthly aggregations as presented by the Central Bank's Monthly Bulletin for the Fiscal Sector.

(2) Revenues are cash, expenditures are accrued.

(3) Includes all interest payments under foreign debt obligations.

Taxation and Customs

In 2013, Central Government revenues totaled U.S.$20,400 million (equivalent to 21.4% 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 19.9% 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 14.1% 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.$20,345 million (equivalent to 20.3% of GDP), of which U.S.$2,264 million (equivalent to 2.3% of GDP) corresponds to petroleum revenue, U.S.$15,588 million (equivalent to 15.6% 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 resulted in a deficit of U.S.$5,548 million in 2016, an increase in the deficit compared to the deficit of U.S.$3,941 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 resulted 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 ten months of 2018, Central Government revenues totaled U.S.$16,418 million, while total expenditures were U.S.$18,382 million. This resulted in a deficit of U.S.$1,964 million for the first ten months of 2018, a decrease in the deficit compared to the U.S.$3,036 million deficit for the first ten months of 2017. This decrease in the deficit is primarily due to an improvement in collecting income from oil as well as an optimization of investment projects.

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 will promote redistribution and will 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 nine months of 2018, the value-added tax generated U.S.$4,706 million of total tax revenues, an increase from the U.S.$4,450 million generated in the first nine months of 2017. This increase was mainly due to the removal of the balance of payments safeguard in force until the first semester of 2017. For the first ten months of 2018, the value-added tax generated U.S.$5,263 million of total tax revenues, an increase from the U.S.$4,944 million generated in the first ten months of 2017. 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 eight 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.$4,685 million of tax revenues for the first ten months of 2018, an increase from U.S.$4,622 million of tax revenues for the first ten months of 2017. The third largest component of tax revenues is income tax, which accounted for U.S.$3,596 million of tax revenues for the first ten months of 2018, an increase from U.S.$3,278 million of tax revenues for the first ten months of 2017. Income tax accounted for U.S.$3,764 million of tax revenues in 2017, an increase 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 Productive Development, 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 Productive Development, 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.$24,285 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 33.3% from 2014 to U.S.$5,542 million (constituting 23% of Central Government spending and 5.6% 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*."

2018 and 2019 Budgets

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 provided 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 assumed an average crude oil price of U.S.$41.92 per barrel, estimated a GDP rate growth of 2.04% and an average annual inflation rate of 1.38%. The 2018 Budget provided 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. As part of the Government's austerity measures, and following the Budget Vice-Secretary's report recommending budget cuts on permanent and non-permanent expenditures of the Republic's Executive function, on June 28, 2018, the Ministry of Economy and Finance issued Resolution No. 54 reducing the 2018 Budget by U.S.$500 million.

On October 31, 2018, the Ministry of Economy and Finance presented the 2019 Draft Budget to the National Assembly. The 2019 Draft Budget provided for a budget of approximately U.S.$31,319 million, which represented a 2.8% decrease from the 2018 Draft Budget. The 2019 Draft Budget assumed an average crude oil price of U.S.$58.29 per barrel, estimated a GDP rate growth of 1.43% and an average annual inflation rate of 1.07%. The 2019 Draft Budget provided for about U.S.$22,361 million in total revenues and U.S.$26,016 million in total expenses, for an expected global deficit of U.S.$3,655 million, representing 3.2% of the GDP. On November 29, the National Assembly made 17 proposed changes, or recommendations, to the 2019 Draft Budget recommending, among others, maintaining the 2018 budget allocations for several ministries and agencies, including allocations to higher education, health and foreign commerce, that present cuts in the 2019 Draft Budget. On December 10, 2018, the Ministry of Economy and Finance sent the National Assembly a revised 2019 Draft Budget accepting nine of the 17 recommendations and reducing the Draft Budget by U.S.$17 million to US$31,301 million, by, among other changes, adjusting the projected oil price per barrel to U.S.$50.05 and overturning the originally proposed cuts to health and higher education. On December 18, 2018 the National Assembly failed to ratify its objections into law and the 2019 Draft Budget (as sent to the National Assembly on December 10, 2018) became effective. The 2019 Budget provides for a budget of approximately US$31,301 million. The 2019 Budget provides for about 22,362 million in total revenues and U.S.$25,998 million in total expenses, for an expected global deficit of U.S.$3,637 million. The 2019 Draft Budget assumes an average crude oil price of U.S.$50.05 per barrel, estimates a GDP rate growth of 1.43% and an average annual inflation rate of 1.07%.

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.

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. Between October 2016 and October 2018, pursuant to Decree 1218, the consolidated methodology was the legal methodology in Ecuador to calculate public sector debt to GDP in Ecuador and was in accordance with the IMF methodology, the IMF GFS. However, on October 30, 2018, the repeal of Decree 1218 became effective.

On December 20, 2018, the Regulation to the Organic Law for Productive Development became effective amending, among others, article 133 of the Rules to the Public Planning and Finance Code to provide that the Ministry of Economy and Finance will produce both aggregated and consolidated financial statements of the public debt for the public sector, the non-financial public sector and the central government in a period of no more than 60 days after the end of each month. These amendments also provide that in establishing the total amount of public debt, the Ministry of Economy and Finance will consider the aggregate public debt/GDP indicator of the entities constituting the public sector. This indicator will be calculated and projected based on the public debt aggregate statements, at least for the final balances, for the following four years. Among other provisions, the regulation provides guidance for calculating the debt to GDP ratio for these purposes, as well as for reducing the balance of the public debt below 40% and for ensuring that the balance of the public debt does not exceed 40% of GDP after it has been reduced, see "*Public Debt—Organic Law for Productive Development, Investment, Employment and Fiscal Stability*". 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 Offering Circular. 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. 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, Ecuador has been 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.$49,429.2 million as of December 31, 2018, compared to U.S.$46,535.6 as of December 31, 2017. The ratio of total public sector aggregate debt to GDP increased from 44.6% as of December 31, 2017 to 45.2% as of December 31, 2018 As of December 31, 2018, interest payments on all debt obligations represent approximately 2.82% of GDP. The Organic Law for Productive Development, which became effective on August 21, 2018, provides that for the period from 2018 to 2021 and until the public debt reaches a level below the public debt ceiling of 40% of GDP, such public debt ceiling will not apply.

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.

External Debt

The total external debt of the public sector in Ecuador was U.S.$31,749.8 million as of December 31, 2017 compared to U.S.$25,679.3 million as of December 31, 2016, U.S.$20,225.2 million as of December 31, 2015, U.S.$17,581.9 million as of December 31, 2014, and U.S.$12,920.1 million 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 December 31, 2018 was U.S.$35,695.5 million, an increase from U.S.$31,749.8 million as of December 31, 2017 due primarily to disbursements of loans from the China Development Bank and AFD, disbursements of outstanding loans with multilateral entities, the issuance of the Second 2027 Notes, the 2028 Notes and the PAM Second Remarketing Notes, and the Republic's entrance into the GSI Loan Facility, the GSI Repo Transaction and the CS Repo Transaction.

The following table sets forth information regarding Ecuador's public sector external debt as of dates indicated.

Public Sector External Debt
(by debtor, in millions of U.S. dollars at the end of the year, except percentages)

	As of December 31,					
	2013	**2014** [(1)]	**2015** [(2)]	**2016**[(3)]	**2017**	**2018**[(4)]
Central Government	11,865	15,434	18,183	23,141	28,296	32,464
Public financial and non-financial entities	1,055	2,148	2,042	2,538	3,454	3,232
Total	**12,920**	**17,582**	**20,225**	**25,679**	**31,750**	**35,696**
External public debt as a percentage of nominal GDP[(4)]	13.6%	17.3%	20.4%	25.7%	30.4%	32.6%

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Source: Ministry of Economy and Finance December 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.
(4) Includes the 2024 Notes, the 2020 Notes, the 2022 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 and the GSI Loan Facility.

