



## The Republic of Ecuador

**U.S.\$400,000,000 7.25% Social Housing Notes due 2035**

partially guaranteed by



## The Inter-American Development Bank

The Republic of Ecuador (the "Republic" or "Ecuador" or the "Issuer") is offering U.S.\$400,000,000 aggregate principal amount of 7.25% partially guaranteed amortizing Social Housing Notes due 2035 (the "Notes"). Interest on the Notes will be payable semi-annually in arrear on January 30 and July 30 of each year, commencing on July 30, 2020. The Notes will be general, direct, unsecured, unsubordinated and unconditional obligations of the Republic, will be backed by the full faith and credit of the Republic and will rank equally in terms of priority with the Republic's External Indebtedness (other than the Excluded Indebtedness), as defined in "Description of the Notes," 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.

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 66 2/3% 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 66 2/3% of the aggregate principal amount of the outstanding debt securities of all series that would be affected by that reserved matter modification (taken in aggregate) and (y) holders of more than 50% of the aggregate principal amount of the outstanding debt securities of each affected series (taken individually); or (c) make reserved matter modifications affecting two or more series of debt securities with the consent of holders of at least 75% of the aggregate principal amount of the outstanding debt securities of all affected series (taken in aggregate), *provided* that the Uniformly Applicable condition is satisfied, as more fully described in "*Description of the Notes—Modifications—Collective Action*."

The Inter-American Development Bank (the "IDB" or the "Guarantor") will, pursuant to a guarantee agreement dated on the Issue Date (in the form attached as Annex A, the "Guarantee Agreement") irrevocably guarantee the payment of scheduled interest and principal payment amounts due under the Notes on each scheduled payment date therefor, without regard to any acceleration under the Notes, to the extent that the aggregate of any such payment amounts remains unpaid by the Republic on such date (the "Guarantee"); *provided* that the maximum amount payable by the Guarantor under the Guarantee in respect of all scheduled interest and/or principal amounts and all indemnity obligations due in respect of each outstanding Note shall not exceed the lower of (a) U.S.\$300 million, as reduced by any disbursements made under the Guarantee, and (b) the "Maximum Guaranteed Notes Amount" which shall be, as of any date of determination, the sum set forth in Schedule I to the Guarantee, provided that following the Guarantor's exercise of the IDB Right to Purchase (as defined and pursuant to the terms of the Guarantee), the Maximum Guaranteed Amount (as defined in the Guarantee) shall equal U.S.\$0. The Guarantee will not be accelerated except as provided for in the Guarantee Agreement in the event of a Guarantor Event of Default (as defined in the Guarantee). The Notes are only an obligation of the Republic and the Guarantee is only an obligation of the IDB and not of any government. Unless otherwise terminated in accordance with the terms of the Guarantee Agreement, the Guarantee shall remain in effect until the Termination Date. See "*Annex A—The Guarantee Agreement*," "*Description of the Notes*," "*Guarantee Agreement*," "*The Inter-American Development Bank*," and "*General Information*."

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 has been approved as a prospectus issued in compliance with Part 2 of the rules and regulations of the Luxembourg Stock Exchange by the Luxembourg Stock Exchange in its capacity as competent authority under Part IV of the Luxembourg law of July 16, 2019 on prospectuses for securities (the "Prospectus Law") for the purposes of giving information with regard to the issue of the Notes. Application has been made to the Luxembourg Stock Exchange for the Notes to be admitted to listing on the official list of the Luxembourg Stock Exchange (the "Official List") and for such Notes to be admitted to trading on the Euro MTF Market of the Luxembourg Stock Exchange (the "Euro MTF Market"). References in this Offering Circular to Notes being "listed" on the Luxembourg Stock Exchange (and all related references) shall mean that such Notes have been admitted to listing on the Official List and have been admitted to trading on the Euro MTF Market. The Euro MTF Market is not a regulated market for the purposes of the Directive 2014/65/EU on markets in financial instruments. 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 36 regarding certain risk factors investors should consider before investing in the Notes.

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### Notes Price: 100.000%

plus accrued interest, if any, from January 30, 2020.

Delivery of the Notes will be made on or about January 30, 2020.

**Neither the Notes nor the Guarantee has been nor will 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*."

*Sole Global Coordinator, Bookrunner and Social Bond Structuring Agent*

**GOLDMAN SACHS & CO. LLC**

The date of this Offering Circular is January 16, 2020.



**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 Sole Global Coordinator, Bookrunner and Social Bond Structuring Agent has 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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ANNEX A — The Guarantee Agreement

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 the 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. The 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 the 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 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*."

The Republic has taken reasonable care to ensure that the information contained in this Offering Circular, other than the information relating to the IDB and to the Guarantee in "*The Inter-American Development Bank*" and "*The Guarantee Agreement*," below, 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.

However, the IDB accepts responsibility for the information contained or referred to in this Offering Circular relating to the IDB and to the Guarantee in "*The Inter-American Development Bank*" and "*The Guarantee Agreement*," below. The IDB has taken reasonable care to ensure that the information contained in this Offering Circular relating to the IDB and to the Guarantee 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 IDB, there has been no omission of such information which, in the context of the issue of the Notes, would make this Offering Circular as a whole or any such information included in this Offering Circular, misleading in any material respect. The IDB has made no investigation concerning any other information contained in this Offering Circular and makes no representations, warranties or assurances of any nature as to the accuracy, completeness or sufficiency of that information and assumes no responsibility with respect to that information.

This Offering Circular does not constitute an offer by, or an invitation by or on behalf of, the Republic or Goldman Sachs & Co. LLC as sole global coordinator, bookrunner and social bond structuring agent in respect of the placement of the Notes (the "Sole Global Coordinator, Bookrunner and Social Bond Structuring Agent") 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 Sole Global Coordinator, Bookrunner and Social Bond Structuring Agent to inform themselves about and to observe any such restrictions. See "*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 this Offering Circular supersedes any other information or presentation regarding the Republic;
- it has not relied on the Sole Global Coordinator, Bookrunner and Social Bond Structuring Agent, or any person affiliated with the Sole Global Coordinator, Bookrunner and Social Bond Structuring Agent 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 Sole Global Coordinator, Bookrunner and Social Bond Structuring Agent; 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") or the United Kingdom. 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 (as amended, "MiFID II"); (ii) a customer within the meaning of Directive (EU) 2016/97 (the "Insurance Distribution 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 Regulation (EU) 2017/1129 (the "Prospectus Regulation"). Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the "PRIIPs Regulation") for offering or selling the Notes or otherwise making them available to retail investors in the EEA or the United Kingdom has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA or the United Kingdom may be unlawful under the PRIIPS Regulation.

**IN CONNECTION WITH THIS ISSUANCE OF NOTES, THE SOLE GLOBAL COORDINATOR, BOOKRUNNER AND SOCIAL BOND STRUCTURING AGENT MAY, ITSELF OR THROUGH ITS AFFILIATES, OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE NOTES AT A LEVEL WHICH MIGHT NOT OTHERWISE PREVAIL IN THE OPEN MARKET, TO THE EXTENT PERMITTED BY APPLICABLE LAWS. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.**

#### **PRESENTATION OF INFORMATION**

Unless otherwise specified or the context requires, references to "U.S. dollars," "\$" and "U.S. \$" are to United States dollars.

References to the "Republic" and "Ecuador" are to the Republic of Ecuador, references to the "Government" are to the Government of the Republic of Ecuador and the use of the term "Governmental" shall be with regards to the Government of the Republic of Ecuador.

References to "FOB" are to exports free on board and to "CIF" are to imports including cost, insurance and freight charges.

References to laws that are "published" are to laws that have been approved by the *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 the 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 of Ecuador**

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.
  - (iv) 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.
  - (v) The seat, or legal place, of arbitration will be London, England.
  - (vi) The language to be used in the arbitration will be English. The arbitration provisions contained in the Indenture will be governed by English law.

(vii) 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, shall 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.*

The Indenture contains also a provision which provides that in relation to any Dispute under the Indenture involving the IDB, the provisions of Sections 3.02(b), (c), (d) & (e), 3.04, 3.05 and 3.06 of the Guarantee Agreement will apply, *mutatis mutandis*, as if set out therein. See "Annex A—The Guarantee Agreement".

### **The Inter-American Development Bank**

The Guarantor is an international institution established by the Agreement Establishing the Inter-American Development Bank which became effective on December 30, 1959 (the "IDB Agreement"). As an international organization, the Guarantor is not incorporated under the laws of any state. The IDB Agreement provides that the Guarantor shall possess juridical personality and full capacity to enter into contracts, acquire and dispose of property and to institute legal proceedings. The IDB Agreement further provides that actions may be brought against the Guarantor only in a court of competent jurisdiction in the territories of a member in which the Guarantor has an office, has appointed an agent for the purpose of accepting service or notice of process or has issued or guaranteed securities.

The Guarantor has not consented to the jurisdiction of any court in connection with actions arising out of, relating to or having any connection with the Guarantee and has submitted itself to arbitration under the LCIA Rules. The Guarantor has agreed to the following arbitration provisions (which shall be governed by English law) as part of the terms and conditions of the Guarantee Agreement:

Any dispute, controversy or claim of any nature arising out of, relating to or having any connection with the Guarantee or the Indenture, including any dispute as to the existence, validity, interpretation, performance, breach, termination or consequences of the nullity of the Guarantee or the Indenture (a "Dispute") where the Guarantee 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 Guarantee or the Indenture (as applicable), 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:

- (a) There will be three arbitrators.
- (b) 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.
- (c) Within 30 days after the filing of the arbitration, the Paying Agent and the Trustee shall jointly appoint one arbitrator and the Guarantor shall appoint 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 shall be appointed on their behalf by the LCIA Court in accordance with the LCIA Rules and applying the criteria at subparagraph (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 shall be unaffected, and the remaining arbitrator(s) shall be appointed in accordance with the LCIA Rules.

- (d) 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 (b) above.
- (e) The seat, or legal place, of arbitration will be London, England.
- (f) The language to be used in the arbitration will be English. The arbitration provisions contained in the Guarantee will be governed by English law.

The Guarantor enjoys certain privileges and immunities under the IDB Agreement and has not waived any of its immunities under the Guarantee Agreement. Some of these immunities include certain immunities with respect to the Guarantor's property and assets, its governors, executive directors, alternates, officers and employees and tax immunities with respect to securities issued or guaranteed by the Guarantor. For further information on the Guarantor's privileges and immunities see "*The Inter-American Development Bank*".

## **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, sures at a rate of 25,000 sures 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 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 and Guillermo Lasso of the CREO-SUMA party, came in second. 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. 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. 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. 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.

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 Corporación Andina de Fomento ("CAF") and the IDB, 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 five years following its implementation, 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 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. The Transitional Citizen Participation and Social Control Council finished conducting public evaluations and examinations on 23 candidates in January 2019, of which the nine candidates with the highest scores were appointed to the Court on February 5, 2019. Members of the Constitutional Court are appointed for a nine-year period.

As part of the Government's plan to restructure and reduce the size of the Government and enact institutional austerity measures:

- As of the date of this Offering Circular, President Moreno has decreed and completed the elimination of 19 entities including ministries and secretariats, the merger of ten such entities and the creation of five new ones;
- President Moreno decreed the reduction by 10% and 5% of the salaries of high and mid-level government officials, respectively;
- On February 6, 2019, *Empresa Coordinadora de Empresas Públicas* ("Public Companies Coordinator Company") requested from the country's public companies a plan to gradually reduce their payrolls by 10%, amounting to approximately 3,000 to 3,500 layoffs and approximately U.S.\$60 million in annual savings; and
- Between December 2018 and February 2019, the Government laid off 11,820 employees in the public sector, of which 8,916 belonged to the executive branch, 207 to the judicial branch, 556 to the legislative branch, and the rest to other public entities. Most of these layoffs consisted of employees under temporary or occasional—related to a particular need of the employer not in the ordinary course of business—employment contracts.

On December 21, 2018, President Moreno issued decree No. 619 ("Decree 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 October 1, 2019, President Moreno issued decree No. 883 ("Decree 883") expanding the scope of the liberalization of prices for hydrocarbons by eliminating the subsidy on certain types of gasoline and diesel and thereby increasing the prices for these fuels. Following the elimination of the subsidies, prices for gasoline type "extra" and diesel for the automotive sector began to be set on a monthly basis by Petroecuador based on average prices and costs.

On October 3, 2019, various groups organized protests relating to the elimination of the subsidies and increase in prices. On October 14, 2019, President Moreno issued decree No. 894 ("Decree 894") terminating

Decree 883, reversing the elimination of the subsidies and ordering the creation of a new policy on subsidies for hydrocarbons. Decree 894 did not set a deadline to implement this new policy. By reversing the elimination of the subsidies, Decree 894 returned the price of gasoline and diesel to the prices existing on October 1, 2019. Decree 894 commits the Government to design a more targeted subsidy policy through a new decree.

From October 7 through October 13, 2019, protesters relating to the elimination of subsidies occupied certain fields and disrupted oil productions by among other things, blocking roads allowing for the transportation of crude oil, causing the Government to suspend oil production in 20 oil fields located in the provinces of Orellana, Sucumbíos and Napo, resulting in approximately U.S.\$136.86 million in losses. As part of the Government's efforts to normalize production after the unrest, the new oil fields were opened for production in October 2019. As a result, by October 31, 2019, block 43, which includes the 139 ITT fields of Ishipingo, Tipituni and Tambococha, reached 86,618 bpd in oil production, the largest oil operation in Ecuador. As of the date of this offering circular, oil production has normalized. For more on oil production, see "*The Ecuadorian Economy—Strategic Sectors of the Economy—Oil Sector—Production*."

On October 18, 2019, President Moreno presented before the National Assembly the draft *Ley Orgánica para la Transparencia Fiscal, Optimización del Gasto Tributario, Fomento a la Creación de Empleo, Afianzamiento de los Sistemas Monetario y Financiero, y Manejo Responsable de las Finanzas Públicas* (the "Organic Law for the Fiscal Transparency, Optimization of the Tax Expenditure, Job Creation Promotion, Consolidation of the Monetary and Financial System and Responsible Management of the Public Finance" or "Law on Economic Development"), aimed at reforming several of the Republic's tax and financial laws. Specifically, the Law on Economic Development's objective was to, on the one hand, increase revenue by U.S.\$450 million by progressively taxing corporations and individuals with higher yearly income, and imposing new taxes such as a tax on plastic bags and e-cigarettes; and in addition introducing a number of measures to create (a) a more efficient tax system for taxpayers and (b) reforming certain aspects of Ecuador's financial laws and regulations to, among other objectives, (i) enhance fiscal sustainability establishing stricter budget controls and (ii) strengthen dollarization by enhancing the Central Bank's autonomy. After the protests held in October 2019, President Moreno modified the proposed draft Law on Economic Development to remove the elimination of gas subsidies as part of the draft law, see "*The Republic of Ecuador—Recent Measures by President Moreno*."