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 millions of U.S. dollars)

	As of December 31,					
	2013	**2014**	**2015**	**2016**	**2017**	**2018**
Multilateral	6,014	6,560	7,928	8,247	8,488	9,453
Bilateral	5,745	6,145	6,425	7,998	7,405	6,745
Commercial and Bonds	1,161	4,877	5,873	9,434	15,858	19,498
Total Public Sector External Debt	**12,920**	**17,582**	**20,225**	**25,679**	**31,750**	**35,696**

Source: Ministry of Economy and Finance December 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.$9,453 million as of December 31, 2018, U.S.$8,488 million as of December 31, 2017, and U.S.$8,247 million 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 December 31, 2018, the top three bilateral lenders to Ecuador were China, the United States, and the United Kingdom, with debt levels of U.S.$6,796.4 million (66.7% of the total bilateral debt), U.S.$1,010.6 million (9.9% of the total bilateral debt) and U.S.$708.9 million (7.0% of the total bilateral debt), respectively. As of November 30, 2018, total indebtedness owed to bilateral entities was U.S.$10,191.8 million. The Republic is current on all of its obligations to bilateral lenders.

From 2010 to 2016, Ecuador entered into four separate loan agreements with China Development Bank totaling U.S.$7,000 million, which are related to a multi-party contractual structure that involves crude oil delivery contracts entered into with PetroChina and Unipec. 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.$1,000 million, was repaid in its entirety, at the end of its original four-year term. The second loan agreement, signed in 2011, totaling U.S.$2,000 million, had an eight-year term and was voluntarily prepaid in its entirety on September 27, 2018. The third loan agreement, signed in 2012, totaling U.S.$2,000 million, has an eight-year term. The fourth loan agreement, signed on April 29, 2016, totaling U.S.$2,000 million, has a maturity of eight years and was signed as a result of the memorandum of understanding entered into between the parties on January 7, 2015, initially contemplating an amount of U.S.$1,500 million.

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 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 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 Offering Circular, 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 Offering Circular, 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 loan was disbursed on July 5, 2018.

On September 7, 2018, the Republic entered into a U.S.$250 million additional loan facility with a final amortization date of May 15, 2040, with IDB to finance costs related to the construction of a subway system in Quito.

On September 7, 2018, the Republic entered into a U.S.$237.6 million loan facility with a final amortization date of December 15, 2042, with IDB to finance the phase I of a project to improve quality in the provision of social services.

On September 14, 2018, Ecuador entered into a U.S.$150 million loan with the CAF with a term of 12 years, with a 12-month grace period for the payment of principal, to partially finance projects relating to the generation, distribution and transmission of electricity.

On September 26, 2018, the Republic increased the existing financing agreement with Credit Suisse dated October 27, 2014, for an additional amount of CHF100 million. This financing facility establishes a repayment term of seven years.

On November 28, 2018 the Municipality of the Metropolitan District of Quito and CAF entered into a US$ 152.2 million loan agreement to partially finance the Quito subway system currently under construction. This loan agreement is guaranteed by Ecuador acting through the Ministry of Economy and Finance.

On November 29, 2018, the Municipality of the Metropolitan District of Quito and the International Bank for Reconstruction and Development ("IBRD") entered into a U.S.$230 million loan agreement, to be repaid by March 15, 2038, to finance the construction of two subway stations as well as other infrastructure and facilities, and the provisioning of equipment and technical and implementation support for line one of the Quito subway system currently under construction. This loan agreement is guaranteed by Ecuador acting through the Ministry of Economy and Finance.

On November 29, 2018, the *Empresa Municipal de Agua Potable y Alcantarillado de Guayaquil* ("EMAPAG EP"), and the IBRD entered into a U.S.$233.6 million loan agreement, to be repaid by March 1, 2053, to finance the increase of access to improved sanitation services and to reduce wastewater pollution in selected areas of Guayaquil. This loan agreement is guaranteed by Ecuador acting through the Ministry of Economy and Finance.

On December 11, 2018, the Republic and IDB entered into a U.S.$100 million loan agreement to be disbursed in two installments in two years, with a final amortization date of October 15, 2038, to finance a program of reforms in Ecuador promoting gender equality and equality for the disabled.

On December 12, 2018, the Republic and CAF entered into an up-to U.S.210 million loan agreement, with a term of 15 years and a 42-month grace period for the payment of the principal, to partially finance programs supporting the management of the Republic's fiscal policy and the sustainability of public finance, among other related goals.

On December 12, 2018, the Republic and the Export-Import Bank of China entered into an up-to RMB485.7 million loan facility agreement, with a 240-month maturity period, a 60-month grace period and a 180-month repayment period, to cover the Republic's financing needs for the construction of infrastructure projects agreed with the joint venture China Road and Bridge Corporation & China National Electronics Import & Export Corporation on November 30, 2017.

On December 12, 2018, the Republic and the China Development Bank entered into a U.S.$675 million (tranche A) and RMB1,530 million (tranche B) facility agreement where each loan made under the facility shall be repaid in 16 installments, each payable every three months. Under the tranche A facility, the amounts borrowed will be used by the Republic in eligible projects under the agreement, whereas tranche B loans will be used to invest in or finance eligible projects involving approved contractors.

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, 2018
Multilateral					
IDB	Variable	U.S.$	1966- 2016	2016-2049	5,016.9
CAF	Variable	U.S.$	2005- 2016	2016-2031	3,411.2
FLAR	Variable	U.S.$	2018	2021	368.8
Others[(1)]	Fixed, Variable	Euro, U.S.$	1968-2016	2016-2051	656.7
Total Multilateral Debt					**9,452.6**
China	Fixed, Variable	RMB, U.S.$	2010-2017	2019-2036	5,695.9
Brazil	Variable	U.S.$	2000-2013	2018-2023	125.1
Spain	Fixed	U.S.$	1987-2016	2016-2042	226.3
France	Fixed, Variable	Euro, U.S.$	1988-2017	2018-2037	348.5
Italy	Fixed	Euro	1995-2015	2025-2048	4.0
Japan	Fixed, Variable	Yen	1988-2014	2018-2028	87.7
Others [(2)] [(3)]	Fixed, Variable	DEG, Won, Libra, Chf	1986-2013	2022-2053	257.5
Total Bilateral Debt					**6,745.1**
Other Debt [(4)]					**19,497.8**
Total External Debt					**35,695.5**

Source: Ministry of Economy and Finance as of December 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 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, under the GSI Loan Facility and under the GSI Repo Transaction.

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

	As of December 31, 2016		As of December 31, 2017		As of December 31, 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%	1,106.7	3.1%
3-5%	125.8	0.5%	580.7	1.83%	662.6	1.9%
5-8%(1)	9,319.5	36.3%	8,192.1	25.80%	7,859.4	22.0%
More than 8%(2)	4,624.1	18.0%	10,439.1	32.88%	13,454.1	37.7%
Floating Rate	10,627.7	41.4%	10,875.8	34.25%	12,612.7	35.3%
Total	**25,679.3**	**100%**	**31,749.8**	**100%**	**35,695.5**	**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 December 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 GSI Repo Transaction and the CS Repo Transaction.

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	**4,401**	**4,208**	**6,202**	**3,936**	**5,527**	**4,559**	**4,587**	**2,254**	**3,642**	**5,426**	**4,291**
Principal	2,339	1,960	4,069	2,028	3,837	3,134	3,389	1,204	2,648	4,692	3,995
Interest	2,063	2,249	2,133	1,908	1,691	1,425	1,198	1,049	994	735	297
Rest of Public Sector	**1,029**	**1,048**	**857**	**366**	**294**	**269**	**245**	**214**	**162**	**142**	**125**
Principal	841	874	724	264	206	193	179	158	113	99	86
Interest	189	174	133	101	88	76	66	57	49	43	38
Total Debt Service	**5,431**	**5,256**	**7,059**	**4,302**	**5,821**	**4,828**	**4,832**	**2,468**	**3,804**	**5,568**	**4,416**

Source: Ministry of Economy and Finance as of December 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.$9,927 million as of December 31, 2013 to U.S.$12,546.0 million 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.$88.6 million from U.S.$12,546.0 million in December 31, 2015 to U.S.$12,457.4 million 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.$2,328.3 million from U.S.$12,457.4 million in December 31, 2016 to U.S.$14,785.7 million in December 31, 2017. This increase was primarily due to bond issuances by the Republic. As of December 31, 2018, public sector aggregate internal debt was U.S.$13,733.7 million, a decrease from U.S.$14,785.7 million as of December 31, 2017.

The following table sets forth the public sector aggregate internal debt for the periods presented.

Public Sector Aggregate Internal Debt
(in millions of U.S. dollars, except percentage)

	As of December 31,					
	2013	**2014**	**2015**	**2016**	**2017**	**2018**
Central Government Notes	9,125	11,779	11,779	11,695	14,021	12,935
Governmental Entities [(1)]	802	780	766	762	765	799
Total[(2)]	**9,927**	**12,558**	**12,546**	**12,457**	**14,786**	**13,733**
Internal public debt as a percentage of nominal GDP[(3)]	10.4%	12.3%	12.6%	12.5%	14.2%	12.5%

Source: Ministry of Economy and Finance December 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, 2018, approximately 94.2% 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, 2018, approximately 5.8% of Ecuador's internal public indebtedness is held by Governmental Entities, such as IESS and the Ecuadorian Development Bank.

As of September 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.$3,541.9 million.

As of September 30, 2018, the Ministry of Economy and Finance's short-term obligations with the Central Bank are only a CETE for an amount of U.S.$11.97 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,											
	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	12,935	94.2
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**	**12,935**	**94.2**
Governmental Entities[(4)] ..	**802**	**8.1**	**780**	**6.2**	**767**	**6.1**	**762**	**6.1**	**765**	**5.2**	**799**	**5.8**
Total internal debt[(5)].........	**9,927**	**100**	**12,558**	**100**	**12,546**	**100**	**12,457**	**100**	**14,786**	**100**	**13,734**	**100**

Source: Ministry of Economy and Finance December 2018 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, 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 September 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 Rules to the Public Planning and Finance Code. Decree 1218 changed the methodology that the Ministry of Economy and Finance used 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 had 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 Productive Development, 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.

On June 21, 2018, the National Assembly approved the Organic Law for Productive Development (submitted by President Moreno), which became effective on August 21, 2018, which provides certainty as to the nature of certain activities as contingent liabilities for purposes of the calculation of the debt to GDP ratio, and provides that for the period from 2018 to 2021 and until the public debt reaches a level below the public debt ceiling of 40% of GDP, such public debt ceiling will not apply. This new law provides that for the period from 2018 to 2021, a fiscal stability plan will be implemented by the Ministry of Economy and Finance. The new law sets forth that in each subsequent fiscal year after the period from 2018 to 2021, the General State Budget must be presented with a fiscal program aimed at reducing over time the amount of total public debt relative to GDP, until it reaches a level below the 40% debt to GDP ratio. The new law also mandates that the Ministry of Economy and Finance issue within 90 days from August 21, 2018, a new regulation implementing a new accounting methodology, which will 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.

On November 19, 2018, the Ministry of Economy and Finance issued the Regulation Implementing the Public Debt to GDP Ratio Calculation Methodology setting out the definitions and methodology for calculating and divulging the country's public debt to GDP ratio. It provides that the calculation of the public debt to GDP ratio will be based on total public debt as published in the official aggregate financial statements and the latest nominal GDP as published by the Central Bank. It defines total public debt as the sum of the public debt incurred by the entities comprising the public sector. This regulation provides for a transition period ending on May 31, 2019, when the Ministry of Economy and Finance will issue the first report on public debt following the methodology set out in this regulation. Once this transition period is over, public debt figures as presented in this Offering Circular may vary.

On December 18, 2018, by executive decree No. 617, President Moreno issued the Regulation to the Organic Law for Productive Development supplementing the Organic Law for Productive Development, which became effective on December 20, 2018, see "*Public Debt—Organic Law for Productive Development, Investment, Employment and Fiscal Stability.*"

Certain of the total public debt and public debt to GDP ratio information set forth in this Offering Circular 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,					
	2013	**2014**	**2015**	**2016**	**2017**	**2018**
Aggregate Total Debt	22,847	30,140	32,771	38,137	46,536	49,429
Aggregate Debt to GDP Ratio	24.0	29.6	33.0	38.2	44.6	45.2[(1)]

Source: Ministry of Economy and Finance December 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 did 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.$13,978.3 million, compared with U.S.$14,990.1 million 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 December 31, 2018 was U.S.$13,733.7 million, compared with U.S.$14,785.7 million as of December 31, 2017. This decrease was primarily due to the repayment of certain notes upon maturity.

On October 15, 2018, President Moreno enacted Decree 537 repealing Decree 1218 in its entirety. On October 30, 2018, Decree 537 was published and the repeal of Decree 1218 became effective. On December 20, 2018, the Regulation to the Organic Law for Productive Development became effective amending, among others, article 133 of the Rules to the Public Planning and Finance Code.

Following the execution of the CS Repo Transaction (see "*CS Repo Transaction*" below), and the payment by CS to the Republic of a purchase price of U.S.$500,000,000 related to the CS Repo Transaction, it was expected that the total public debt to GDP ratio would be approximately 47.3%, under the aggregation methodology, using the debt to GDP ratio information as of September 30, 2018.

On December 20, 2018, the Regulation to the Organic Law for Productive Development became effective amending, among others, article 133 of the Rules to the Public Planning and Finance Code to provide that the Ministry of Economy and Finance will produce both aggregated and consolidated financial statements of the public debt for the public sector, the non-financial public sector and the central government in a period of no more than 60 days after the end of each month. These amendments also provide that in establishing the total amount of public debt, the Ministry of Economy and Finance will consider the aggregate public debt/GDP indicator of the entities constituting the public sector. This indicator will be calculated and projected based on the public debt aggregate statements, at least for the final balances, for the following four years. Among other provisions, the regulation provides guidance for calculating the debt to GDP ratio for these purposes, as well as for reducing the balance of the public debt below 40% and for ensuring that the balance of the public debt does not exceed 40% of GDP after it has been reduced, see "*Public Debt—Organic Law for Productive Development, Investment, Employment and Fiscal Stability.*"

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.

In July 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, 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, 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 commission composed of nationally recognized professionals to participate in different stages of the special audit — a possibility not expressly regulated by law.

On January 8, 2018, the Comptroller General announced the creation of the 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 General, 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 also declared that the Citizen Oversight Commission 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 Commission will promote transparency.

In relation to the Special Audit and the creation of the Citizen Oversight Commission, 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 will 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.

The CGR Audit Report concluded that certain rules that defined the methodology to calculate public debt were replaced with laws and regulations that allowed for discretion in the application and use of certain concepts related to public debt and, specifically, 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 included in the calculation of the public debt to GDP ratio. The CGR Audit Report also concluded that Decree 1218 of 2016 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 deviated from the practice of using the aggregation of public debt methodology for the purpose of establishing whether the public debt to GDP ceiling of 40% had been exceeded. Consequently, Decree 1218 allowed the Government to enter into certain debt transactions 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 set forth some conclusions and recommendations regarding certain inter-institutional agreements between the Ministry of Economy and Finance and Petroecuador, and found 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 nature 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 indications of: (i) administrative liability of certain public officials, which may lead to the dismissal of those officials; (ii) civil liability of certain current or former public officials, which may lead to fines if those officials acted in breach of their duties; and (iii) criminal liability of certain 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 such 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 to the district administrative courts.

In April 2018, the Office of the Comptroller General delivered to the Office of the Prosecutor General a report regarding the indications of criminal liability of certain former or current public officials. Based on that report, the Office of the Prosecutor General initiated a preliminary criminal investigation against former President 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 review evidence 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 to hold an indictment hearing with respect to any of the officials currently under investigation. If a 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 criminal court but the alleged offenders will not be found guilty unless, after trial, the offenders are found to be criminally liable.