On November 17, 2019, the National Assembly voted to reject the draft Law on Economic Development. In response, on November 21, 2019, President Moreno presented the draft *Ley Orgánica de Simplicidad y Progresividad Tributaria* ("Organic Law on Tax Simplification"), replacing the draft Law on Economic Development with respect to certain aspects of the intended tax reform. The Organic Law on Tax Simplification was first approved by the National Assembly on December 9, 2019, and after a Presidential partial veto, it was finally approved on December 30, 2019, and became effective on December 31, 2019. The Organic Law on Tax Simplification eliminates income tax advances, VAT and Special Consumption Tax ("ICE") on certain products and services (e.g. certain web services, and electric and public vehicles), provides for 100% debt relief of interest and charges on certain student loans, a progressive taxing calendar for corporations and individuals with higher yearly income, and imposes new special taxes on supermarket plastic bags, certain mobile services and certain beers, among other tax reforms targeting certain micro-entrepreneurs, immigrants, exporters, agricultural manufacturers, and others.

On December 21, 2019, President Moreno announced that a new proposed policy is being reviewed with emphasis being put on strategies to eradicate the contraband of subsidized products and on determining which sectors and groups to focus the new subsidies policy on and is expected to be implemented between the months of February and April 2020, see "*The Republic of Ecuador—Recent measures by President Moreno*."

The Government indicated in its updated Memorandum of Economic and Financial Policies (the "Updated Memorandum of Economic and Financial Policies") presented to the IMF on December 11, 2019 (for more information on the Updated Memorandum of Economic and Financial Policies, see "*Public Debt—IMF's Extended Fund Facility*."), that it is currently studying a new draft law modifying certain aspects of the banking and monetary reforms intended under the draft Law on Economic Development. Presentation to the National Assembly of amendments to the Public Planning and Finance Code are expected by the end of February 2020, and presentation of amendments to the Organic Monetary and Financial Law, after consultation with various stakeholders and building consensus, are expected by April 2020, see "*Public Debt—IMF's Extended Fund Facility*."

## 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. Among its provisions, the law provides tax incentives for small and medium sized companies and to promote new investments in the country, and creates 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 (*exequáatur*). 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, unless the public debt reaches a level below the public debt ceiling of 40% of GDP, the public debt ceiling will not apply. The law also provides for the implementation of a fiscal stability plan by the Ministry of Economy and Finance for the period from 2018 to 2021. The law sets forth that in each subsequent fiscal year after 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, as further described in *"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—Methodology for Calculating the Public Debt to GDP Ratio."*

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 (the "New Methodology"). The New Methodology provides that the calculation of the public debt to GDP ratio is to 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. The New Methodology defines total public debt as the sum of the public debt incurred by the entities comprising the public sector and adds certain debt instruments to the calculation of public debt that were not previously included, including oil presales, see *"Public Debt—Methodology for Calculating the Public Debt to GDP Ratio."* The Ministry of Economy and Finance's Monthly Debt Bulletin for April 2019 (the "April 2019 Debt Bulletin") was the first report on public debt issued that followed the New Methodology. The Regulation Implementing the Public Debt to GDP Ratio Calculation Methodology provides that by November 14, 2019, the

Ministry of Economy and Finance was required to publish public debt figures calculated using the New Methodology going back to October 2010. Such deadline has not been met due to unexpected delays in gathering and consolidating the data, with the release of these updated public debt figures expected within the weeks following this Offering Circular. Once these past public debt figures are published using the New Methodology, those numbers may vary from the public debt figures presented in this Offering Circular for the comparable period which were calculated based on the old methodology.

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 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 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 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 International Monetary Fund ("IMF")) which was not consistent with Article 123 of the *Código Orgánico de Planificación y Finanzas Públicas* ("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) 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 *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.

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 and prior to the publication of the April 2019 Debt Bulletin, the Ministry of Economy and Finance had 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—Methodology for Calculating the Public Debt to GDP Ratio*." 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; an examination finalized in April 2019, regarding the contracts with service providers (including lawyers, banks, financial agents and other firms) involved in public debt transactions, covering the period between January 1, 2012 and December 31, 2017; an examination finalized in April 2019, regarding the Republic's use of shares of public banks to pay the Central Bank of Ecuador, covering the period between January 1, 2016 and December 31, 2017; an examination finalized in May 2019, regarding the entry, registration and use of funds from oil presale contracts, covering the period between January 1, 2012 and December 31, 2017; and a follow-up examination finalized in May 2019, regarding the application of the recommendations under the CGR Audit Report, covering the period between April 6, 2018 and October 31, 2018; and (ii) an ongoing examination regarding the GSI Loan Facility, the Gold Derivative Transaction and the Bond Derivative Transaction, see "*Public Debt—GSI Loan Facility*".

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 total public debt, instead of short-term securities with a term of up to 360 days as was set forth in Decree 1218. Decree 537 repealed Decree 1218 on October 30, 2018, see "*Public Debt—Methodology for Calculating the Public Debt to GDP Ratio.*" 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 an indictment, the court would hold a pre-trial hearing. The alleged offenders would not be considered criminally liable unless determined through a trial process.

## **The Ecuadorian Economy**

The U.S. dollar is the legal tender in Ecuador. Real GDP for 2018 was U.S.\$71,933 million, compared to U.S.\$70,956 million in 2017, representing a 1.4% increase in real terms. This increase was mainly due to a 2.9% increase in government expenditure as a final consumer, a 2.7% increase in household expenditure as final consumers, a 2.1% increase in gross fixed capital formation, and a 0.9% increase in exports of goods and services.

In 2018, the nominal GDP reached U.S.\$107,562 million representing a 3.1% increase from U.S.\$104,296 million in 2017. Nominal GDP as of the third quarter of 2019 reached U.S.\$27,140.1 million representing a 0.2% increase from U.S.\$27,078.4 million as of the third quarter of 2018. This increase was mainly due to the 4.9% decrease of construction activity, a 2.8% decrease in final consumption of the general government, a 2.8% decrease in general government expenditure in collective services, and a U.S.\$21.5 million decrease in wages driven by the 2.2% decrease in total number of public employees.

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%. According to the Central Bank, inflation decreased from 0.35% for the 12-month period ended November 30, 2018 to 0.04% for the 12-month period ended November 30, 2019. This decrease was primarily due to a decrease in the prices of clothing and footwear, furniture and household items, hotels and restaurants, food and non-alcoholic beverages and communications. According to the Central Bank, inflation decreased from 0.27% for the 12-month period ended December 31, 2018 to -0.07% for the 12-month period ended December 31, 2019.

The rate of unemployment decreased from 4.62% as of December 31, 2017 to 3.69% as of December 31, 2018. The rate of unemployment increased from 4.03% as of September 30, 2018 to 4.86% as of September 30, 2019.

In 2018, manufacturing was the largest sector of the economy measured by percentage of GDP (13.12%), followed by construction (11.29%), trade (9.64%), social services (9.12%) and agriculture (8.11%). In the third quarter of 2019, manufacturing was the largest sector of the economy measured by percentage of GDP (12.80%), followed by construction (10.85%), trade (9.38%), social services (9.31%) and agriculture (7.79%).

In 2018, state-owned companies were responsible for 77.5% of production, compared to 78.4% in 2017. This decrease was principally due to delays in production schedules resulting from delays in acquisitions and temporary limitations in works and facilities, and to the increase in private oil production in 2018. In the nine months ended September 30, 2019, state-owned companies were responsible for 78.7% of production, compared to

77.4% of production in the same period of 2018. This increase was principally due to the production increase in the Auca and ITT fields. In the eleven months ended November 30, 2019, state-owned companies were responsible for 78.9% of production, compared to 77.5% of production in the same period of 2018.

According to the Central Bank's Monthly Bulletin for December 2019, oil field crude production, including that of private and state-owned companies, reached 188.8 million barrels for the year 2018, representing a 2.7% decrease from the 193.9 million barrels produced in 2017 (and a decrease of 2.7% in barrels per day). According to the Central Bank's Monthly Bulletin for December 2019, oil field crude production, including that of private and state-owned companies, reached 177.0 million barrels for the eleven months ended November 30, 2019, representing a 2.5% increase from the 172.7 million barrels produced in the same period of 2018 (and an increase of 2.5% in barrels per day).

In 2018, crude oil exports totaled U.S.\$7,853 million, a 26.9% increase from U.S.\$6,190 million in 2017. This increase was due to an increase in the average price of petroleum per barrel from U.S.\$45.68 in 2017 to U.S.\$60.55 in 2018, despite a 4% decrease in export volume. In the first ten months of 2019, crude oil exports totaled U.S.\$6,478 million, a 4.2% decrease from U.S.\$6,764 million in the first ten months of 2018. This decrease was primarily due to a 10.8% decrease in the average price of petroleum per barrel from U.S.\$62.5 to U.S.\$55.7. In the first eleven months of 2019, crude oil exports totaled U.S.\$7,052 million, a 4.0% decrease from U.S.\$7,346 million in the first eleven months of 2018.

### **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. In 2018, there was a balance of payments deficit of U.S.\$92.0 million, a decrease in the deficit compared to the U.S.\$1,858.5 million balance of payments deficit in 2017. This decrease in the deficit was primarily due to an increase in foreign direct investment of U.S.\$782.6 million, a decrease in income from portfolio investments of U.S.\$3,889.7 million, a decrease in assets from other investments of U.S.\$4,221.8 million and an increase of liabilities from other investments by U.S.\$1,935.6 million. For the third quarter of 2019, there was a balance of payments surplus of U.S.\$774.8 million, an increase compared to the U.S.\$466.8 million balance of payments deficit in the third quarter of 2018. This increase was primarily due to the decrease in the current account deficit by U.S.\$194.7 million due to a 1.1% increase in exports compared to a 5.7% decrease in imports, and to the capital and financial account surplus in the amount of U.S.\$917.5 million driven by the issuance and sale of sovereign bonds during the third quarter of 2019.

In 2018, foreign direct investment reached U.S.\$1,410 million, an increase compared to U.S.\$618.8 million in 2017. This increase was principally due to a positive net flow of debt between related companies where service of the debt outpaced amortization. In the third quarter of 2019, foreign direct investment reached U.S.\$127.9 million, a decrease compared to U.S.\$297.4 million for the third quarter of 2018. This decrease was principally due to a U.S.\$66.9 million decrease in equity investment in shares of stock and a U.S.\$6.1 million decrease in reinvested earnings.

In 2018, imports totaled U.S.\$22,385.8 million compared to U.S.\$19,306.8 million in 2017. This increase in the level of imports was primarily due to a 13.7% increase in imports of consumer goods, a 36.4% increase in imports of fuel and lubricants, an 11.6% increase in imports of commodities, an 11.1% increase in imports of capital assets, and a 47.8% increase in various imports. For the third quarter of 2019, imports totaled U.S.\$5,490.9 million compared to U.S.\$5,822.9 million for the third quarter of 2018. This decrease in the level of imports was primarily due to a 10.1% decrease in imports of consumer durables and a 12.7% decrease in imports of commodities.

### **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.

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 the net income of oil exports and the net payment of external public debt, 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 net cash withdrawals from the financial system by U.S.\$589 million.

As of November 30, 2019, Ecuador's International Reserves totaled U.S.\$3,178.7 million, an increase from November 30, 2018 when International Reserves totaled U.S.\$2,382.2 million. This increase in International Reserves was principally due to a higher net income from crude oil exports than money transfers from oil derivatives imports resulting in a net increase in international reserves of U.S.\$2,040 million, and a U.S.\$1,717 million increase in public external debt during the period; with this increase in the inflow of money partly offset by a net increase in money transfers abroad from the public and private financial sectors, in the amounts of U.S.\$1,489 million and U.S.\$1,055 million, respectively, and to net cash withdrawals from the financial system totaling U.S.\$415 million. As of December 31, 2019, Ecuador's International Reserves totaled U.S.\$3,397.1 million, a 26.9% increase from December 31, 2018 when International Reserves totaled U.S.\$2,676.5 million, and a 6.9% increase from November 30, 2019, when International Reserves totaled U.S.\$3,178.7 million.

As of November 30, 2019, Ecuador's International Reserves totaled U.S.\$3,178.7 million, a 22.4% decrease from October 31, 2019. As of October 31, 2019, Ecuador's International Reserves totaled U.S.\$4,097.8 million, a 20.1% decrease from September 30, 2019. As of September 30, 2019, Ecuador's International Reserves totaled U.S.\$5,130.4 million, a 34.7% increase from August 31, 2019.

## **Monetary System**

As of November 30, 2019, 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 majority of funding for the Ecuadorian banking system is comprised of demand deposits, which increased 4.7% from U.S.\$19,014 million in 2014 to U.S.\$19,912 million in 2017. As of December 31, 2018, time deposits totaled U.S.\$10,388 million, an increase of 10.0% since December 31, 2017. This increase was principally due to an increase in time deposits with a 180 and 360 days term. As of November 30, 2019, private bank's time deposits totaled U.S.\$12,069 million, an increase of 14.6% since November 30, 2018. This increase was mainly due to a 23.89% increase in time deposits with a 181 and 360 days term and a 17.9% increase in time deposits with a 91 and 180 days term. As of December 31, 2019, private bank's time deposits totaled U.S.\$12,374.4 million, an increase from U.S.\$10,388 million as of December 31, 2018.

As of December 31, 2018, private banks' 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. As of November 30, 2019, private banks' time and demand deposits totaled U.S.\$30,668 million, an increase of 4.7% compared to November 30, 2018. This increase was principally due to an increase in time deposits of U.S.\$1,540 million. As of December 31, 2019, private banks' time and demand deposits totaled U.S.\$32,138 million, an increase compared to U.S.\$29,845 million as of December 31, 2018.

Foreign banks and financial institutions are also a source of liquidity in the Ecuadorian banking system. 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 November 30, 2019, the balance of foreign liabilities in the banking sector amounted to approximately U.S.\$2,391.6 million, which is an increase of 46.8% from the balance of foreign liabilities in November 30, 2018, which was U.S.\$1,628.7 million. As of December 31, 2019, the balance of foreign liabilities in the banking sector amounted to approximately U.S.\$2,512 million, which increased compared to the balance of foreign liabilities as of December 31, 2018, which was U.S.\$1,799 million. As of December 31, 2018, the banking system represented 79.65% of the total assets of the private financial system. The banking system, for the year ended December 31, 2018, generated a profit of U.S.\$553.8 million, which according to data from the

Superintendent of Banks represented 0.51% of Ecuador's nominal GDP and an increase compared to U.S.\$395.8 million as of December 31, 2017. The banking system strengthened between 2017 and 2018, and its assets expanded by 5.15% due to an 11.60% increase in the loan portfolio.

As of November 30, 2019, the banking system represented 77.5% of the total assets of the private financial system. For the period ended in November 30, 2019, the banking system made a profit of U.S.\$560.0 million compared to U.S.\$504.3 million for the same period in 2018. This increase was mainly due to the growth in the amount of interest received and discounts earned as compared to the amount of interest paid and discounts granted. As of November 30, 2019, the assets of the banking system totaled U.S.\$42,888 million, an increase of 7.55% from U.S.\$39,879 million as of November 30, 2018. This increase was principally due to a U.S.\$2,340 million or 9.2% increase in the loan portfolio. As of December 31, 2019, the assets of the banking system totaled U.S.\$44,583 million, which increased from U.S.\$40,984 million as of December 31, 2018.