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 Productive Development, Investment, Employment and Fiscal Stability

On June 21, 2018, the National Assembly passed the Organic Law for Productive Development 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 Productive Development," the Organic Law for Productive Development 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 Productive Development 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 Productive Development reforms Article 123 of the Public Planning and Finance Code by expressly confirming that a contingent liability may originate when:

- the Central Government issues sovereign guarantees for the benefit of public sector entities that enter into public debt, together with all provisions made for their payment;
- notes linked to duly documented payment obligations are issued;
- guarantee agreements to secure the proper use of non-reimbursable contributions received by any applicable entity are entered into; and
- the public sector incurs contingent liabilities in accordance with applicable law, or other liabilities are incurred 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, and included in the calculation of total public debt to GDP ratio, in such amount and to the extent the obligation is due and payable.

The Organic Law for Productive Development provides that for the period from 2018 to 2021 and until the public debt reaches a level below the public debt ceiling of 40% of GDP, such public debt ceiling will not apply. This new law provides that for the period from 2018 to 2021, a fiscal stability plan will be implemented by 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 from 2018 to 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 relative to GDP, until it reaches a level below the 40% debt to GDP ratio. The new law also mandates that the Ministry of Economy and Finance issue within 90 days from August 21, 2018, a new regulation implementing a new accounting methodology, which will 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. On October 15, 2018, President Moreno enacted decree No. 537 ("Decree 537")

repealing Decree 1218 in its entirety, which became effective on October 30, 2018, see *"Public Debt—Decree 1218*."

On November 19, 2018, the Ministry of Economy and Finance issued the Regulation Implementing the Public Debt to GDP Ratio Calculation Methodology setting out the definitions and methodology for calculating and divulging the country's public debt to GDP ratio. It provides that the calculation of the public debt to GDP ratio will be based on total public debt as published in the official aggregate financial statements and the latest nominal GDP as published by the Central Bank. It defines total public debt as the sum of the public debt incurred by the entities comprising the public sector. This regulation provides for a transition period ending on May 31, 2019, when the Ministry of Economy and Finance will issue the first report on public debt following the methodology set out in this regulation. Once this transition period is over, public debt figures as presented in this Offering Circular may vary.

On December 18, 2018, by executive decree No. 617, President Moreno issued the Regulation to the Organic Law for Productive Development supplementing the Organic Law for Productive Development, which became effective on December 20, 2018. The Regulation to the Organic Law for Productive Development, among others, creates the procedures to implement and simplify the tax benefits that the Organic Law for Productive Development created for new investments and entrepreneurship; clarifies different concepts used in the Organic Law for Productive Development such as the concept of 'new investment;' creates the framework under which the value added tax ("VAT") and exit tax returns on exports and other tax incentives will be carried out; closes any loopholes on the elimination of the excise tax; and creates the procedures to oversee compliance with fiscal rules with the goal of achieving sustainability of public finances.

The Regulation to the Organic Law for Productive Development also amends the Rules to the Public Planning and Finance Code to include a new section on fiscal rules and to amend certain articles. Article 133 of the Rules to the Public Planning and Finance Code is amended to provide that the Ministry of Economy and Finance will produce both aggregated and consolidated financial statements of the public debt for the public sector, the non-financial public sector and the central government in a period of no more than 60 days after the end of each month. These amendments also provide that in establishing the total amount of public debt, the Ministry of Economy and Finance will consider the aggregate public debt/GDP indicator of the entities constituting the public sector. This indicator will be calculated and projected based on the public debt aggregate statements, at least for the final balances, for the following four years. Among other provisions, the regulation provides guidance for calculating the debt to GDP ratio for these purposes, as well as for reducing the balance of the public debt below 40% and for ensuring that the balance of the public debt does not exceed 40% of GDP after it has been reduced.

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 Offering Circular.

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 June 20, 2018, 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 2013-2017 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 Republic also reopened the Original 2020 Issuance on August 31, 2018 and successfully issued an additional U.S.$701,616,000 of notes at a price of 103.509%, also due 2020, within the context of a repo transaction with GSI (see "*GSI Repo Transaction*" below). The most recent interest payment on the 2020 Notes, which was due on September 24, 2018, 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 2013-2017 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. The Republic also reopened the Original 2022 issuance on August 31, 2018, and successfully issued an additional U.S.$500 million of notes at a price of 104.753%, also due 2022, within the context of a repo transaction with GSI (see "*GSI Repo Transaction*" below). Additionally, the Republic reopened the Original 2022 issuance on October 31, 2018, and issued an additional U.S.$1,187,028,000 of notes at a price of 105.305%, also due 2022, within the context of a repo transaction with CS (see "*CS Repo Transaction*" 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 and intends to make all payments as they become due and payable. 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 respective Indentures) 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 was in effect until October 30, 2018, when Decree 537 was published as further discussed under *Public Debt—Decree 1218*. Decree 1218 established that the Ministry of Economy and Finance would 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 ratio, 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, was 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 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 Productive Development, 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 Productive Development, which became effective on August 21, 2018, provides that for the period from 2018 to 2021 and until the public debt reaches a level below the public debt ceiling of 40% of GDP, such public debt ceiling will not apply. 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 Offering Circular.

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 Offering Circular, 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 reopened 2020 Notes and 2022 Notes (the "2018 Reopened Notes") (with an aggregate 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 2018 Reopened 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. Either GSI or the Republic may request that any of the 2018 Reopened Notes be substituted for other identified securities issued by the Republic, subject to certain conditions (including the consent of both GSI and the Republic) as described in more detail below. The 2018 Reopened Notes constitute "Further Notes" (as defined in each of the respective Indentures) 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 2018 Reopened 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 2018 Reopened 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 2018 Reopened 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 2018 Reopened 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.

On October 10, 2018, the August 2018 GSI-Ecuador Repurchase Transaction was amended and restated (the October 2018 Amendment, and such transaction as amended and restated, the Amended August 2018 GSI Ecuador Repurchase Transaction). The October 2018 Amendment effected a decrease by 135bps of the price differential spread payable by the Republic under the Amended August 2018 GSI-Ecuador Repurchase Transaction (as compared to the price differential spread payable by the Republic under the August 2018 GSI-Ecuador Repurchase Transaction). In exchange for such decrease in the spread, Ecuador has agreed to repay the Purchase Price in euro based upon the EUR/USD exchange rate as of the date of the October 2018 Amendment, although the Purchase Price was disbursed in US dollars. Although the Purchase Price is to be repaid in euro post amendment, the price differential is to continue to be paid in US dollars and the price differential spread is not necessarily the same had the Purchase Price been initially disbursed in euro. The all-in cost in USD terms to the Republic of the Amended August 2018 GSI Ecuador Repurchase Transaction is comprised of the price differential payments thereunder and the realized forward price of the EUR/USD exchange rate at the amortization dates, which may cause the all-in cost in USD terms to the Republic to be materially higher or lower than the cost of the August 2018 GSI-Ecuador Repurchase Transaction prior to it being amended. Accordingly, if the euro has appreciated to the US dollar at the amortization dates when compared to the date that the August 2018 GSI-Ecuador Repurchase Transaction was amended, the USD all-in cost to the Republic of the Amended August 2018 GSI-Ecuador Repurchase Transaction may be higher than the USD all-in cost prior to it being amended. The execution of the documentation for the October 2018 Amendment was authorized by the Republic's Debt and Finance Committee under *Acta Resolutiva No.* 010 dated October 10, 2018.

Under the terms of the Amended August 2018 GSI-Ecuador Repurchase Agreement, upon certain scheduled amortization dates, the Republic is required to pay amounts in installments in euro to GSI which in

aggregate equal the euro equivalent of the amount originally paid as the Purchase Price. For these purposes, the EUR/USD exchange rate used is the exchange rate as of the date of the October 2018 Amendment. 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 being payable in US dollars and, together with the aforementioned installment amounts, 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 2018 Reopened 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 Amended August 2018 GSI-Ecuador Repurchase Transaction, GSI can sell or otherwise transfer any interest in the 2018 Reopened 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 Amended 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 Amended 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 either euro or US dollars (at the option of the Republic) 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 2018 Reopened Notes decline, 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 Amended 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 2018 Reopened 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 Amended 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 2018 Reopened Notes will terminate, but the Republic will continue to be required to make all payments of principal and interest in respect of the 2018 Reopened Notes to the applicable holders of the 2018 Reopened Notes.

As was the case with the August 2018 GSI Ecuador Repurchase Agreement, at any time during the term of the Amended August 2018 GSI-Ecuador Repurchase Agreement, either GSI or the Republic may request that the 2018 Reopened 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 in is equivalent to the market value of the 2018 Reopened Notes that are being substituted out. Any substitution of 2018 Equivalent Property 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 2018 Equivalent Property for Equivalent Securities issued prior to the date of the August 2018 GSI-Ecuador Repurchase Agreement. The Republic may therefore issue new notes or re-open existing notes at any time for the purpose of a substitution described in this paragraph.

Pursuant to the amendment of Article 123 of the Public Planning and Finance Code by the Organic Law for Productive Development, according to which notes issued in connection with repurchase transactions can be considered as "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 2018 Reopened Notes in the calculation of the total public debt to GDP ceiling. See "*Public Debt-Organic Law for Productive Development, Investment, Employment and Fiscal Stability*." Were the 2018 Reopened Notes no longer considered to be contingent, such as upon the occurrence of an event of default, the entire outstanding face amount of the 2018 Reopened Notes may be considered in the calculation of the total public debt to GDP ceiling. If the entire face amount of the 2018 Reopened Notes at issuance is taken into account in calculating the debt to GDP ratio, the debt to GDP ratio will be approximately 48.0%, under the aggregation methodology using the debt to GDP ratio information as of October 2018.

CS Repo Transaction

On October 29, 2018 the Republic and Credit Suisse AG, London Branch ("CS") 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 October 29, 2018 (the GMRA and Annex collectively, the "CS-Ecuador GMRA").

Pursuant to a Confirmation dated as of October 29, 2018 (the "October 2018 Repo Confirmation", collectively with the CS-Ecuador GMRA, the "October 2018 CS-Ecuador Repurchase Agreement"), the Republic sold and transferred (such sale, transfer and repurchase pursuant to the terms of the October 2018 CS-Ecuador Repurchase Agreement, the "October 2018 CS-Ecuador Repurchase Transaction") to CS U.S.$1,187,028,000 nominal amount of reopened 2022 Notes (the "CS Reopened Notes") (with an aggregate market value at the date of the transaction of U.S.$1,249,999,835.40) and in return received from CS a purchase price of EUR439,251,515.42 (the "Purchase Price", which the Republic and CS agreed would be settled in US dollars by the payment by CS of U.S.$500,000,000 to the Republic), the value of the Republic's residual interest in the October 2018 CS-Ecuador Repurchase Transaction and the interest amounts three business days prior to the date on which they are paid by the Republic on the CS Reopened Notes. The Republic is also required to pay to CS, on a quarterly basis, a price differential based upon LIBOR plus a spread. The CS Reopened Notes constitute Further Notes (as defined in the Indenture for the 2022 Notes) of the existing series of 2022 Notes currently being traded in the international markets. The issue of the CS Reopened Notes and the execution of the 2018 CS-Ecuador Repurchase Agreement were authorized by the Republic's Debt and Finance Committee under *Acta Resolutiva No.* 011 dated October 24, 2018. The CS Reopened Notes were issued on October 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 CS Reopened Notes and the value of the Republic's residual interest in the October 2018 CS-Ecuador Repurchase Transaction, subject to the terms of the October 2018 CS-Ecuador Repurchase Agreement. The CS Reopened Notes are fully fungible with the 2022 Notes 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 October 2018 CS-Ecuador Repurchase Agreement, upon certain scheduled dates, the Republic is required to pay amounts to CS (Scheduled Additional Amounts) which reduce the Purchase Price (and therefore reduce the repurchase price payable by the Republic on the repurchase date (the "Repurchase Price")) and which in aggregate equal the original Purchase Price. The Republic is also required to pay to CS, on a quarterly basis, a price differential based upon LIBOR plus a spread. CS is in turn required to pay to the Republic, on a quarterly basis, interest amounts on all Scheduled Additional Amounts based upon LIBOR plus a spread. Upon the scheduled repurchase date, being 54 months from the commencement of the October 2018 CS-Ecuador Repurchase Transaction, CS is required to sell and transfer to the Republic equivalent property to the CS Reopened Notes (the "CS Equivalent Property") against payment by the Republic of the final Scheduled Additional Amount. In addition, the Republic may be required to repurchase CS Equivalent Property and pay the Repurchase Price (to the extent not already paid) to CS prior to the scheduled repurchase date if certain events of default or termination events occur. Under the October 2018 CS-Ecuador Repurchase Transaction, CS can sell or otherwise transfer any interest in the CS Reopened Notes at any time to any third party, although CS is required to retain economic exposure to the CS Equivalent Property for so long as CS has a future obligation, whether or not contingent, to deliver the CS Equivalent Property. Upon the occurrence of an event of default, if CS elects to sell CS Equivalent Property to a third party in order to determine the amounts due between the parties under the October 2018 CS-Ecuador

Repurchase Transaction, the Republic will have the right to submit a bid to purchase such CS Equivalent Property and CS will be obliged to accept such bid if such bid is the highest bid received, subject to the terms of the October 2018 CS-Ecuador Repurchase Agreement. Given that certain obligations are denominated in EUR under the October 2018 CS-Ecuador Repurchase Agreement, the all-in cost to the Republic of the agreement may be higher or lower than if all payments were denominated in USD. Furthermore, the Republic may elect under the terms of the agreement to make payments in EUR or USD.

In the event that the value of the CS Equivalent Property declines and is worth less than certain thresholds then, within two business days of the delivery of a notice from CS to the Republic, an additional amount (an "Additional Amount") must be paid by the Republic to CS (subject to any such Additional Amount being at least 2% of the remaining Purchase Price). Accordingly, the Republic may be required to pay Additional Amounts prior to the scheduled repurchase date when the value of the CS Reopened Notes decline, 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 CS return additional amounts if the value of CS Equivalent Property increases above certain thresholds. Any Additional Amounts paid by the Republic to CS shall reduce the Repurchase Price, and any additional amounts returned by CS to the Republic shall increase the Repurchase Price.

Under the October 2018 CS-Ecuador Repurchase Transaction, CS is required to transfer to the Republic an amount equivalent to all interest amounts to be paid by the Republic on the CS Reopened Notes three business days prior to the date on which such interest amounts are to be paid by the Republic. CS is also required to transfer to the Republic the CS Equivalent Property upon final payment of the Repurchase Price in full. If an event of default occurs under the October 2018 CS-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 CS Reopened Notes will terminate, but the Republic will continue to be required to make all payments of principal and interest in respect of the CS Reopened Notes to the applicable holders of the CS Reopened Notes.

At any time during the term of the October 2018 CS-Ecuador Repurchase Agreement, either CS or the Republic may request (and in specific cases may be obliged to agree) that the CS Reopened 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 CS Reopened Notes that are being substituted. The Republic may therefore issue new notes or re-open existing notes at any time for the purpose of a substitution described in this paragraph.

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 CS Reopened 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 CS Reopened Notes no longer considered to be contingent, such as upon the occurrence of event of default, the entire outstanding face amount of the CS Reopened Notes may be considered in the calculation of the total public debt to GDP ceiling. If the entire face amount of the CS Reopened Notes at issuance is taken into account in calculating the debt to GDP ratio, the debt to GDP ratio will be approximately 49.2%, under the aggregation methodology using the debt to GDP ratio information as of October 2018.

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 Offering Circular, the Republic is 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 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 loan agreement has a 3% interest rate and 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 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 Offering Circular, 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 Offering Circular, 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 *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. The loan was disbursed on July 5, 2018.

On September 14, 2018, the Municipality of Guayaquil entered into a U.S.$49 million loan with the CAF for a construction project. The loan has a term of 10 years, with a 30-month grace period, and is guaranteed by Ecuador.

On September 26, 2018, the Republic increased an existing financing agreement with Credit Suisse for an additional amount of CHF100 million. This financing facility establishes a repayment term of seven years.