As of December 31, 2018, the delinquency rate on loans from the private banking sector decreased to 2.62% compared to the 2.96% delinquency rate as of December 31, 2017. This decrease was 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 November 30, 2019, the delinquency rate decreased to 3.05% compared to the 3.10% delinquency rate as of November 30, 2018. This decrease was principally due to a more significant growth in the productive loan portfolio (a 9.0% increase) than the growth of the unproductive loan portfolio (a 7.2% increase).

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 November 30, 2019, 45.8% of all current loans were commercial, 38.2% were consumer, 8.0% were housing, 6.6% were microcredit and 1.4% were education related. As of December 31, 2019, 45.8% of all current loans were commercial, 38.34% were consumer, 7.9% were housing, 6.6% were microcredit and 1.4% 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. As of November 30, 2019, banking deposits, including guarantee deposits and restricted deposits, totaled U.S.\$32,177 million, an increase from the U.S.\$30,608 million as of November 30, 2018. As of December 31, 2019, banking deposits, including guarantee deposits and restricted deposits, totaled U.S.\$33,678 million, an increase from the U.S.\$31,257 million as of December 31, 2018.

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. Total current loans to the private sector from the private banking sector increased to U.S.\$28,687 million as of November 30, 2019. Total current loans to the private sector from the private banking sector increased from U.S.\$26,609 million as of December 31, 2018, to U.S.\$29,209 million as of December 31, 2019.

#### *Proposal to Reform the Monetary and Financial Law*

On October 18, 2019, President Moreno presented before the National Assembly the draft Law on Economic Development which, among other reforms, was aimed at reforming certain aspects of Ecuador's financial laws and regulations to, among other objectives, (i) enhance fiscal sustainability establishing stricter budget controls and (ii) strengthen dollarization by enhancing the Central Bank's autonomy, see "*The Republic of Ecuador—Recent Measures by President Moreno*." On November 17, 2019, the National Assembly voted to reject the draft Law on Economic Development. In response, on November 21, 2019, President Moreno presented the draft Organic Law on Tax Simplification, replacing the draft Law on Economic Development with respect to certain aspects of the intended tax reform. The Organic Law on Tax Simplification was first approved by the National Assembly on December 9, 2019, and after a Presidential partial veto, it was finally approved on December 30, 2019, and became effective on December 31, 2019, see "*The Republic of Ecuador—Recent Measures by President Moreno*."

The Government indicated in its Updated Memorandum of Economic and Financial Policies presented to the IMF on December 11, 2019, that it is currently studying a new draft law modifying certain aspects of the banking and monetary reforms intended under the draft Law on Economic Development. Presentation to the

National Assembly of amendments to the Public Planning and Finance Code are expected by the end of February 2020, and presentation of amendments to the Organic Monetary and Financial Law, after consultation with various stakeholders and building consensus, are expected by April 2020, see “*Public Debt—IMF’s Extended Fund Facility*.”

## **Public Sector Finances**

In 2018, Central Government revenues totaled U.S.\$20,233 million, while total expenditures were U.S.\$24,154 million. This resulted in a deficit of U.S.\$3,921 million in 2018, a decrease in the deficit compared to the U.S.\$6,142 million deficit in 2017. This decrease in the deficit was primarily due to an increase in non-oil revenue as well as an optimization of investment projects.

For the first nine months of 2019, Central Government revenues totaled U.S.\$14,506 million, while total expenditures were U.S.\$16,968 million. This resulted in a deficit of U.S.\$2,462 million for the first nine months of 2019, as compared to the U.S.\$1,667 million deficit for the first nine months of 2018. This increase in the deficit is primarily due to a decrease in revenue from transfers to the general State budget and an increase in expenditures compared to 2018 driven by the reinstatement of the Government’s requirement to cover 40% of public pension plans under the social security law. For the first ten months of 2019, Central Government revenues totaled U.S.\$16,137 million, while total expenditures were U.S.\$18,933 million. This resulted in a deficit of U.S.\$2,796 million for the first ten months of 2019, as compared to the U.S.\$2,070 million deficit for the first ten months of 2018.

In 2018, the non-financial public sector registered a deficit of U.S.\$1,300 million compared to a deficit of U.S.\$4,653 million in 2017. This decrease in the deficit was principally due to an increase in petroleum and tax revenues, as a result of an increase in the price per barrel of petroleum, and the reduction in capital expenditure, as well as a decrease in Central Government expenditures as a result of the optimization of investment projects. In 2018, total revenues for the non-financial public sector totaled U.S.\$38,865 million, an increase from U.S.\$33,426 million for 2017. This increase was primarily due to an increase in oil revenues. In 2018, total expenditures for the non-financial public sector totaled U.S.\$40,166 million, an increase compared to U.S.\$38,079 million in 2017. This increase was primarily due to an increase in current expenditure by approximately 5% of GDP.

For the first nine months of 2019, the non-financial public sector registered a surplus of U.S.\$242 million compared to a surplus of U.S.\$645 for the first nine months of 2018. This decrease in total surplus is primarily due to an increase in non-tax revenue and an increase in the operational surplus of public sector companies. For the first ten months of 2019, the non-financial public sector registered a surplus of U.S.\$245 million compared to a surplus of U.S.\$543 million for the first ten months of 2018.

For the first nine months of 2019, total revenues for the non-financial public sector totaled U.S.\$27,972 million, a decrease from U.S.\$28,698 million for the first nine months of 2018. This decrease was primarily due to a lower increase in 2019 in non-tax revenue and in the operational surplus of public sector companies compared to 2018. For the first ten months of 2019, total revenues for the non-financial public sector totaled U.S.\$30,951 million, a decrease from U.S.\$31,835 million for the first ten months of 2018.

For the first nine months of 2019, total expenditures for the non-financial public sector totaled U.S.\$27,730 million, a decrease compared to U.S.\$28,053 million for the first nine months of 2018. This decrease was primarily due to the optimization of public investment under the general State budget initiated in 2019. For the first ten months of 2019, total expenditures for the non-financial public sector totaled U.S.\$30,707 million, a decrease compared to U.S.\$31,292 million for the first ten months of 2018.

The 2019 Budget provided for a budget of approximately U.S.\$31,301 million. The 2019 Budget provided 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 Budget assumed 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%.

On October 31, 2019, President Moreno presented the 2020 Budget (the “2020 Budget”) to the National Assembly for approval. On November 27, 2019, the National Assembly made 20 proposed changes, or recommendations, to the 2020 Budget recommending, among others, the rationalization of expenditure, further clarification of the proposed U.S.\$2,000 million plan for monetization, including a contingency plan to account for the volatility of oil prices. The Executive branch submitted its response and the revised 2020 Budget on December 5, 2019. On December 17, 2019, the National Assembly voted against the 2020 Budget, failing to meet the legal deadline established for its approval under the law. In such cases where a draft budget law is not approved by the National Assembly within the legal deadline, under Ecuadorian law, such laws may be approved by default. Consequently, the 2020 Budget became effective on December 27, 2019. For more information on the budget process, see “*Public Sector Finances—Overview—Budget Process*.” The 2020 Budget provides for a budget of approximately U.S.\$35,498 million. The 2020 Budget assumes approximately U.S.\$22,516 million in total revenue, which includes expected income from monetization of certain public assets, and approximately U.S.\$25,900 million in total expenses, for an expected total deficit of approximately U.S.\$3,384 million. The 2020 Budget assumes an average crude oil price of U.S.\$51.3 per barrel, estimates a GDP rate growth of 0.57% and an average annual inflation rate of 0.84%. The 2020 Budget assumes approximately U.S.\$8,917 million in financing needs, of which U.S.\$4,696 million are expected from external financing sources, including multilateral institutions with approximately U.S.\$3,643 million, government loans with approximately U.S.\$380 million, international bonds with U.S.\$400 million and commercial loans with approximately U.S.\$273 million. Domestic financing is expected from local bonds with approximately U.S.\$1,955 million. The remaining financing needs are expected to be covered by the balance from the prior year’s budget with approximately U.S.\$2,267 million. During the execution of the 2020 Budget, these financing needs estimates may change based upon changing market conditions and policy goals.

## **Public Debt**

Between October 2016 and October 2018, pursuant to Decree 1218, the consolidated methodology was the legal methodology in Ecuador to calculate the 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, as further described in “*Public Debt—Organic Law for Productive Development, Investment, Employment and Fiscal Stability*.” For a description of certain risks relating to this change in methodology, 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 holders of the Notes 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.\$36,440.0 million as of December 31, 2018, compared to U.S.\$32,639.5 million as of December 31, 2017 and U.S.\$26,810.6 million as of December 31, 2016. As of November 30, 2019, using the New Methodology, public sector consolidated debt was U.S.\$41,831.9 million.

Since April 2018, Ecuador has been using the aggregation methodology to calculate the 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.\$49,463.4 million as of December 31, 2018, compared to U.S.\$46,535.6 million 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. 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.\$51,214.8 million as of March 31, 2019 (the period prior to the implementation of the New Methodology in April 2019), compared to U.S.\$48,931.3 million as of March 31, 2018. This increase in public sector aggregated debt was primarily due to disbursements of existing loans with China Development Bank, the issuance of the 2028 Notes, the GSI Repo Transaction, the CS Repo Transaction, and the issuance of the 2029 Notes, see “*Public Debt—Debt Obligations*.” The ratio of total public sector aggregate debt to GDP increased from 44.7% as of March 31, 2018 to 45.3% as of March 31, 2019. The ratio of total public sector aggregate debt to GDP increased from 44.7% as of November 30, 2018 under the prior methodology, to 52.0% as of November 30, 2019.

under the New Methodology. As of November 30, 2019, interest payments on all debt obligations represented approximately 2.82% of GDP.

Beginning with its April 2019 Debt Bulletin, Ecuador began issuing its periodic report on public debt in accordance with the New Methodology. The New Methodology provides that the calculation of the public debt to GDP ratio is to 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. The New Methodology defines total public debt as the sum of the public debt incurred by the entities comprising the public sector and adds certain debt instruments to the calculation of public debt that were not previously included, including oil presales, see "*Public Debt—Methodology for Calculating the Public Debt to GDP Ratio*." In contrast with the prior methodology for calculating the public debt to GDP ratio, under the New Methodology, (i) the calculation of public external debt also includes 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 ("oil presales"), the Central Bank's special drawing rights with the IMF, and liabilities under intangible contractual rights; and (ii) the calculation of public internal debt also includes outstanding obligations of the Government (accrued but unpaid) to the public and private sectors that were already recorded in closed budgets of the General State Budget for previous years and debt instruments entered into by entities of the non-financial public sector with the *Banco de Desarrollo del Ecuador B.P.* (the "Ecuadorian Development Bank"). The Regulation Implementing the Public Debt to GDP Ratio Calculation Methodology provides that by November 14, 2019, the Ministry of Economy and Finance was required to publish public debt figures calculated using the New Methodology going back to October 2010. Such deadline has not been met due to unexpected delays in gathering and consolidating the data, with the release of these updated public debt figures expected within the weeks following this Offering Circular. Once these past figures are published using the New Methodology, those numbers may vary from the public debt figures presented in this Offering Circular for the comparable period which were calculated based on the old methodology.

Under the New Methodology, 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.\$56,780.6 million as of November 30, 2019, compared to U.S.\$48,954.4 million as of November 30, 2018. This increase in public sector aggregated debt was primarily due to the disbursements of existing loans with the China Development Bank, the issuance of the 2029 Notes (see "*Public Debt—Debt Obligations—2029 Notes*") and the inclusion in the definition of public external debt under the New Methodology of oil presale contracts, liabilities under intangible contractual rights and the Central Bank's special drawing rights with the IMF.

The Organic Law for Productive Development, which became effective on August 21, 2018, provides that for the period from 2018 to 2021, unless the public debt reaches a level below the public debt ceiling of 40% of GDP, the public debt ceiling will not apply.

The total external debt of the public sector in Ecuador was U.S.\$35,729.7 million as of December 31, 2018, compared to U.S.\$31,749.8 million as of December 31, 2017, U.S.\$25,679.3 million as of December 31, 2016, U.S.\$20,225.2 million as of December 31, 2015 and U.S.\$17,581.9 million as of December 31, 2014.

Under the New Methodology, public external debt as of November 30, 2019 was U.S.\$40,788.6 million, an increase from U.S.\$35,049.7 million as of November 30, 2018. This increase was primarily due to the inclusion in the definition of public external debt under the New Methodology of oil presale contracts, the inclusion of liabilities under intangible contractual rights, and inclusion of the Central Bank's special drawing rights with the IMF.

As of November 30, 2019, the three main bilateral lenders to Ecuador were China, France and Spain, with debt levels of U.S.\$5,197.3 million (82.1% of the total bilateral debt), U.S.\$438.5 million (6.9% of the debt total bilateral) and U.S.\$257.9 million (4.1% of total bilateral debt), respectively. As of November 30, 2019, total indebtedness owed to bilateral entities was U.S.\$6,332.6 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. 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 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 (the "GSI-Ecuador GMRA") and a confirmation (the "August 2018 Repo Confirmation", collectively with the GSI-Ecuador GMRA, the "August 2018 GSI-Ecuador Repurchase Agreement"), pursuant to which the Republic sold and transferred to GSI U.S.\$1,201,616,000 nominal amount of 2020 Notes and Series 2022 Notes (the "August 2018 Additional 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 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.

In accordance with the substitution provisions set out in the amended and restated August 2018 GSI-Ecuador Repurchase Agreement (as amended and restated, the "Amended August 2018 GSI-Ecuador Repurchase Agreement") and pursuant to a notice of substitution dated May 23, 2019, on May 29, 2019: (a) U.S.\$701,616,000 nominal amount of the August 2018 Additional Notes (comprised solely of 2020 Notes), which had a market value at the date of the notice of substitution of approximately U.S.\$733.67 million (the "Substituted August 2018 Additional Notes") were returned to the Republic by GSI; and (b) U.S.\$688,268,000 nominal amount of notes of the Republic due 2023 with a coupon of 8.750% (with a market value at the date of the notice of substitution of approximately U.S.\$733.67 million) were transferred to GSI by the Republic. On May 29, 2019, the Republic cancelled the Substituted August 2018 Additional Notes.

On May 31, 2019, the Republic, GSI and ICBC Standard Bank Plc entered into an agreement pursuant to which a portion of GSI's interest in the Amended August 2018 GSI-Ecuador Repurchase Agreement was transferred to ICBC Standard Bank Plc.

As a result of a decline in the valuation of the 2022 Notes and the 2023 Notes, GSI made four requests under the Amended August 2018 GSI-Ecuador Repurchase Agreement from November 19 through November 22, 2019, for the Republic to transfer additional payment amounts totaling U.S.\$167,814,563.08, which payments were made from November 21 through November 26, 2019. After the recovery of the value of the 2022 Notes and the 2023 Notes, upon the Republic's request, these additional payment amounts were returned in full to the Republic.