On November 28, 2018 the Municipality of the Metropolitan District of Quito and CAF entered into a US$ 152.2 million loan agreement to partially finance the Quito subway system currently under construction. This loan agreement is guaranteed by Ecuador acting through the Ministry of Economy and Finance.

On November 29, 2018, the Municipality of the Metropolitan District of Quito and the International Bank for Reconstruction and Development ("IBRD") entered into a U.S.$230 million loan agreement, to be repaid by March 15, 2038, to finance the construction of two subway stations as well as other infrastructure and facilities, and the provisioning of equipment and technical and implementation support for line one of the Quito subway system currently under construction. This loan agreement is guaranteed by Ecuador acting through the Ministry of Economy and Finance.

On November 29, 2018, the *Empresa Municipal de Agua Potable y Alcantarillado de Guayaquil* ("EMAPAG EP"), and the IBRD entered into a U.S.$233.6 million loan agreement, to be repaid by March 1, 2053, to finance the increase of access to improved sanitation services and to reduce wastewater pollution in selected areas of Guayaquil. This loan agreement is guaranteed by Ecuador acting through the Ministry of Economy and Finance.

On December 11, 2018, the Republic and IDB entered into a U.S.$100 million loan agreement to be disbursed in two installments in two years, with a final amortization date of October 15, 2038, to finance a program of reforms in Ecuador promoting gender equality and equality for the disabled.

On December 12, 2018, the Republic and CAF entered into an up-to U.S.210 million loan agreement, with a term of 15 years and a 42-month grace period for the payment of the principal, to partially finance programs supporting the management of the Republic's fiscal policy and the sustainability of public finance, among other related goals.

On December 12, 2018, the Republic and the Export-Import Bank of China entered into an up-to RMB485.7 million loan facility agreement, with a 240-month maturity period, a 60-month grace period and a 180-month repayment period, to cover the Republic's financing needs for the construction of infrastructure projects agreed with the joint venture China Road and Bridge Corporation & China National Electronics Import & Export Corporation on November 30, 2017.

On December 12, 2018, the Republic and the China Development Bank entered into a U.S.$675 million (tranche A) and RMB1,530 million (tranche B) facility agreement where each loan made under the facility shall be repaid in 16 installments, each payable every three months. Under the tranche A facility, the amounts borrowed will be used by the Republic in eligible projects under the agreement, whereas tranche B loans will be used to invest in or finance eligible projects involving approved contractors.

DESCRIPTION OF THE NOTES

Ecuador will issue the Notes under the Indenture. The following description summarizes the material provisions of the Notes and 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 form 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. 001 dated January 21, 2019.

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 2029;

- mature at par on January 31, 2029 (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 January 31 and July 31 of each year, commencing on July 31, 2019;

- 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.

General Terms of the Notes

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 applicable to the Notes 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 (1) not less than 30 days nor more than 60 days' notice to the holders of the Notes and (2) not less than 30 days notice to the Trustee, 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 refinancing) 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 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 (including the Notes), 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 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 the Notes in definitive form (i.e. not in book-entry but physical form) only if:

- the depositary for the Notes 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 under the Notes and is continuing and (A) any holder requests the Trustee to exchange its interest the Note in the form of a Global Note for a Definitive Note, or (B) 25% of all outstanding holders of the Notes direct the Trustee to exchange all 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 and Account Bank, Luxembourg Listing Agent, Transfer Agent; Registrar

The Trustee will serve as the registrar, The Bank of New York Mellon, London Branch will serve as the London paying agent and account bank and The Bank of New York Mellon SA/NV, Luxembourg Branch, will serve as the Luxembourg paying agent. The Republic, acting for the exclusive benefit of the holders of the Notes, may also appoint additional 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. With respect to the Notes, 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, a paying 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 such 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 or the Notes, including any dispute as to the existence, validity, interpretation, performance, breach, termination or consequences of the nullity of the Indenture or the Notes (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. The provisions in the LCIA Rules regarding an Emergency Arbitrator shall not apply. 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 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 thereby appoints Law Debenture Corporate Services Limited as its agent under the Indenture and the Notes 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 or the Notes for the service of process, the Republic must immediately (and in any event within ten days of the event taking place) appoint 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 or the Notes 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 is 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% 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 of the 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 Inc., Deutsche Bank Securities Inc. and J.P. Morgan Securities, LLC are acting as the initial purchasers (the "Initial Purchasers") of this offering. Subject to the terms and conditions in the purchase agreement dated the date of this Offering Circular (the "Purchase Agreement"), the Initial Purchasers will agree, severally and not jointly, to purchase and the Republic will agree to sell to the Initial Purchasers, the principal amount of the Notes set forth opposite the Initial Purchasers' name.

Initial Purchasers	Principal Amount
Citigroup Global Markets Inc.	U.S.$333,333,000
Deutsche Bank Securities Inc.	U.S.$333,333,000
J.P. Morgan Securities LLC	U.S.$333,334,000
Total	U.S.$1,000,000,000

The Purchase Agreement provides that the obligations of the Initial Purchasers to purchase the Notes are subject to approval of legal matters by counsel and to other conditions. The Initial Purchasers must purchase all the Notes if they purchase any of the Notes. In addition, the Initial Purchasers reserve the right to reject or cancel any order in whole or in part. The Initial Purchasers may offer and sell the Notes through any of their respective affiliates.

The Republic has been advised that the Initial Purchasers propose 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 l44A 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 Initial Purchasers have agreed, severally and not jointly, that, except as permitted by the Purchase Agreement and set forth in "Transfer Restrictions," they 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 l44A, or pursuant to another exemption from registration under the Securities Act.

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 Initial Purchasers intend to make a secondary market for the Notes. However, they are 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 Initial Purchasers' fees, will be approximately U.S.$3,000,000.

In connection with the offering, the Initial Purchasers 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 Initial Purchasers of a greater number of Notes than they are 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 Initial Purchasers for their 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 Initial Purchasers may conduct these transactions in the over-the-counter market or otherwise. If the Initial Purchasers commence any of these transactions, they may discontinue them at any time.

The Initial Purchasers are full service financial institutions 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 Initial Purchasers and their 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 their various business activities, the Initial Purchasers and their 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 Initial Purchasers against certain liabilities, including liabilities under the Securities Act, or to contribute to payments that the Initial Purchasers may be required to make because of any of those liabilities.

We expect that delivery of the Notes will be made to investors on or about January 31, 2019, which we expect will be the third business day following the date of this offering memorandum (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. Accordingly, purchasers who wish to trade Notes prior to the delivery of the Notes hereunder on the date hereof or on the next succeeding two business days will be required, by virtue of the fact that the Notes initially settle in T+3, to specify an alternate settlement arrangement at the time of any such trade to prevent a failed settlement. Purchasers of the Notes who wish to trade the Notes prior to their date of delivery hereunder should consult their advisors.

Selling Restrictions

United States of America

No registration under the Securities Act

The Notes have not been and will not be registered under the Securities Act and the Notes have not been 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 Initial Purchasers, 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.

Public Offer Selling Restriction under the Prospectus Directive

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State"), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "Relevant Implementation Date") there will not be an offer of Notes which are the subject of the offering contemplated by this Offering Circular to the public in that Relevant Member State, except that, with effect from and including the Relevant Implementation Date, an offer of such Notes to the public can be made in that Relevant Member State to:

(a) Qualified investors: any legal entity which is a qualified investor as defined in the Prospectus Directive;

(b) Fewer than 150 offerees: fewer than 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive) as permitted under the Prospectus Directive subject to obtaining the prior consent of the relevant Initial Purchaser or Initial Purchasers nominated by the Republic for any such offer; or

(c) Other exempt offers: in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes shall require the Republic or the Initial Purchasers to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of Notes to the public" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression "Prospectus Directive" as amended or superseded , and includes any relevant implementing measure in the Relevant Member State.

Prohibition of Sales to EEA Retail Investors

The Notes have not been offered, sold or otherwise made available and will not be offered, sold or otherwise made available to any retail investor in the European Economic Area. For the purposes of this provision:

(a) the expression "retail investor" means a person who is one (or more) of the following:

(i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "MiFID II"); or

(ii) a customer within the meaning of Directive 2002/92/EC (as amended, the "Insurance Mediation Directive"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or

(iii) not a qualified investor as defined in Directive 2003/71/EC (as amended or superseded, the "Prospectus Directive");

and

(b) the expression "offer" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes.

United Kingdom

(a) Financial promotion: The only invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) that has been communicated or caused to be communicated, or that will be communicated, are those 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: all applicable provisions of the FSMA with respect to anything done in relation to any Notes in, from or otherwise involving the United Kingdom have been complied with.

Republic of Italy

The offering of the Notes has not been registered pursuant to Italian securities legislation and, accordingly, save as set out below, the Notes have not been offered or sold, and will not be offered or sold, in the Republic of Italy in an offer to the public and that sales of the Notes in the Republic of Italy shall be effected in accordance with all Italian securities, tax and exchange control and other applicable laws and regulation.

Accordingly, the Notes will not be offered, sold or delivered, and copies of this Offering Circular and any other document relating to the Notes will not be distributed, in the Republic of Italy except:

(a) to "qualified investors", as referred to in Article 100 of Legislative Decree No. 58 of 24 February 1998, as amended ("Decree No. 58") and defined in Article 34-ter, paragraph 1, let. b) of CONSOB Regulation No. 11971 of 14 May 1999, as amended ("Regulation No. 11971"); or

(b) in any other circumstances which are exempt from the rules on offers to the public pursuant to Article 100 of the Decree No. 58 and Regulation No. 11971.

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 investment firms, banks or financial intermediaries permitted to conduct such activities in the Republic of Italy in accordance with Legislative Decree No. 385 of 1 September 1993 as amended (the "Banking Act"), Decree No. 58, CONSOB Regulation No. 16190 of 29 October 2007, as amended and any other applicable laws and regulations;

(b) in compliance with Article 129 of the Banking Act, as amended, and the implementing guidelines of the Bank of Italy (including the reporting requirements, where applicable), as amended from time to time, pursuant to which the Bank of Italy may request information on the issue or the offer of securities in the Republic of Italy; and

in compliance with any other applicable laws and regulations or requirement imposed by CONSOB or any other Italian authority.

France

The offering is not being made, directly or indirectly, to the public in the Republic of France ("France"). Neither this Offering Circular nor any other documents or materials relating to the offering have been or shall be distributed to the public in France and only (i) providers of investment services relating to portfolio management for the account of third parties (personnes fournissant le service d'investissement de gestion de portefeuille pour compte de tiers) and/or (ii) qualified investors (investisseurs qualifiés) other than individuals, in each case acting on their own account and all as defined in, and in accordance with, Articles L.411-1, L.411-2 and D.411-1 of the French Code Monétaire et Financier, are eligible to participate in the offering. This Offering Circular and any other

document or material relating to the offering have not been and will not be submitted for clearance to nor approved by the Autorité des marches

The Netherlands

The Notes have not been offered, sold, transferred or delivered in the Netherlands other than to persons or entities which are qualified investors (gekwalificeerde beleggers) as defined in Article 1:1 of the Dutch Financial Supervision Act (Wet op het financieel toezicht).

Luxembourg

The Notes have not been offered or sold to the public within the territory of the Grand Duchy of Luxembourg ("Luxembourg") unless:

(i)

(a) a prospectus has been duly approved by the Commission de Surveillance du Secteur Financier (the "CSSF") pursuant to (i) part II of the Luxembourg law dated 10 July 2005 on prospectuses for securities, as amended, which implements the Prospectus Directive or (ii) any Luxembourg law applying Regulation (EU) 2017/1129 (the "Prospectus Regulation") (as applicable, the "Luxembourg Prospectus Law"), if Luxembourg is the home Member State as defined under the Luxembourg Prospectus Law; or

(b) if Luxembourg is not the home Member State as defined under the Luxembourg Prospectus Law, the CSSF and the European Securities and Markets Authority have been provided by the competent authority in the home Member State with a certificate of approval attesting that a prospectus in relation to the New Notes due 2025 has been duly approved in accordance with the Prospectus Directive or the Prospectus Regulation, as applicable, and with a copy of that prospectus; or

(c) the offer of the Notes benefits from an exemption from, or constitutes a transaction not subject to, the requirement to publish a prospectus under the Luxembourg Prospectus Law; and

(ii) Regulation (EU) No 1286/2014 ("PRIIPS") and the Luxembourg law of 17 April 2018 implementing PRIIPS in Luxembourg has been complied with.

Belgium

Neither this Offering Circular nor any other documents or materials relating to the offering have been submitted to or will be submitted for approval or recognition to the Belgian Financial Services and Markets Authority and, accordingly, the offering may not be made in Belgium by way of a public offering, as defined in Article 3 of the Belgian Law of 1 April 2007 on public takeover bids, as amended or replaced from time to time. Accordingly, the offering may not be advertised and the offering will not be extended, and neither this Offering Circular nor any other documents or materials relating to the offering (including any memorandum, information circular, brochure or any similar documents) has been or shall be distributed or made available, directly or indirectly, to any person in Belgium other than "qualified investors" within the meaning of Article 10 of the Belgian Law of 16 June 2006 on public offerings of investment instruments and the admission of investment instruments to trading on regulated markets (as amended from time to time).

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 this 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.

Canada

This Offering Circular constitutes an "exempt offering document" as defined in and for the purposes of applicable Canadian securities laws. No prospectus has been filed with any securities commission or similar regulatory authority in Canada in connection with the offer and sale of the Notes. No securities commission or similar regulatory authority in Canada has reviewed or in any way passed upon this Offering Circular or on the merits of the Notes and any representation to the contrary is an offence.

Canadian investors are advised that this Offering Circular has been prepared in reliance on section 3A.4 of National Instrument 33-105 Underwriting Conflicts ("NI 33-105"). Pursuant to section 3A.4 of NI 33-105, this Offering Circular is exempt from the requirement that the Republic and the Initial Purchasers provide Canadian investors with certain conflicts of interest disclosure pertaining to "connected issuer" and/or "related issuer" relationships that may exist between the Republic and the Initial Purchasers as would otherwise be required pursuant to subsection 2.1(1) of NI 33-105.

Resale Restrictions

The offer and sale of the Notes in Canada is being made on a private placement basis only and is exempt from the requirement that the Republic prepares and files a prospectus under applicable Canadian securities laws. Any resale of Notes acquired by a Canadian investor in the offering must be made in accordance with applicable Canadian securities laws, which may vary depending on the relevant jurisdiction, and which may require resales to be made in accordance with Canadian prospectus requirements, pursuant to a statutory exemption from the prospectus requirements, in a transaction exempt from the prospectus requirements or otherwise under a discretionary exemption from the prospectus requirements granted by the applicable local Canadian securities regulatory authority. These resale restrictions may under certain circumstances apply to resales of the Notes outside of Canada.

Representations of Purchasers

Each Canadian investor who purchases the Notes will be deemed to have represented to the Republic, the Initial Purchasers and to each initial purchaser from whom a purchase confirmation is received, as applicable, that the investor is (i) purchasing as principal, or is deemed to be purchasing as principal in accordance with applicable Canadian securities laws, for investment only and not with a view to resale or redistribution; (ii) an "accredited investor" as such term is defined in section 1.1 of National Instrument 45-106 Prospectus Exemptions or, in Ontario, as such term is defined in section 73.3(1) of the Securities Act (Ontario); and (iii) is a "permitted client" as such term is defined in section 1.1 of National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations.

Taxation and Eligibility for Investment

Any discussion of taxation and related matters contained in this Offering Circular does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a Canadian investor when deciding to purchase the Notes and, in particular, does not address any Canadian tax considerations. No representation or warranty is hereby made as to the tax consequences to a resident, or deemed resident, of Canada of an investment in the Notes or with respect to the eligibility of the Notes for investment by such investor under relevant Canadian federal and provincial legislation and regulations.