With respect to the portion of GSI's interest in the Amended August 2018 GSI-Ecuador Repurchase Agreement that was transferred to ICBC Standard Bank Plc, ICBC Standard Bank Plc made three requests for additional payments from November 19 through November 22, 2019, for the Republic to transfer additional payment amounts totaling U.S.\$36,369,031.10, which payments were made from November 21 through November 26, 2019. After the recovery of the value of the 2023 Notes and 2023 Notes, upon the Republic's request, these additional payment amounts were returned to the Republic in full.

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 (the "CS-Ecuador GMRA") and a confirmation (the "October 2018 Repo Confirmation", collectively with the CS-Ecuador GMRA, the "October 2018 CS-Ecuador Repurchase Agreement"), 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.

In accordance with the substitution provisions set out in the October 2018 CS-Ecuador Repurchase Agreement on August 6, 2019: (a) U.S.\$1,187,028,000 nominal amount of the CS Reopened Notes (comprised solely of 2022 Notes), which had a market value at the date of the notice of substitution of approximately U.S.\$1,309.7 million (the "Substituted October 2018 Additional Notes") were returned to the Republic by CS; and (b) U.S.\$610,359,000 nominal amount of newly issued 2023 Notes (with a market value at the date of the notice of substitution of approximately U.S.\$654.9 million) (the "Additional 2023 Notes") and U.S.\$611,870,000 nominal amount of newly issued 2026 Notes (with a market value at the date of the notice of substitution of approximately U.S.\$654.9 million) (the "Additional 2026 Notes" and, together with the Additional 2023 Notes, the "August 2019 Additional Notes") were transferred to CS by the Republic. On August 6, 2019, the Republic cancelled the Substituted October 2018 Additional Notes.

As a result of a decline in the valuation of the August 2019 Additional Notes, CS made two requests on November 18, 2019, and November 19, 2019, respectively, for the Republic to transfer additional payment amounts totaling U.S.\$225,339,699.48, which payments were made on November 20 and 21, 2019, respectively. After the recovery of the August 2019 Additional Notes, upon the Republic's request, additional payment amounts totaling U.S.\$177,492,564.32 have been returned to the Republic. The Republic is expected to request the return of the remaining additional amounts totaling U.S.\$47,847,135.16.

On January 31, 2019, the Republic successfully issued U.S.\$1,000 million of notes due 2029 with a coupon of 10.750% at 100.000% of the purchase price (the "2029 Notes").

On March 12, 2019, the Republic and the IDB entered into a U.S.\$50 million loan agreement maturing November 15, 2043, with the goal of "Investment in the Quality of Child Development Services".

On April 10, 2019, the Republic and the IDB entered into a U.S.\$50 million loan agreement maturing November 15, 2043 with the goal of "Program to Enhance Fiscal Capacity for Public Investment".

On May 24, 2019, the Republic and the IDB entered into a U.S.\$50 million loan agreement maturing May 24, 2026 with the goal of "Emergency Program for Macroeconomic Sustainability and Prosperity".

On May 29, 2019, the Republic reopened its 2023 Notes, issuing an additional U.S.\$688,268,000 of notes at a price of 106.597%, also due 2023, for the purpose of a substitution under the Amended August 2018 GSI-Ecuador Repurchase Agreement. See "*GSI Repo Transaction*" below.

On June 17, 2019, the Republic reopened its 2029 Notes and successfully issued an additional U.S.\$1,125,000,000 million of notes due 2029 at a price of 110.746%. The Republic applied the proceeds of the reopened 2029 Notes towards the repurchase of U.S.\$1,175,370,000 principal amount of its 2020 Notes by means of a tender offer that settled on June 18, 2019.

On June 17, 2019, the Republic and the IBRD entered into a U.S.\$500 million loan agreement maturing June 1, 2049, with proceeds used to promote government efficiency, remove barriers to private sector development and provide funds for social expenditure for the most vulnerable segments of the population.

On July 2, 2019, the Republic received from the IMF a second disbursement of U.S.\$251 million under the IMF's Extended Fund Facility.

On July 3, 2019, the Republic and the IDB entered into a U.S.\$150 million loan agreement maturing November 15, 2042, with the goal of providing support to the Republic's plan to diversify its energy assets.

On July 12, 2019, the Republic and the IDB entered into a U.S.\$93.9 million loan agreement maturing June 15, 2044, with the goal of promoting housing to poor and vulnerable communities under the Housing for All Program.

On July 22, 2019, the Republic and the IBRD entered into a U.S.\$350 million loan agreement maturing March 15, 2049, with the goal of improving equity, integration and sustainability of social programs and providing technical assistance for capacity building, monitoring and evaluating social programs.

On July 23, 2019, the Republic and the IDB entered into a U.S.\$300 million loan agreement maturing April 15, 2039, with the goal of supporting the Government's plan for fiscal stability to facilitate sustainable growth and key contributions to social development.

On July 23, 2019, the EPMAPS EP and the IDB entered into a U.S.\$87.1 million loan agreement with disbursements spread over six years with a final principal amortization date of July 23, 2043, with the goal of providing financial support for the maintenance of Quito's sewage and potable water systems. This loan agreement is guaranteed by Ecuador acting through the Ministry of Economy and Finance.

On August 6, 2019, the Republic reopened its 2023 Notes and 2026 Notes, issuing an additional U.S.\$610,359,000 of its 2023 Notes at a price of 107.291%, and U.S.\$611,870,000 of its 2026 Notes at a price of 107.026%, for the purpose of a substitution under the October 2018 CS-Ecuador Repurchase Agreement, see "CS Repo Transaction" below.

On August 13, 2019, the *Corporación Financiera Nacional B.P.* (the "CFN") and the CAF entered into a U.S.\$50 million loan agreement to be repaid in 15 years, with the goal of supporting the *Progresar* program of the CFN which seeks to incentivize the diversification of Ecuador's economy. This loan agreement is guaranteed by Ecuador acting through the Ministry of Economy and Finance.

On August 28, 2019, the Republic and the IDB entered into a U.S.\$12 million loan agreement maturing May 15, 2044, to support further investment in Ecuador.

On August 29, 2019, the EMAPAG EP and the CAF entered into a U.S.\$84 million credit facility agreement maturing July 31, 2039, to support the improvement of sanitation in Guayaquil. This facility agreement is guaranteed by Ecuador acting through the Ministry of Economy and Finance.

On September 4, 2019, the Republic and the IDB entered into a U.S.\$100 million loan agreement maturing October 15, 2043, with the goal of supporting the modernization and renovation of the Ecuadorian electric system.

On September 9, 2019, the Republic and the IDB entered into a U.S.\$40.08 million loan agreement maturing December 15, 2043, with the goal of supporting people with disabilities.

On September 27, 2019, the Republic successfully issued U.S.\$600 million of notes due 2025 with a coupon of 7.875% at 100.000% of the purchase price (the "2025 Notes") and U.S.\$1,400 million of notes due 2030 with a coupon of 9.500% at 100.000% of the purchase price (the "2030 Notes").

In the fourth quarter of 2019, the Republic has signed the following facility agreements with export credit agencies, official development agencies, and multilateral financial institutions: (1) on October 4, 2019, the Republic and the IDB entered into a U.S.\$43 million loan agreement maturing July 15, 2044, with the goal of supporting the Financial Management Modernization Program; (2) on November 4, 2019, the Republic and The Export-Import Bank of China entered into a RMB 390 million concessional loan agreement and a RMB 734 million concessional loan agreement, each with a term of twenty years; (3) on November 18, 2019, the Republic and the IDB entered into a U.S.\$75 million loan agreement maturing September 15, 2044, with the goal of supporting the State-owned Enterprise Reform Support Program; (4) on November 18, 2019, the Republic and CAF entered into a U.S.\$203 million loan agreement, as amended on November 27, 2019, maturing in 15 years with a 66-month grace period with the goal of supporting Ecuador's Urban Plan and Habitat Policy Program; (5) on November 22, 2019, the Republic and the French Development Agency (the "AFD") entered into an U.S.\$80 million credit facility agreement maturing on July 31, 2039, with the goal of supporting fully-subsidized social housing and other components of the "*Casa para Todos*" project (the "Housing for All Program") which are different to those components of the project that will be financed with the proceeds of the Notes; and (6) on December 10, 2019, the Republic and the AFD

entered into a U.S.\$150 million credit facility agreement maturing on January 31, 2040, with the goal of supporting policies targeting climate change.

Moreover, in the fourth quarter of 2019, the Republic through its Ministry of Economy and Finance has entered into guarantee agreements for the following loan agreements: (1) the U.S.\$40 million loan agreement dated November 29, 2019, between BanEcuador B.P. and CAF, to be repaid in 15 years, to finance small and medium-sized producers of cocoa and palm and the institutional strengthening of BanEcuador; (2) the U.S.\$34.12 million loan agreement dated December 20, 2019, between the *Empresa Pública Municipal de Telecomunicaciones, Agua Potable, Alcantarillado y Saneamiento de Cuenca Etapa EP* and CAF, to be repaid in 18 years, to partially finance the Construction Project of the Guangarcucho Wastewater Treatment Plant; (3) the EUR19.0 million loan agreement dated December 23, 2019, between the *Honorable Gobierno Provincial de Tungurahua (HGPT)*, Tunguragua, Ecuador and KfW, Frankfurt am Main, to be repaid by December 30, 2049, to finance the investments in the strengthening of irrigation systems as well as other measures for the protection of water resources of the Province of Tungurahua, Ecuador, as well as certain consulting services.

On December 19, 2019, the Republic received from the IMF a disbursement of about U.S.\$498 million under the IMF's Extended Fund Facility.

Certain of the finance documents that the Republic had previously expected to sign during the fourth quarter of 2019 were not executed at that time, and accordingly the total amount of finance documents executed during the fourth quarter of 2019 was less than the U.S.\$864 million originally expected.

In the next few months, the Republic expects to enter into several loan agreements with private and bilateral lenders totaling approximately U.S.\$270 million.

#### *The International Monetary Fund's Extended Fund Facility*

On February 21, 2019, Ecuador and the IMF staff announced an agreement on a set of policies to underpin a U.S.\$4,200 million arrangement under the IMF's Extended Fund Facility, subject to IMF Executive Board approval. This arrangement is part of a broader effort of the international community that includes financial support of approximately U.S.\$6,000 million over the subsequent three years from six other multilateral agencies and development banks. See "*The Republic of Ecuador—Memberships in International Organizations and International Relation—International Organizations*." As noted in the IMF's press release dated February 21, 2019, "the government's plan is aimed at creating a more dynamic, sustainable, and inclusive economy and is based on four key tenets; to boost competitiveness and job creation; to protect the poor and most vulnerable; to strengthen fiscal sustainability and the institutional foundations of Ecuador's dollarization; and to improve transparency and strengthen the fight against corruption."

The Ministry of Economy and Finance announced on February 21, 2019 that the staff-level agreements reached with the IMF and other multilateral agencies and development banks project availability of up to U.S.\$10,279 million in financing over the subsequent three years, with approximate amounts distributed as follows: U.S.\$4,200 million from the IMF; U.S.\$1,800 million from the Development Bank of Latin America; U.S.\$1,744 million from the World Bank; U.S.\$1,717 million from the IDB; U.S.\$380 million from the European Investment Bank; U.S.\$280 million from the Latin American Reserve Fund; and, U.S.\$150 million from the AFD. The Ministry of Economy and Finance also announced that it is expected that, of the entire amount, U.S.\$4,600 million will be disbursed in 2019, U.S.\$3,100 million in 2020, and U.S.\$2,500 million in 2021; and that disbursements of about U.S.\$3,500 will be tied to specific projects.

On March 1, 2019, Ecuador's Minister of Economy and Finance and the General Manager of the Central Bank of Ecuador presented the IMF with the Letter of Intent, including a Memorandum of Economic and Financial Policies and a Technical Memorandum of Understanding, outlining Ecuador's economic outlook and economic goals in connection with the request for a three-year extended arrangement under the IMF's Extended Fund Facility to support the Plan of Prosperity. In the Letter of Intent, the Minister and the General Manager emphasized four pillars of the country's current social and macroeconomic plan: (1) reconstruction and strengthening of the institutional foundations of dollarization, (2) employment and growth generation through increased competitiveness, (3)

increasing equality of opportunities and protection of the poor and most vulnerable segments of the population, and (4) guaranteeing a climate of transparency and good governance.

The Memorandum of Economic and Financial Policies attached to the Letter of Intent outlines the Government's policy plans for the coming three years. For more information on the measures that the Government intends to implement, see "*Public Debt—IMF's Extended Fund Facility*."

On March 11, 2019, the executive board of the IMF approved the U.S.\$4,200 million arrangement under the IMF's Extended Fund Facility for Ecuador, enabling the disbursement of U.S.\$652 million. The arrangement provides for an approximate 3% interest rate and a ten-year repayment plan (with a four-year grace period). According to the IMF's press release of March 11, 2019, "the Ecuadorian authorities are implementing a comprehensive reform program aimed at modernizing the economy and paving the way for strong, sustained, and equitable growth. The authorities' measures are geared towards strengthening the fiscal position and improving competitiveness and by so doing help lessen vulnerabilities, put dollarization on a stronger footing, and, over time, encourage growth and job creation."

The initial disbursement of U.S.\$652 million under the IMF's arrangement was made on March 13, 2019. On June 28, 2019, the IMF's Executive Board completed its first review of Ecuador's economic performance under Ecuador's arrangement with the IMF under the Extended Fund Facility, which allowed Ecuador to draw U.S.\$251 million from the facility on July 2, 2019. Disbursements under the other staff-level agreements with multilateral agencies and development banks are also subject to the approval of each organization's executive board. Under these agreements, in May 2019, the Republic entered into two loans with the CAF for U.S.\$300 million and U.S.\$100 million, respectively; on May 24, 2019, July 3, 2019, July 12, 2019 and July 23, 2019, the Republic entered into four loans with the IDB for U.S.\$500 million, U.S.\$150 million, U.S.\$93.9 million and U.S.\$300 million, respectively; and on June 17, 2019 and July 22, 2019, the Republic entered into two loans with the IBRD for U.S.\$500 million and U.S.\$350 million, respectively. Separately, the World Bank has provided project level financings for several infrastructure, irrigation, transport and sanitation projects. 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 IBRD) increased by U.S.\$230 million its financing for the Quito Metro line project.

On March 11, 2019, the executive board of the IMF also concluded its Article IV consultation with Ecuador, and the IMF published its Article IV staff report.

On April 30, 2019, in line with the Letter of Intent presented to the IMF, the Ministry of Economy and Finance published the *Plan de Acción para el Fortalecimiento de las Finanzas Públicas* ("Action Plan for the Strengthening of Public Finances") with 17 proposals aimed at strengthening fiscal and budgetary rules and planning, and improving sustainability in the operations of the National Treasury. Among the proposals, the Ministry of Economy and Finance will send the President a draft bill modifying certain provisions of the Public Planning and Finance Code to further limit the Executive's discretion to outspend the national budget from 15% to 5% in order to increase credibility over each year's set fiscal goals; to substitute the CETES with a new short-term instrument that guarantees its use within the budgetary year of issuance and placement; and to include a chapter in the Public Planning and Finance Code with a functional outline of the fiscal rules to increase transparency.

On May 30, 2019, the IMF announced it had reached a staff-level agreement with the Republic on the completion of the first review under the Extended Fund Facility arrangement. In their announcement, the IMF mission concluded that "Ecuador has made considerable progress in implementing its program aligned with the Prosperity Plan." Based on their preliminary findings, the IMF mission prepared and presented a report to the IMF's Executive Board. On June 28, 2019, the IMF's Executive Board completed their first review of Ecuador's economic performance under Ecuador's arrangement with the IMF under the Extended Fund Facility, which allowed Ecuador to draw U.S.\$251 million from the facility on July 2, 2019.

On October 1, 2019, President Moreno issued Decree 883 expanding the scope of the liberalization of prices for hydrocarbons by eliminating the subsidy on certain types of gasoline and diesel and thereby increasing the prices for these fuels. Following the elimination of the subsidies, prices for gasoline type "extra" and diesel for the automotive sector began to be set on a monthly basis by Petroecuador based on average prices and costs. On October 3, 2019, various groups organized protests relating to the elimination of the subsidies and increase in prices.

The protests lasted for almost two weeks and President Moreno relocated the government to Guayaquil on a temporary basis. The Government reached an agreement with protest leaders and on October 14, 2019, President Moreno issued Decree 894 terminating Decree 883, reversing the elimination of the subsidies and ordering the creation of a new policy on subsidies for hydrocarbons.

On October 18, 2019, President Moreno presented before the National Assembly the draft Law on Economic Development, aimed at reforming several of the Republic's tax and financial laws. On November 17, 2019, the National Assembly voted to reject the draft Law on Economic Development. In response, on November 21, 2019, President Moreno presented the draft Organic Law on Tax Simplification, replacing the draft Law on Economic Development with respect to certain aspects of the intended tax reform. The Organic Law on Tax Simplification was first approved by the National Assembly on December 9, 2019, and after a Presidential partial veto, it was finally approved on December 30, 2019, and became effective on December 31, 2019 (for more information on the rejection of the draft Law on Economic Development and the subsequent approval of the Organic Law on Tax Simplification, see "The Republic of Ecuador—Recent Measures by President Moreno").

On December 11, 2019, Ecuador's Minister of Economy and Finance and the General Manager of the Central Bank of Ecuador presented the IMF with a letter of intent, including an updated Memorandum of Economic and Financial Policies (the "Updated Memorandum of Economic and Financial Policies") and a Technical Memorandum of Understanding, requesting (i) completion of the second and third review of the arrangement under the IMF's Extended Fund Facility and the disbursement of the associated amount of about U.S.\$498.0 million for budget support, and (ii) a waiver of nonobservance of the performance criteria on net international reserves given that the macroeconomic impact of the breach was minor, as well as certain modifications to program requirements reflected therein.

The Updated Memorandum of Economic and Financial Policies outlines the Government's policy plans for the coming two years. Failure to implement the economic and financial policies agreed with the IMF could delay or prevent future disbursements. The Updated Memorandum of Economic and Financial Policies is an updated version of the Memorandum attached to the Letter of Intent dated March 1, 2019, and outlines the same policy plans with certain updates. Among such updates, the Updated Memorandum of Economic and Financial Policies provides that:

- The Government commits to reducing the non-financial public sector non-oil primary deficit including fuel subsidies, by about 3.9% of GDP during 2019-2021.
- In light of the rejection of the draft Law on Economic Development, the Government intends to Submit to the National Assembly by end-February 2020, the revised amendments to the Public Planning and Finance Code. The amendments intend to ensure that the role of the Minister of Economy and Finance as the fiscal oversight authority is strengthened; that annual budgets are prepared in line with best international practices; that the fiscal rules framework is further strengthened, including escape clauses, automatic correction mechanisms, and in-year fiscal reporting; that government discretion to amend approved budgets is limited and a robust framework for contingency allocation is introduced; that budget execution is kept in check by comprehensive, timely, and proper government accounting and reporting, including a comprehensive definition of public debt, as well as the adoption of better cash management practices and commitment controls.
- In light of the rejection of the draft Law on Economic Development, the Government intends to Resubmit to the National Assembly by April 2020 after consultation with various stakeholders and building consensus, a revised version of the amendments to the Organic Monetary and Financial Law that were incorporated as part of the draft Law on Economic Development and which aimed to ensure that the Central Bank had clear objectives and limited functions, designed to fully support the dollarization regime, and encompassed measures to strengthen the Central Bank's autonomy including in terms of its budget, improve the Central Bank's governance by establishing a board with fiduciary responsibilities to the Central Bank, and build a strong internal and external audit function; such amendments prohibited all direct and indirect lending by the Central Bank to the government or the public sector, while remaining able to provide temporary liquidity support to public banks, if needed for prudential purposes.

- The Government is preparing a new law for state-owned enterprises, which seeks to improve efficiency, increase transparency, and strengthen governance of the state-owned enterprises.

On December 19, 2019, the IMF's Executive Board concluded its combined second and third reviews of the Government's economic program supported under the Extended Fund Facility. In these reviews, the IMF reported that the end-September benchmark under the arrangement with the IMF concerning the submission by the Republic of amendments to the Organic Monetary and Financial Law fell short of being fully implemented since the draft law submitted did not incorporate the double veto procedure for the appointment and dismissal of members of the Central Bank board, though it contained other important provisions that would strengthen the institutional foundations of the Central Bank. Other structural benchmarks for the second and third reviews were either met or implemented with a slight delay. Given the rejection of the draft Law on Economic Development, new program conditionalities were accepted by the IMF to allow the authorities more time to reach consensus and complete these structural reforms. In particular, the submission of certain amendments to the Public Planning and Finance Code consistent with program commitments were accepted as a structural benchmark for the fourth review and that of the revised Organic Monetary and Financial Law amendments as a structural benchmark for the fifth review. The IMF granted the Republic's request to modify the end-December 2019 targets on the non-oil primary balance including fuel subsidies to partially accommodate the shortfall due to the delay in asset monetization, on net international reserves due to a higher deficit and financing shortfalls, and on social assistance spending due to the postponement of one of the programs to 2020. After the IMF staff's recommendations to the IMF's Executive Board for completion of the second and third reviews, and support for the Republic's requests of waivers for nonobservance of certain targets, on December 19, 2019, the IMF's Executive Board approved the disbursement to the Republic of approximately U.S.\$498 million. For more on the IMF's combined second and third reviews, see "*Public Debt—IMF's Extended Fund Facility*."

### **Memberships in International Organizations and International Relations**

In March 2019, the Minister of Economy and Finance of Ecuador presented its application to become a member of the OECD's Development Centre. As part of that process, the Republic will become a signatory to several OECD undertakings, including anti-bribery and foreign investment, will participate in OECD's regional program for Latin America and the Caribbean and will produce a country-level multidimensional assessment with an emphasis on productivity. On May 21, 2019, Ecuador became a member of the OECD Development Centre.

On March 13, 2019, the Republic gave UNASUR formal notice of Ecuador's application to terminate its membership in UNASUR. On March 22, 2019 President Moreno met with other presidents of South America in Chile to discuss the creation of the *Foro para el Progreso y Desarrollo de América Latina* ("Forum for Latin America's Progress and Development" or "PROSUR"), an initiative by the Chilean and Colombian presidents for a new regional organization that would replace UNASUR. On September 17, 2019, the National Assembly voted in favor of denouncing UNASUR's constitutive treaty, enabling President Moreno to formally withdraw Ecuador from the international organization in November 2019.

### **Data Breach**

On September 11, 2019, an internet security firm issued a report that stated that it had uncovered a major data breach of personal information of Ecuador's population contained on an unsecured server maintained by a marketing firm. According to the report, the breach may involve personal information with respect to the entire Ecuadorian population and information leaked included information contained in government registries and records, including identification numbers and records and home addresses. The Attorney General and other government officials have confirmed the breach and launched an investigation. Following the data breach, on September 19, 2019, the President submitted to the National Assembly a draft law on protection of personal data, currently under review and debate. On October 3, 2019, the National Assembly's International Relations Commission approved initiating an investigation into the data breach. As of the date of this Offering Circular, this investigation had not yet concluded.

### **The Inter-American Development Bank**

## ***Overview***

The purpose of the IDB is to improve lives in Latin America and the Caribbean by contributing to the acceleration of the process of economic and social development of the regional member countries, individually and collectively. The IDB's objective is to achieve economic and social development in a sustainable climate-friendly way. The IDB's current focus areas include three development challenges: social inclusion and inequality, productivity and innovation, and economic integration; and three cross-cutting issues: gender equality and diversity, climate change and environmental sustainability, and institutional capacity and the rule of law. The IDB is an international institution established in 1959, pursuant to the IDB Agreement, and is owned by its member countries. These members include 26 borrowing member countries and 22 non-borrowing member countries. The five largest members by shareholdings (with their share of total voting power) are the United States (30.0%), Argentina (11.4%), Brazil (11.4%), Mexico (7.3%) and Japan (5.0%).

The IDB makes loans and guarantees to the governments, as well as governmental entities, enterprises, and development institutions of its borrowing member countries to help meet their development needs. In the case of loans and guarantees to borrowers, other than national governments or central banks, the IDB follows the policy of requiring a joint and several guarantee engaging the full faith and credit of the national government. Loans and guarantees may also be made directly to other eligible entities carrying out projects in the territories of borrowing member countries, including private sector entities or sub-sovereign entities, without a sovereign guarantee and in all sectors (subject to an exclusion list), provided they meet the IDB's lending criteria. The IDB also provides financing to borrowing member countries for non-reimbursable and contingent recovery assistance that is aligned with its overall strategy for the region.

All the powers of the IDB are vested in the Board of Governors, which consists of one Governor and one Alternate Governor appointed by each member country. The Board of Executive Directors consists of 14 Directors: one appointed by the United States, one elected by the Governor of Canada, three elected by the Governors for the non-regional member countries, and the remaining nine elected by the Governors for the borrowing member countries.

The Board of Governors has delegated to the Board of Executive Directors all its powers except certain powers reserved to the Governors under the IDB Agreement. All matters before the Board of Governors and the Board of Executive Directors are decided by a majority of the total voting power of the IDB, except in certain cases provided in the IDB Agreement that require a higher percentage.

## Ecuador - Selected Economic Indicators

	For the Year Ended December 31,					For the Nine Months Ended September 30,	
	2014	2015	2016	2017	2018	2018	2019
(in millions of U.S. dollars, except percentages)							
<b>The Economy</b>							
Nominal GDP .....	101,726	99,290	99,938	104,296	107,562	80,351	81,273
Real GDP <sup>(1)</sup> .....	70,105	70,175	69,314	70,956	71,871	53,787	54,083
Real GDP growth.....	3.8%	0.1%	-1.2%	2.4%	1.3%	1.5%	0.6%
For the Twelve Months Ended November 30,							
For the Year Ended December 31,							
	2014	2015	2016	2017	2018	2018	2019
Annual inflation .....	3.67%	3.38%	1.12%	-0.20%	0.27%	0.35%	0.04%
As of December 31,							
	2014	2015	2016	2017	2018	2018	2019
(in millions of U.S. dollars)							
International Reserves <sup>(2)</sup> .....	3,949	2,496	4,258	2,451	2,677	2,677	3,397.1
For the Year Ended December 31,							
	2014	2015	2016	2017	2018	2018	2019
(in millions of U.S. dollars)							
<b>Balance of Payments <sup>(5)</sup></b>							
Exports .....	26,596.5	19,048.7	17,425.4	19,618.3	22,122.8	16,654.8	17,108.6
Imports .....	-26,660.0	-20,698.5	-15,858.1	-19,306.8	-22,385.8	-16,471.6	-16,572.1
Trade balance.....	-63.5	-1,649.8	1,567.3	311.4	-263.0	183.2	536.5
Services balance.....	-1,170.7	-805.2	-1,054.5	-1,103.1	-710.7	-518.2	-665.1
Current account surplus/deficit of the balance of payments.....	-668.7	-2,221.0	1,321.1	-491.8	-1,488.1	-604.0	-380.5

- (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 2019. 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) Unemployment figures are based on figures from the National Institute of Statistics as a percentage of the economically active population.
- (4) Debt figures as of November 30, 2019 are based on information from the Ministry of Economy and Finance's November 2019 Debt Bulletin under the New Methodology, including oil presales, and figures as of December 31 are based on information from the Ministry of Economy and Finance's March 2019 Debt Bulletin.
- (5) Balance of payments data is published by the Central Bank on an annual and quarterly basis.
- (6) Debt to GDP percentages for December 2018 and November 2019 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

<b>Issuer</b> .....	The Republic of Ecuador.
<b>Issue Amount</b> .....	U.S.\$400,000,000.
<b>Securities Offered</b> .....	U.S.\$400,000,000 principal amount of 7.25% Social Housing Notes due 2035.
<b>Issue Format</b> .....	Rule 144A/Regulation S.
<b>Issue Price</b> .....	100.000% plus accrued interest, if any, from January 30, 2020.
<b>Issue Date</b> .....	January 30, 2020.
<b>Maturity Date</b> .....	January 30, 2035.
<b>Principal Payments</b> .....	Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed in semi-annual installments, commencing in July 30, 2020 in accordance with the amortization schedule as set out below:

<u>Scheduled Payment /Amortization Date</u>	<u>Scheduled Principal Payment/ Amortization Amount</u>	<u>Outstanding Principal Amount of the Notes</u>
30-Jul-20	0.00	400,000,000.00
30-Jan-21	0.00	400,000,000.00
30-Jul-21	25,000,000.00	375,000,000.00
30-Jan-22	25,000,000.00	350,000,000.00
30-Jul-22	29,000,000.00	321,000,000.00
30-Jan-23	29,000,000.00	292,000,000.00
30-Jul-23	35,000,000.00	257,000,000.00
30-Jan-24	35,000,000.00	222,000,000.00
30-Jul-24	9,000,000.00	213,000,000.00
30-Jan-25	9,000,000.00	204,000,000.00
30-Jul-25	2,000,000.00	202,000,000.00
30-Jan-26	2,000,000.00	200,000,000.00
30-Jul-26	2,000,000.00	198,000,000.00
30-Jan-27	2,000,000.00	196,000,000.00
30-Jul-27	2,000,000.00	194,000,000.00
30-Jan-28	2,000,000.00	192,000,000.00
30-Jul-28	3,500,000.00	188,500,000.00
30-Jan-29	3,500,000.00	185,000,000.00
30-Jul-29	5,500,000.00	179,500,000.00
30-Jan-30	5,500,000.00	174,000,000.00
30-Jul-30	9,000,000.00	165,000,000.00
30-Jan-31	9,000,000.00	156,000,000.00
30-Jul-31	10,000,000.00	146,000,000.00

30-Jan-32	10,000,000.00	136,000,000.00
30-Jul-32	25,000,000.00	111,000,000.00
30-Jan-33	25,000,000.00	86,000,000.00
30-Jul-33	25,000,000.00	61,000,000.00
30-Jan-34	25,000,000.00	36,000,000.00
30-Jul-34	18,000,000.00	18,000,000.00
30-Jan-35	18,000,000.00	0.00

On each principal payment date, the record holders of the Notes will be entitled to receive in the aggregate a principal payment equal to the principal payment amount corresponding to such payment date set forth in the preceding table (for each payment date, as such amount may be decreased as a result of the cancellation of Notes, including as a result of a redemption as described under "*Description of the Notes—Optional Redemption.*" See "*Description of the Notes – General Terms of the Notes*").