Rights of Action for Damages or Rescission

Securities legislation in certain of the Canadian jurisdictions provides certain purchasers of securities pursuant to an offering circular (such as this Offering Circular), including where the distribution involves an

"eligible foreign security" as such term is defined in Ontario Securities Commission Rule 45-501 Ontario Prospectus and Registration Exemptions and in Multilateral Instrument 45-107 Listing Representation and Statutory Rights of Action Disclosure Exemptions, as applicable, with a remedy for damages or rescission, or both, in addition to any other rights they may have at law, where the offering circular, or other offering document that constitutes an offering circular, and any amendment thereto, contains a "misrepresentation" as defined under applicable Canadian securities laws. These remedies, or notice with respect to these remedies, must be exercised or delivered, as the case may be, by the purchaser within the time limits prescribed under, and are subject to limitations and defenses under, applicable Canadian securities legislation. In addition, these remedies are in addition to and without derogation from any other right or remedy available at law to the investor.

Language of Documents

Upon receipt of this Offering Circular, each Canadian investor hereby confirms that it has expressly requested that all documents evidencing or relating in any way to the sale of the securities described herein (including for greater certainty any purchase confirmation or any notice) be drawn up in the English language only. Par la réception de ce document, chaque investisseur canadien confirme par les présentes qu'il a expressément exigé que tous les documents faisant foi ou se rapportant de quelque manière que ce soit à la vente des valeurs mobilières décrites aux présentes (incluant, pour plus de certitude, toute confirmation d'achat ou tout avis) soient rédigés en anglais seulement.

Singapore

This Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, the Notes have not been offered or sold, or caused to be made the subject of an invitation for subscription or purchase and has not been circulated or distributed. 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, has not been and will not 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 Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (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 any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(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,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six 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 or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) 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.

Singapore Securities and Futures Act Product Classification – Solely for the purposes of its obligations pursuant to sections 309B(1)(a) and 309B(1)(c) of the SFA, unless otherwise specified in the relevant Pricing Supplement before an offer of Notes, the Republic has determined, and hereby notifies all relevant persons (as defined in Section 309A of the SFA) that the Notes are "prescribed capital markets products" (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018) and "Excluded Investment Products" (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

Hong Kong

(i) The Notes have not been offered or sold and will not be offered or sold in Hong Kong, by means of any document, any Notes (except for Notes which are a "structured product" other than as defined in the Securities and Futures Ordinance (Cap. 571)) of Hong Kong ("SFO")) other than (a) to "professional investors" as defined in the SFO and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the "C(WUMP)O") or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and (ii) 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), has not been issued, will not be issued, whether in Hong Kong or elsewhere, 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 the SFO.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, (the "FIEA"). Accordingly, each Initial Purchaser has represented and agreed that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes in Japan or to, or for the benefit of, a resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan) or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident in Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, FIEA and other relevant laws and regulations of Japan.

Qatar

The Notes have not been offered, sold or delivered and will not be offered, sold, or delivered, directly or indirectly, 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 is not intended to constitute an offer, sale or delivery of bonds or other debt financing instruments under the laws of the State of Qatar ("Qatar "). The Notes have not been and will not be registered with the QE, the Qatar Financial Markets Authority, the QCB or with any other authority pursuant to any laws, regulations and rules in Qatar. The Notes and interests therein will not be offered or sold in Qatar and do not constitute debt financing in Qatar under the Commercial Companies Law No. (5) of 2002 or any other laws of Qatar.

United Arab Emirates (excluding the Dubai International Financial Centre)

The Notes have not been and will not be offered, sold or publicly promoted or advertised 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 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 Notes have not been offered and will not be offered 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.

Chile

The Notes may not be publicly offered or sold, directly or indirectly, in Chile, or to any resident of Chile, except as permitted by applicable Chilean law. The Notes will not be registered under Law No. 18,045, as amended (*Ley de Mercado de Valores* or the securities market law of Chile) with the Commission for the Financial Markets (*Comisión para el Mercado Financiero*, together with formerly the Superintendency of Securities and Insurance (*Superintendencia de Valores y Seguros*) and any other predecessor agency, commission or superintendency, the "CMF") and, accordingly, the Notes cannot and will not be offered or sold to persons in Chile except in circumstances which have not resulted and will not result in a public offering under Chilean law, and in compliance with Rule (*Norma de Carácter General*) No. 336, dated June 27, 2012, issued by the CMF ("CMF Rule 336"). The Notes being offered will not be registered under the Securities Market Law in the Securities Registry (*Registro de Valores*) or in the Foreign Securities Registry (*Registro de Valores Extranjeros*) of the CMF and, therefore, the Notes are not subject to the supervision of the CMF. As unregistered securities, the Issuer is not required to disclose public information about the Notes in Chile. Accordingly, the Notes cannot and will not be publicly offered to persons 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 CMF Rule 336 of the CMF. Pursuant to CMF Rule 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 CMF).

General

No action has been taken by the Republic or any Initial Purchaser 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, each Initial Purchaser 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 Note).

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 Initial Purchasers; 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 Initial Purchasers 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 Initial Purchasers; 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 Initial Purchasers:

(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 Initial Purchasers are 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 Initial Purchasers nor any person representing the Republic or the Initial Purchasers 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 Initial Purchasers 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 Initial Purchasers. 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, investors holding Notes as a position in a "straddle," "conversion transaction," or "constructive sale" transaction, and accrual basis taxpayers subject to special tax accounting rules as a result of their use of financial statements). 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 or arrangement 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

neither a partnership (or other entity or arrangement treated as a partnership for U.S. federal income purposes) nor 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, non-U.S. or other tax laws.

U.S. Holders

Payments of Interest and Additional Amounts

The Republic 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.

Prospective U.S. Holders of the Notes should consult their own tax advisors concerning the U.S. federal income tax consequences of receiving Interests (and any Additional Amounts) on the Notes that are made in a currency other than the U.S. dollar.

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. Long-term capital gains are subject to preferential tax rates for certain non-corporate U.S. holders. 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.

Prospective U.S. Holders of the Notes should consult their own tax advisors concerning the U.S. federal income tax consequences of receiving any payments upon the sale, exchange, retirement or other taxable disposition of a Note that are made in a currency other than the U.S. dollar.

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

U.S. resident individuals and certain closely held corporations, partnerships and trusts that hold "specified foreign financial assets" with an aggregate value in excess of certain thresholds (which in the case of an unmarried individual will be 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 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 (and, if an income tax treaty applies, the gain is attributable to a permanent establishment maintained by such non-U.S. Holder within 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).

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 person who is for U.S. federal income tax purposes:

- a "United States person;"
- a controlled foreign corporation;
- 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 Economy and 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 Initial Purchasers by Clifford Chance US LLP, U.S. counsel to the Initial Purchasers and by Pérez Bustamante & Ponce, Ecuadorian counsel to the Initial Purchasers. 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, 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 Economy and 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 Initial Purchasers have confirmed that the provision of the legal opinion from the *Coordinador General Jurídico* of the Ministry of Economy and Finance and the Pronouncement are fully compliant from an Ecuadorian law perspective.

GENERAL INFORMATION

1. The Regulation S Global Notes and the Restricted 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 corresponding to the U.S.$1,000,000,000 10.750% Notes due 2029 are 192937671 and 192937701, respectively, and the International Securities Identification Numbers for the Regulation S Global Note and the Restricted Global Note corresponding to the U.S.$1,000,000,000 10.750% Notes due 2029 are XS1929376710 and XS1929377015, 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. 001 dated January 21, 2019.

3. The Republic is involved in certain litigation and administrative arbitration proceedings. See "*Legal Proceedings*."

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." On December 12, 2018, Moody's Investors Service changed the Republic's sovereign credit rating outlook from stable to negative. On January 10, 2019, Fitch changed the Republic's rating outlook to "negative" from "stable."

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 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 January 28, 2019, 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.

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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Investors should rely only on the information contained in this Offering Circular or to which the Republic of Ecuador has referred investors. Ecuador has not, and the Initial Purchasers have not, authorized anyone to provide 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.

The Republic of Ecuador
U.S.$1,000,000,000
10.750% Notes due 2029

Initial Purchasers and Global Coordinators

Citigroup

Deutsche Bank Securities

J.P. Morgan

Offering Circular

January 28, 2019