**Interest** ..... 7.25% per annum, computed on the basis of a 360-day year of twelve 30 day months.

**Interest Payment Dates** ..... Each January 30 and July 30 of each year, commencing on July 30, 2020.

**Form** ..... The Notes will be initially 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.

In certain circumstances (including if requested at any time by any holder of the Notes or by a party authorized or instructed to act on its behalf (along with providing evidence satisfactory to the Trustee of its authority or instruction)) some or all of a holder's interest in the Notes in global form may be converted into Notes in definitive form. For such purposes, the Republic will pre-execute 25 Definitive Notes ("Pre-Executed Definitive Notes") on the issue date and deposit those Pre-Executed Definitive Notes with the Trustee.

Whenever Notes in definitive form, are required to be issued and delivered in accordance with the terms of the Indenture, the Trustee may authenticate one or more Pre-Executed Definitive Notes for such purpose (or, if the Trustee is not holding any Pre-Executed Definitive Notes at the relevant time, the Republic will be required to execute such Notes in definitive form as required in accordance with the terms of the Indenture). The Notes in definitive form will not (except in limited circumstances) benefit from the Guarantee.

**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.

**The Guarantee** ..... The IDB will grant the Guarantee to the Trustee on behalf of holders (holding a beneficial interest in the Notes in global form) up to the Maximum Guaranteed Amount (the "Maximum Guaranteed Amount") to support the Notes. The terms and conditions of the Guarantee will be contained in the Guarantee Agreement. The maximum amount of the Guarantee issued and outstanding at any time will not exceed the Maximum

Guaranteed Amount.

If at any time while the Guarantee is in effect, Ecuador fails to make a scheduled debt service payment then guaranteed by the IDB and the Trustee delivers a Demand Notice (as defined below), (i) the IDB will make a payment to the Trustee pursuant to the terms of the Guarantee, in an amount up to the lower of (x) the amount stated in the Demand Notice and (y) the then-outstanding Maximum Guaranteed Amount, and (ii) the Maximum Guaranteed Amount will be reduced in the amount of the IDB's payment to the Trustee. The Guarantee and Indenture will allow the Trustee to have the flexibility to claim partial amounts in a Demand Notice.

The Guarantor will pay any scheduled principal and interest other than in the case of an Optional Redemption of the Notes.

Any amounts drawn under the Guarantee will not be reinstated, notwithstanding any reimbursement that the IDB receives from Ecuador in respect of amounts paid under the Guarantee.

The Guarantee will not become due and payable prior to the scheduled debt service payment (plus any applicable grace period under the Guarantee Agreement) due to the occurrence of an event of default under the Notes which results in an acceleration of the Notes other than if the event of default is a Guarantor Event of Default (see "*Annex A—The Guarantee Agreement*"). If the Notes are accelerated but no Guarantor Event of Default has occurred, the Guarantee will only cover scheduled payment amounts to be made by the Republic on their originally scheduled payment dates. See "*Annex A—The Guarantee Agreement*" for further details regarding the Guarantee.

**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 the 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.

**Ranking of the Guarantee** .....

The obligations of the IDB under the Guarantee will constitute direct, unsecured obligations of the IDB that will rank equally, without any preference among themselves, with all other unsecured and unsubordinated Indebtedness of the IDB; *provided* that such ranking is in terms of priority only and does not require that the IDB make ratable payments on the Notes with payments made on its other Indebtedness.

"Indebtedness" under the Guarantee will mean (a) all indebtedness of or guaranteed by the IDB for or in connection with borrowed money, and (b) all obligations of or guaranteed by the IDB, evidenced by debt securities, debentures, notes or other similar instruments. It is understood that "Indebtedness" under the Guarantee will not include obligations arising from commercial agreements not having the commercial effect of a borrowing.

**Withholding Tax and**

Unless otherwise required by law, Ecuador and the Guarantor will make all principal and interest payments on the Notes or the Guarantee without

**Additional Amounts .....**

withholding or deducting any present or future taxes imposed by Ecuador or any of its political subdivisions or taxing authorities. If Ecuador or the Guarantor (as applicable) is required by law to deduct or withhold taxes, except to the extent provided for in "*Description of the Notes—Additional Amounts*," Ecuador or the Guarantor (as applicable) 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 ensure that the proceeds of the Notes are initially received in the sole Treasury account of the Republic at the Central Bank and it is expected that such proceeds will be transferred immediately to a trust account established for the purposes of financing its social housing by MIDUVI following the guidelines of the ROP.
- b) The Republic will obtain and maintain in full force and effect all Ecuadorian Authorizations necessary under the laws of Ecuador for the execution and delivery of, and performance by the Republic under, the Notes and the Indenture or for their validity or enforceability, and take all necessary and appropriate Governmental and administrative action in Ecuador in order for Ecuador to be able to make all payments to be made by it under the Notes and the Indenture.
- c) 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 the 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.
- d) The Republic will use its reasonable best efforts to list and thereafter to maintain the listing of the Notes on the Luxembourg Stock Exchange.
- e) 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 make any payment on the Notes (unless such non-payment is due to an administrative or technical error and is remedied within five (5) Business Days of the date when such payment is due), provided that, any Event of Default that occurs under this sub-paragraph as a result of the non-payment of any amount by the Republic shall be deemed to be cured if, following such non-payment by the Republic, the Guarantor pays an amount to the Trustee under the Guarantee (in accordance with the terms of the Guarantee Agreement) which is equal to the amount that was not paid by the Republic (and, as a result of such payment under the Guarantee, no further amounts are immediately due and payable by the Republic on the Notes).
- 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 Notes then outstanding regarding that default.
- c) The Republic, or a court of proper jurisdiction, declares a formal and official suspension of payments or a moratorium with respect to the payment of principal of, or interest on, Ecuador's External Indebtedness (other than the Excluded Indebtedness).
- d) The Republic fails to make any payment in respect of any External Indebtedness (other than the 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 the 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 any default by Ecuador under 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 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, the *Fondo Latinoamericano de Reservas* ("FLAR") and the IDB.

- i) There shall have been entered against the Republic or the Central Bank in a matter related to External Indebtedness (other than the 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 the judgment.
- j) There shall be made against the Republic or the Central Bank in a matter related to External Indebtedness (other than the 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.
- k) For so long as the Guarantee remains in effect and has not otherwise terminated in accordance with the terms of the Guarantee Agreement, the Guarantor fails to pay any amount when due and payable thereunder in accordance with the terms of the Guarantee Agreement and such failure is not cured within three (3) Business Days from the date such amount was due.
- l) The validity of the Guarantee is contested by the Guarantor and/or the Guarantor denies any of its obligations thereunder (whether by a general suspension of payments or otherwise).
- m) The Guarantor terminates (or seeks to terminate) the Guarantee other than in accordance with section 2.10 (*Termination Events*) of the Guarantee Agreement.

If any of the above events of default occurs and is continuing, the Trustee may, and, at the written direction of (i) holders of at least 25% of the aggregate principal amount of the then-outstanding Notes or (ii) if such event of default is continuing for a period of 90 days or more, holders of at least 10% of the aggregate principal amount of the then-outstanding Notes, shall, declare the principal amount of all the Notes, to be immediately due and payable by notifying the Republic and the IDB in writing. The Notes will become due and payable on the date such written notice is received by or on behalf of Ecuador, unless prior to such date all events of default in respect of all of the Notes have been cured or waived by the holders of not less than a majority of the principal amount of the then-outstanding Notes as provided in the Notes or in the Indenture. For more information, see "*Description of the Notes—Events of Default.*"

Failure by the Republic to make a payment with respect to the Notes on the applicable payment date (unless such non-payment is due to an administrative or technical error and is remedied within 5 Business Days of when such payment is due) shall constitute a "Guarantor Event of Default."

In the event that the Notes are accelerated, such accelerated amounts shall not be covered by the IDB Guarantee, and the IDB Guarantee will continue to cover the remaining scheduled debt payments on the Notes on their

original payment dates up to the Maximum Guaranteed Amount.

**Use of Proceeds.....**

The Republic will use the proceeds of the Notes in accordance with the limitations of the Public Planning and Finance Code.

Proceeds of the Notes will initially be received in the Republic's sole Treasury account at the Central Bank and it is expected that such proceeds will be transferred immediately to a trust account established for the purposes of financing its social housing program (the "Program") as set forth in the Operating Manual for the Program in Social Housing (the "ROP") at <https://www.finanzas.gob.ec/bono-social> (the "Program Website"). This website is not incorporated by reference into this Offering Circular.

Payments and defaults on the underlying mortgage portfolios or delinquency rates or increases in such rates will not affect payment on the Notes as the Republic's obligations on the Notes is not conditioned on payments on the underlying mortgage portfolios.

The Republic has appointed Vigeo Eiris, a provider of environmental, social and governance research and analysis, to evaluate the Republic's social bond framework and the alignment thereof with relevant industry standards, including International Capital Market Association ("ICMA")'s 2018 Social Bond Principles. The results are documented in Vigeo Eiris' Second Party Opinion which is available on the Program Website. In particular, Vigeo Eiris has confirmed that the Program's framework aligns with the four pillars of the ICMA's 2018 Social Bond Principles, and contributes to the Republic's commitments to the realization of the Republic's poverty reduction and access to decent and affordable housing targets. For more information, see "*Use of Proceeds*."

**Optional Redemption**

The Republic 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 (and not in part only), at any time or from time to time prior to their maturity, at a redemption price (the "Optional Redemption Amount") 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 (without double counting of any interest accrued and paid 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"). If the Republic requires the Trustee to send notice of any Optional Redemption to the Holders, then the Republic shall be required to give the Trustee not less than 35 days' notice (rather than 30 days' notice) of such Optional Redemption.

**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  $\frac{2}{3}$ % of the aggregate amount of the 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 66 $\frac{2}{3}$ % of the aggregate principal amount of the outstanding debt securities of all series that would be affected by that reserved matter modification (taken in aggregate) and (y) holders of more than 50% of the aggregate principal amount of the outstanding debt securities of each affected series (taken individually); or (c) make reserved matter modifications affecting two or more series of debt securities with the consent of holders of at least 75% of the aggregate principal amount of the outstanding debt securities of all affected series (taken in aggregate), *provided* that the Uniformly Applicable condition is satisfied, as more fully described in "*Description of the Notes—Modifications—Collective Action.*"

The customary definition of "Reserved Matters" in the Notes will be expanded to include specific references to changes to the Guarantee.

No amendment, modification or waiver of any provision of the Indenture or the Notes that adversely affect the obligations of the Guarantor thereunder may be made without the prior written consent of the Guarantor, such consent not to be unreasonably withheld and is subject to deemed consent after 10 Business Days of such written consent being sought. Any amendment, modification or waiver of any provision of the Guarantee Agreement will require prior written consent of the Guarantor pursuant to the terms of the Guarantee Agreement.

The Notes also contain provisions that limit the making of certain reserved matter modifications that would impact the Guarantee, unless all other series of debt securities that would be affected by that reserved matter modification also benefit from a guarantee from either the Guarantor or another multilateral institution with at least the same credit rating as the Guarantor.

**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.*"

**Expected 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. No assurance can be given as to how liquid the trading market for the Notes will be. The Sole Global Coordinator, Bookrunner and Social Bond Structuring Agent does not intend to make a secondary market for the Notes.

**Trustee and Registrar .....**

The Bank of New York Mellon.

**Paying Agent and Account**  
**Bank** .....

The Bank of New York Mellon, London 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.

The Guarantee Agreement will be governed by the laws of the State of New York.

**Submission to Arbitration by the Issuer**.....

(a) Any dispute, controversy or claim of any nature arising out of, relating to or having any connection with the Indenture, including any dispute as to the existence, validity, interpretation, performance, breach, termination or consequences of the nullity of the Indenture (a "Dispute"), where the Republic is either a party, claimant, respondent or otherwise is necessary thereto, will not be referred to a court of any jurisdiction and will instead be referred to and finally resolved by arbitration under the 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 for any reason 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.

#### **Submission to Arbitration by the Guarantor.....**

The Guarantor has not consented to the jurisdiction of any court in connection with actions arising out of, relating to or having any connection with the Guarantee and has submitted itself to arbitration under the LCIA Rules. The Guarantor has agreed to the following arbitration provisions (the arbitration provisions are governed by New York law) as part of the terms and conditions of the Guarantee Agreement:

Any 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 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:

- (a) There will be three arbitrators.
- (b) 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.
- (c) Within 30 days after the filing of the arbitration, the Paying Agent and the Trustee shall jointly appoint one arbitrator and the Guarantor shall appoint 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 shall be appointed on their behalf by

the LCIA Court in accordance with the LCIA Rules and applying the criteria at subparagraph (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 shall be unaffected, and the remaining arbitrator(s) shall be appointed in accordance with the LCIA Rules.

- (d) 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 (b) above.
- (e) The seat, or legal place, of arbitration will be London, England.
- (f) The language to be used in the arbitration will be English. The arbitration provisions contained in the Indenture will be governed by English law.

**Scope of Sovereign Immunity of the Issuer .....**

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 proceedings 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.

**Scope of Immunity  
of the Guarantor .....**

See "*The Inter-American Development Bank*" and "*Legal Status, Immunities and Privileges*".

## 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.*

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 use of proceeds may not meet investors' sustainable investment criteria*

The Republic intends to apply the proceeds from the Notes specifically to finance social housing projects. In respect of any Notes issued with a specific use of proceeds, such as these "Social Housing Notes", there can be no assurance that such use of proceeds will be suitable for the investment criteria of an investor.

Prospective investors should have regard to the information set out in this Offering Circular regarding such use of proceeds and must determine for themselves the relevance of such information for the purpose of any investment in the Notes together with any other investigation such investor deems necessary. In particular no assurance is given by the Republic, or any other person, that the use of such proceeds for any social projects will satisfy, whether in whole or in part, any present or future investor expectations or requirements or meet investment criteria or guidelines with which such investor or its investments are required to comply or that no adverse social or other impacts will occur during the implementation of such projects. Furthermore, it should be noted that there is currently no clear definition (legal, regulatory or otherwise) of, nor market consensus as to what constitutes, a "social" project or as to what precise attributes are required for a particular project to be defined as "social", nor can any assurance be given that such a clear definition or consensus will develop over time.

In the event that the Notes are listed or admitted to trading on any dedicated "social" or other equivalently-labelled segment of any stock exchange or securities market (whether or not regulated), no representation or assurance is given by the Republic or any other person that such listing or admission satisfies, whether in whole or in part, any present or future investor expectations or requirements or meets investment criteria or guidelines with which such investor or its investments are required to comply. Furthermore, it should be noted that the criteria for any such listings or admission to trading may vary from one stock exchange or securities market to another. No representation or assurance is given or made by the Republic or any other person that any such listing or admission to trading will be obtained or maintained in respect of the Notes.

Proceeds of this Notes will initially be received in the Republic's sole Treasury account at the Central Bank, it is expected that the proceeds of the Notes will be transferred immediately and held in a trust account established for the purposes of financing social housing (see “—*Use of Proceeds*”). Pending disbursement from the trust account, and subject to maintaining in the trust account sufficient funds to cover participating financial institutions’ projected funding demands for six months, the proceeds of the Notes may be held in permitted investments, which could include CETES issued by the Ministry of Economy and Finance, CETES issued by other public financial entities and bonds issued by Ecuador. Fluctuations in the value of such investment could reduce the amount on deposit in the trust account and therefore the amount available to finance social housing. While it is the intention of the Republic to apply the proceeds of the Notes as specified in this Offering Circular, there can be no assurance that the use of proceeds from the Notes will be capable of being implemented in or substantially in such manner and/or in accordance with any timing schedule and that such proceeds will be totally or partially disbursed for such projects. Any such event or failure by the Republic will not constitute an event of default under the Notes.

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

The Notes contain provisions, commonly known as "collective action clauses," regarding acceleration of the applicable series of Notes and voting on future amendments, modifications and waivers to the terms and conditions of such Notes. Under these provisions, which are described in the sections entitled "*Description of the Notes—Events of Default*" and "*Description of the Notes—Modifications—Collective Action*" in the Offering Circulars, Ecuador may: (a) amend the payment provisions of the Notes and certain other reserved matters with the consent of the holders of 75% of the aggregate amount of the outstanding Notes and other non-reserved matters with the consent of the holders of 66 2/3% of the aggregate amount of the outstanding Notes; (b) make reserved matter modifications affecting two or more series of debt securities with the consent of (x) holders of at least 66 2/3% of the aggregate principal amount of the outstanding debt securities of all series that would be affected by that reserved matter modification (taken in aggregate) and (y) holders of more than 50% of the aggregate principal amount of the outstanding debt securities of each affected series (taken individually); or (c) make reserved matter modifications affecting two or more series of debt securities with the consent of holders of at least 75% of the aggregate principal amount of the outstanding debt securities of all affected series (taken in aggregate), *provided* that the Uniformly Applicable condition is satisfied.

The Notes also contain provisions that limit the making of certain reserved matter modifications that would impact the Guarantee, unless all other series of debt securities that would be affected by that reserved matter modification also benefit from a guarantee from either the Guarantor or another multilateral institution with at least the same credit rating as the Guarantor.

*Certain 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 have not been and 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.

*Recent political and social unrest in Latin America may affect the value and the trading market of the Notes.*

Certain Latin American economies have historically had periods and cycles of political instability and social unrest. During October and November 2019, Bolivia, Chile and Ecuador experienced protests, violence and social upheaval. Such instability and social unrest may result from numerous factors such as continued high level of income inequality, high unemployment and a generalized lack of confidence in political and judicial institutions. These structural factors are complex and have proven to be difficult to overcome. Accordingly, there can be no assurance that such instability and social unrest will not continue in the future and even if the current cycle subsides, that the cycles of instability and social unrest will not recur in the future. Such continued unrest or recurrence in the future could have a material adverse effect on the trading market of the Notes and the value of the Notes.

*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. 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 before the deadline, as extended. 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 an 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.

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. On October 28, 2019, the European Union agreed to extend the deadline for withdrawal until January 31, 2020. As a result, the United Kingdom will need to continue negotiations with the remaining European Union member states regarding the terms of the United Kingdom's withdrawal from, and the framework for any future relationship with the European Union. There is a risk that the United Kingdom will withdraw from the European Union without a deal. Consequently, there still remains considerable uncertainty as to whether the United Kingdom will leave the European Union without a withdrawal agreement.

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 represented less than 1.0% of Ecuador's exports for 2018. 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.

On May 15, 2019, Ecuador, together with Peru and Colombia, signed a trade agreement with the United Kingdom to preserve their mutual trade commitments should the United Kingdom exit the European Union. With this trade agreement, the Republic and the United Kingdom intend to replicate their current trade commitments under the Multiparty Trade Agreement with the European Union. This agreement will not enter into force while the Multiparty Trade Agreement continues to apply to the United Kingdom. On October 23, 2019, the Republic and the United Kingdom agreed to temporarily maintain their agreements under the Multiparty Trade Agreement in respect of each other to account for the time between the date the United Kingdom exits the European Union and the entry into force of the trade agreement signed on May 15, 2019.

*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 contingent liabilities 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" 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.

*The ratings of the Notes may be lowered or withdrawn for any reason.*

Ecuador is rated B- (stable) by S&P and B- (stable) by Fitch. The credit ratings of the Notes may not reflect the potential impact of all risks relating to the value of the Notes. In addition, the credit ratings of the Notes may change after issuance. Such ratings are limited in scope and do not address all material risks relating to an investment in the Notes, but rather reflect only the views of the rating agencies at the time the ratings are issued. Real or anticipated changes in the Issuer's credit ratings or the credit ratings of the Notes will generally affect the market value of the Notes. Thus, the price of the Notes in the secondary market that may develop may be considerably less than the price paid for by investors in the Notes.

*The IDB may be entitled to purchase a portion of the Notes under the Guarantee*

Within six months of an event of default occurring, IDB may exercise its right under the Guarantee to purchase a portion of the Notes, at which point a portion of the Notes may be purchased at par plus the amount of interest accrued. Furthermore, under this IDB right to purchase a portion of the Notes, the Notes held by the Guaranteed Holders will be selected for purchase first, with the Notes held by other Holders selected for purchase after.

*Holder may be limited in their ability to receive Definitive Notes*

Any holder of the Notes or a party authorized or instructed to act on its behalf (along with providing evidence satisfactory to the Trustee of its authority or instruction) at any time may request that some or all of their interest in the Notes in global form be converted into Notes in definitive form. The Notes in definitive form may not be converted back into an interest in the global notes. The Republic will pre-execute 25 Definitive Notes on the issue date and deposit the Pre-Executed Definitive Notes with the Trustee. Whenever Notes in definitive form are required to be issued and delivered in accordance with the terms of the Indenture, the Trustee may authenticate one

or more Pre-Executed Definitive Notes for such purpose (or, if the Trustee is not holding any Pre-Executed Definitive Notes at the relevant time, the Republic will be required to execute such Notes in definitive form as are required in accordance with the terms of the Indenture).

However, because there is a limited number of Pre-Executed Definitive Notes that the Trustee may authenticate without requiring further action from the Republic, there is a risk that where there are no remaining Pre-Executed Definitive Notes, the Trustee will need the Republic to promptly authenticate further definitive notes, which the Republic may not do if it is in default.

### **Risk Factors Relating to the Guarantee**

*Holders of the Notes only benefit from a partial guarantee in respect of the Notes, and the Guarantee cannot be accelerated for failure to make scheduled payments under the Notes unless there has been a Guarantor Event of Default.*

Holders of the Notes have the benefit of the Guarantee, a partial guarantee under which the IDB will guarantee, up to a Maximum Guaranteed Amount, scheduled payments of interest, payments of principal under the Notes in the event the Republic fails to make payments therefore on the relevant scheduled due dates. The Guarantee will be drawn upon if and to the extent the Republic fails to make scheduled payments until the Termination Date, at which point the Guarantee shall terminate. In addition, the amount of the Guarantee outstanding at any one time is directly proportionate to the amount of Notes outstanding, and any purchase and cancellation of the Notes will result in a pro rata reduction in the amount of the Guarantee available. In the event the Guarantee is fully utilized prior to maturity, the Notes (and payments thereunder) will, thereafter, no longer be guaranteed. Accordingly, holders of Notes' sole recourse will be to the Republic for the payment of any remaining principal and interest due on the Notes.

Further, the Guarantee cannot be accelerated due to the Republic's failure to pay scheduled payments on the Notes unless there has been a Guarantor Event of Default. Therefore, in the event the Notes are accelerated following a Guarantor Event of Default, the holders may elect only to accelerate any amounts of outstanding principal under the Notes in excess of the Maximum Guaranteed Amount and such accelerated payments will not be covered by the Guarantee, and the Guarantee will continue to cover the remaining scheduled debt payments that were not subject to acceleration up to the Maximum Guaranteed Amount (in which case the Guarantee will continue to apply in relation to such reinstated original schedule of payments). See "*Annex A—The Guarantee Agreement*".

*The ability to utilize the Guarantee is dependent on a Demand Notice being validly submitted by the Trustee to the IDB.*

The IDB is only required to make payments pursuant to the Guarantee if a Demand Notice is validly submitted to the IDB by the Trustee. Only the Trustee is able to submit a Demand Notice. If the Republic fails to make a payment to the holders of the Notes of any Scheduled Payment Amounts originally payable under the Notes on the relevant payment date, the Trustee may, in accordance with the terms of the Guarantee Agreement, submit a Demand Notice thereunder for any principal or interest which is due and payable and which remains unpaid by the Republic (a "Demand Notice").

*The IDB may be subrogated to the rights of holders of the Notes under the Notes and is not required to suspend any claims it may have against the Republic if it makes payments under the Guarantee Agreement.*

Upon payment to the Trustee of any amounts under the Guarantee or the Guarantee Escrow Account (as defined in "*Description of the Notes—Certain Defined Terms*"), the IDB will be subrogated to the rights of the holders of the Notes, *provided* that the IDB shall not exercise such right in connection with any amount or payment (i) in respect of which it has been reimbursed by the Republic under the Counter-Guarantee Agreement or (ii) which, following an Early Disbursement Event in respect of which the IDB has deposited the Maximum Guaranteed Amount into the Guarantee Escrow Account, has not been made by the Escrow Agent to the Trustee under the Escrow Agreement. For the avoidance of doubt, any rights that IDB has to receive payments from the Republic

under the Notes (by virtue of it being subrogated to the rights of the holders of the Notes following payments under the Guarantee) shall be *pari passu* with any rights of the holders of the Notes to receive payments from the Republic under the Notes. If the IDB exercises its subrogation rights pursuant to the Guarantee Agreement and the Indenture, the IDB will notify the Trustee of the amounts of any reimbursements it receives from the Republic under the Counter-Guarantee Agreement. The IDB is not required under the terms of the Guarantee to suspend or defer any such claims until all sums due and payable under the Notes have been paid in full. See "*Annex A—The Guarantee Agreement*".

*The IDB has the right to purchase the Notes under certain circumstances which could affect the rights of the holders to retain their interests in the Notes.*

If any event of default occurs and is continuing under the Notes, at any time between the date such event of default occurs and the date that is six months therefrom, the IDB will have the right to purchase and the holders will have the obligation to sell, pro rata, any outstanding Notes, at par plus any accrued interest, in an amount equal to the Maximum Guaranteed Amount. Upon exercise of the IDB Right to Purchase, the Maximum Guaranteed Amount will be reduced to U.S.\$0. The IDB will have this right to repurchase even if a holder would prefer not to sell its interest in the Notes.

*The IDB will not gross up any withholding on payments under the Guarantee.*

IDB will not be obliged to gross up, or pay any additional amounts in respect of, any payments in respect of the Guarantee and receipts in respect of which any withholding or deduction has been required to be made in respect of any tax. In the event the IDB has to withhold payments under the Guarantee, Guaranteed Holders of the Notes may therefore receive a lower amount.

*The Guarantee may be terminated under certain circumstances without the Guaranteed Holders' prior written consent.*

The Guarantee may be terminated in certain circumstances. The Guarantee will terminate on the earlier of (i) the date on which all amounts have been paid by Ecuador under the Notes, such that no further amounts are (or may become) payable thereunder; (ii) the date on which the Maximum Guaranteed Amount equals zero; and (iii) the date on which the Guarantee is terminated or cancelled pursuant to an IDB Guarantee Termination Event (as defined below). The Guarantee shall terminate, and any written Demand Notice from the Trustee pursuant to the Guarantee shall be void, if any of the following events (each, an "IDB Guarantee Termination Event") occurs: (a) the holders of the Notes or the Trustee (at the direction of the holders of the Notes under the Indenture) make any amendment, modification or waiver of the Guarantee, the provisions of the Notes and/or the Indenture which adversely affects the rights and the obligations of the IDB, or give any written waiver or consent with respect thereto, without the IDB's prior written consent (with such written consent not to be unreasonably withheld and to be deemed given by the IDB after ten (10) Business Days of such written consent being sought); (b) an Early Disbursement Event (as defined in "*Description of the Notes—Certain Defined Terms*") occurs and the IDB has deposited the Maximum Guaranteed Amount into the Guarantee Escrow Account in the name of the Trustee, for the benefit of the holders of the Notes (holding an interest in the Notes in global form), and providing for payment to the holders of the Notes for the same amounts and subject to the same terms and conditions as under the Guarantee. Any amounts deposited in the Guarantee Escrow Account may be only invested and reinvested in (i) the Goldman Sachs US\$ Treasury Liquid Reserves Fund (ISIN: IE00B2Q5LL07). If (i) the Escrow Agent is for any reason unable to invest such amounts in such fund or (ii) such fund ceases to be rated AAA by any rating agency then rating such fund, the Escrow Property shall be invested at the instruction of the Depositor; *provided* that during the term of the Escrow Agreement, the Escrow Property shall only be invested and reinvested by the Escrow Agent in Permitted Investments. "Permitted Investments" means any debt with a maturity not exceeding one hundred and eighty (180) days from the date of acquisition thereof denominated in U.S. Dollars (or to the extent any proceeds used to make such Permitted Investment are required to be released from the Guarantee Escrow Account within a lesser number of days, not exceeding the Business Day falling immediately before the date on which funds are required to be released), issued or directly and fully guaranteed or insured by the United States of America or any agency or Governmental Authority thereof; *provided* that (i) such Permitted Investments are rated AAA by two of Moody's Investor Service

(“Moody’s”), Standard & Poor’s Ratings Group, Inc. (“S&P”) and Fitch Ratings Ltd (“Fitch”), (ii) the full faith and credit of the United States of America is pledged in support thereof, (iii) such Permitted Investments are prepayable without penalty at par and (iv) the Escrow Agent is able to hold such Permitted Investments; (c) any assignment by the Trustee of any of its rights and obligations under the Indenture or the Guarantee, which affect the rights and obligations of the IDB under the Guarantee or the provisions of the Notes, without the prior written consent of the IDB (with such written consent not to be unreasonably withheld and to be deemed given by the IDB after ten (10) Business Days of such written consent being sought), provided that no consent of the IDB shall be required (and no Termination Event shall occur) in connection with any assignment to an Approved Assignee (as defined in the Guarantee Agreement) or any assignment in accordance with Section 3.09(c) (*Successors and Assigns*) of the Guarantee Agreement or in connection with the appointment of any successor Trustee under the Indenture. For more information on the Guarantee Agreement, see *“Annex A—The Guarantee Agreement.”*

The Indenture provides that the Trustee will give notice to the IDB of any proposed amendment, modification or waiver of the Guarantee or the Indenture. A failure to do so shall not trigger an Guarantee Event of Default but shall result in a breach of undertaking by the Trustee under the Indenture.

*Changes in the value of Permitted Investments made with amounts in the Guarantee Escrow Account may reduce the value of the Guarantee.*

Amounts on deposit in the Guarantee Escrow Account may be invested in Permitted Investments. Fluctuations in the value of such Permitted Investments could reduce the amount on deposit in the Guarantee Escrow Account below the Maximum Guaranteed Amount (see *“Summary of the Guarantee Escrow Agreement”*). Such a reduction would reduce the value of the Guarantee.

*The IDB's current status and ability to make payments under the Guarantee may change.*

The IDB is a multilateral institution rated Aaa by Moody’s and AAA by S&P. However, IDB’s credit rating or credit profile (including their loan portfolio) may deteriorate. The IDB meeting its obligations under the Guarantee also depends on its willingness to do so, and the IDB could default on the Guarantee or seek to declare its obligations thereunder void (although either of these events would constitute a Guarantor Event of Default in accordance with the terms of the Guarantee).

*Changes in creditworthiness of IDB's borrowers may affect IDB's financial condition.*

IDB makes loans to its developing member countries, agencies or political subdivisions of such members and to private enterprises carrying out projects in their territories. Changes in the macroeconomic environment and financial markets in these member countries may affect those borrowers’ creditworthiness and repayments made to IDB. If these loans are not repaid for any reason, IDB’s ability to fulfill its obligations under the Guarantee could be adversely affected.

*The IDB has recourse to the Republic through its contractual rights under the Counter-Guarantee Agreement, and if the Republic defaults on its obligations under the Counter-Guarantee Agreement, it could potentially lose access to IDB financing generally, which could have a material adverse impact on the Republic's financial position.*

The IDB has entered into the Counter-Guarantee Agreement pursuant to which the Republic is required, among other things, to reimburse the IDB for any payments the IDB makes under the Guarantee (plus interest) within 180 days (or as the IDB and the Republic may otherwise agree). If the Republic fails to pay such amount in accordance with the terms of the Counter-Guarantee Agreement the IDB may suspend, cancel and accelerate other financings with the Republic, as described in *“Summary of Counter-Guarantee Agreement.”* Accordingly, should the Republic fail to timely satisfy its obligations under the Counter-Guarantee Agreement, then the Republic would potentially lose access to a significant amount of IDB financing (approximately U.S.\$5,502.6 million was outstanding as of November 30, 2019), with adverse consequences on its future borrowing prospects, the IDB being among the Republic’s top five creditors. Accordingly, a default by the Republic on its obligations under the

Counter-Guarantee Agreement could have a material adverse impact on the Notes and the Republic's financial position generally. For a summary of the Counter-Guarantee Agreement, see "*Summary of Counter-Guarantee Agreement*". For more information on the IDB, see "*The Inter-American Development Bank*".

*The obligations of the Guarantor under the Guarantee Agreement will not be the obligations of any government.*

The Guarantee Agreement will be entered into by the Guarantor. The obligations of the Guarantor under the Guarantee Agreement will not be the obligation of any government. No government, and no other entity, will be responsible for payments under the Guarantee or liable to the holders of the Notes in the event of a Guarantor Event of Default.

### **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 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, 2028 Notes and 2029 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 the Special Audit, as authorized by Ecuadorian law to examine acts of public entities. 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 Office of the Comptroller General in 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 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 interinstitutional 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.

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 and prior to the publication of the April 2019 Debt Bulletin, the Ministry of Economy and Finance had only been releasing public debt to GDP ratio information applying the aggregation methodology. On October 15, 2018, President Moreno issued Decree 537 repealing Decree 1218 in its entirety, which became effective on October 30, 2018, see "*Public Debt—Methodology for Calculating the Public Debt to GDP Ratio.*"

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, unless the public debt reaches a level below the public debt ceiling of 40% of GDP, the public debt ceiling will not apply. The law also provides for the implementation of a fiscal stability plan by the Ministry of Economy and Finance for the period from 2018 to 2021. The law sets forth that in each subsequent fiscal year after 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 mandated that the Ministry of Economy and Finance issue within 90 days from August 21, 2018, a new regulation implementing a new accounting methodology, to 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 New Methodology. The New Methodology provides that the calculation of the public debt to GDP ratio is to 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. The New Methodology defines total public debt as the sum of the public debt incurred by the entities comprising the public sector and adds certain debt instruments to the calculation of public debt that were not previously included, including oil presales, see "*Public Debt—Methodology for Calculating the Public Debt to GDP Ratio.*" The April 2019 Debt Bulletin was the first report on public debt issued that followed the New Methodology. The Regulation Implementing the Public Debt to GDP Ratio Calculation Methodology provides that by November 14, 2019, the Ministry of Economy and Finance was required to publish public debt figures calculated using the New Methodology going back to October 2010. Such deadline has not been met due to unexpected delays in gathering and consolidating the data, with the release of these updated public debt figures expected within the weeks following this Offering Circular. Once these past public debt figures are published using the New Methodology, those numbers may vary from the public debt figures presented in this Offering Circular for the comparable period which were calculated based on the old methodology.

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 amends, 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, as further described in "*Public Debt—Organic Law for Productive Development, Investment, Employment and Fiscal Stability.*" In its April 2019 Debt Bulletin, the Ministry of Economy and Finance disclosed public aggregate and consolidated debt figures as of April 30, 2019.

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; an examination finalized in April 2019, regarding the contracts with service providers (including lawyers, banks, financial agents and other firms) involved in public debt transactions, covering the period between January 1, 2012 and December 31, 2017; an examination finalized in April 2019, regarding the Republic's use of shares of public banks to pay the Central Bank of Ecuador, covering the period between January 1, 2016 and December 31, 2017; an examination finalized in May 2019, regarding the entry, registration and use of funds from oil presale contracts, covering the period between January 1, 2012 and December 31, 2017; and a follow-up examination finalized in May 2019, regarding the application of the recommendations under the CGR Audit Report, covering the period between April 6, 2018 and October 31, 2018; and (ii) an ongoing examination regarding the GSI Loan Facility, the Gold Derivative Transaction and the Bond Derivative Transaction, see "*Public Debt—GSI Loan Facility.*"

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 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 total public debt, instead of short-term securities with a term of "up to 360 days" as it was set forth in Decree 1218. Decree 537 repealed Decree 1218 on October 30, 2018, see "*Public Debt—Methodology for Calculating the Public Debt to GDP Ratio.*" 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 an indictment, the court would hold a pre-trial hearing. The alleged offenders would not be considered criminally liable unless determined through a trial process.

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, 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 and Guillermo Lasso of the CREO-SUMA party, came in second. 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. 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. President Moreno assumed the presidency of Ecuador on May 24, 2017 with Jorge Glas as vice president for a four-year term. After the election, President Moreno stated, in light of Ecuador's economic climate, that Ecuador's priority is to push for economic and social development through generating employment, equality and social justice, eradicating extreme poverty and reducing inequality while maintaining dollarization.

Pursuant to Article 149 of the 2008 Constitution, the vice president performs all functions assigned to the post by the President. On August 3, 2017, President Moreno relieved vice president Glas of his official duties pursuant to executive decree No. 100 ("Decree 100"). As part of the revocation of functions assigned to the then vice president Glas under executive decree No. 9 ("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 earthquake in the north-east of Ecuador on April 16, 2016 (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 an executive 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. 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 the then Minister of Urban and Housing Development María Alejandra Vicuña Muñoz, who had been serving as interim vice president, as the vice president of Ecuador until 2021. After his appeal was denied, Mr. Glas further appealed his sentence. On October 16, 2019, the National Court of Justice dismissed Mr. Glas' appeal, confirming his sentence.

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 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*."

On October 1, 2019, President Moreno issued Decree 883 expanding the scope of the liberalization of prices for hydrocarbons by eliminating the subsidy on certain types of gasoline and diesel and thereby increasing the prices for these fuels. Following the elimination of the subsidies, prices for gasoline type "extra" and diesel for the automotive sector began to be set on a monthly basis by Petroecuador based on average prices and costs.

On October 3, 2019, various groups organized protests relating to the elimination of the subsidies and increase in prices. The protests lasted for almost two weeks and President Moreno relocated the government to Guayaquil on a temporary basis. The Government reached an agreement with protest leaders and on October 14,

2019, President Moreno issued Decree 894 terminating Decree 883, reversing the elimination of the subsidies and ordering the creation of a new policy on subsidies for hydrocarbons.

On December 20, 2019, the National Electoral Council approved its report containing the council's findings on the so-called "Bribe 2012-2016" investigation over alleged illicit campaign contributions made to the Alianza PAIS party from 2012 to 2017. On January 3, 2020, at a preliminary hearing, a judge at the National Court of Justice ordered former President Correa, former vice president Glas, and several former ministers and government officials to stand trial over their alleged involvement in the Bribe 2012-2016 case.

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 2018, 22.2% 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.\$51.3 per barrel as estimated by the 2020 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, including recent tensions between Saudi Arabia and Iran and Venezuela or the effect of sanctions with respect to Iran, may have a potentially adverse effect on the petroleum market as a whole.

In addition, as of October 31, 2019, 89.7% of Ecuador's petroleum exports by destination were to four countries - the United States (45.5%), Panamá (21.6%), Chile (14.6%), and Peru (8.0%). Worsening economic conditions in any of these countries could have a significant impact on Ecuador's revenues from oil and overall economic activity.

Further, operating difficulties in certain oil fields, lower production budgets, and the outages and the overhaul of Ecuador's largest refinery, the Esmeraldas Refinery (see "*The Ecuadorian Economy—Strategic Sectors of the Economy—Oil Sector*"), have led to uneven crude oil and petroleum derivatives production over the last few years. While Ecuador expects to increase production through the development of new fields, in particular the ITT fields which became operational in September 2016 (see "*The Ecuadorian Economy—Strategic Sectors of the Economy—Oil Sector*") and completed at the end of 2015 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 171<sup>st</sup> 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 from July 1, 2017 to March 31, 2018. Before the start of this nine-month period, 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, and at the end of the nine-month period, in March 2018, Petroamazonas produced 396,495 bpd barrels of oil compared to its initial goal of 396,153 bpd. In October 2019, Petroamazonas produced 373,536 bpd compared to its initial goal of 422,881 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 5<sup>th</sup> 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 were set 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. On February 26, 2019 the Minister of Energy and Non-Renewable Natural Resources announced that the Republic had requested OPEC an authorization to increase its quota from its current 508,000 bpd to 535,000 bpd. Ecuador's current quota is 515,000 bpd. On October 1, 2019, the Ministry of Energy and Non-Renewable Natural Resources announced that Ecuador will no longer be a member of OPEC citing the enhancement of the country's fiscal sustainability as the reason for the decision. Effective on January 1, 2020, Ecuador is no longer a member of OPEC.

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 de Prosperidad* (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 Public Companies Coordinator Company, the General Secretariat of the Presidency, the SENPLADES and the Ministry of Energy and Non-Renewable Natural Resources, along with technical teams from Petroecuador and Petroamazonas, to start carrying out the process to merge Petroecuador and Petroamazonas. On April 24, 2019, President Moreno issued decree No. 723 ("Decree 723") ordering the merger of Petroecuador and Petroamazonas into a single public company, and creating the *Unidad Temporal de Fusión* (the "Temporary Merger Unit") charged with managing the merger under the supervision of the Minister of Energy and Non-Renewable Natural Resources. The decree also sets December 31, 2020 as the deadline for completion of the merger.

*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 14.59% and 17.72% of Ecuador's total exports for the eleven months ended November 30, 2019, 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 million out of which U.S.\$1,419 million had already been used towards reconstruction efforts. As of July 31, 2019, the total assigned budget to reconstruct the infrastructure damaged by the Pedernales Earthquake was approximately U.S.\$2,943.6 million out of which U.S.\$1,979.6 million had already been 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 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 placement of the Notes includes that the SPV could be said to have an obligation to pay the 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 holders of the Notes.*

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 used 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 and prior to the publication of the April 2019 Debt Bulletin, the Ministry of Economy and Finance had only been releasing public debt to GDP ratio information applying the aggregation methodology. On October 15, 2018, President Moreno issued Decree 537 repealing Decree 1218 in its entirety, which became effective on October 30, 2018, see "*Public Debt—Methodology for Calculating the Public Debt to GDP Ratio.*"

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, as

further described in "*Public Debt—Organic Law for Productive Development, Investment, Employment and Fiscal Stability*", and provides that for the period from 2018 to 2021, unless the public debt reaches a level below the public debt ceiling of 40% of GDP, the public debt ceiling will not apply. The law also provides for the implementation of a fiscal stability plan by the Ministry of Economy and Finance for the period from 2018 to 2021. The law sets forth that in each subsequent fiscal year after 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.

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 New Methodology, which provides that the calculation of the public debt to GDP ratio is to 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. The New Methodology defines total public debt as the sum of the public debt incurred by the entities comprising the public sector and adds certain debt instruments to the calculation of public debt that were not previously included, including oil presales, see "*Public Debt—Methodology for Calculating the Public Debt to GDP Ratio*." The April 2019 Debt Bulletin was the first report on public debt issued that followed the New Methodology. 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.

Starting with its April 2019 Debt Bulletin, the Ministry of Economy and Finance releases public aggregate and consolidated debt figures under the New Methodology. According to the November 2019 Debt Bulletin, the aggregate public debt to GDP ratio as of November 30, 2019 was 52.0%, a 7.3% increase compared to a 44.7% aggregate public debt to GDP ratio as of November 30, 2018 under the prior methodology. In the November 2019 Debt Bulletin, the Ministry of Economy and Finance disclosed public aggregate and consolidated debt figures as of November 30, 2019. In the same bulletin, the Ministry of Economy and Finance also disclosed public aggregate and consolidated debt figures under the New Methodology for the ten months prior to October 2019. Under the New Methodology, the aggregate public debt to GDP ratio as of January 31, 2019, February 28, 2019, March 31, 2019, April 30, 2019, May 31, 2019, June 30, 2019, July 31, 2019, August 31, 2019, September 30, 2019, and October 31, 2019, were, respectively, 51.14%, 50.72%, 51.34%, 51.13%, 51.05%, 51.23%, 51.14%, 51.04%, 52.14% and 52.13%. The respective difference between the aggregate public debt to GDP ratio under the new methodology and the prior methodology for these periods are 4.61%, 4.28%, 4.41%, 4.35%, 4.08%, 4.08%, 3.97%, 3.83%, 3.36% and 3.39%. 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 holders of the Notes 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 million, which represents 1.6% of the original aggregate principal amount of the 2012 and 2030 Notes. For more information, see "*Public Debt—Debt Obligations—2012 and 2030 Notes and tender offer.*" Given the history of defaults, and more recently, defaults with respect to the 2012 and 2030 Notes as a result of the CAIC determining that the notes were issued illegally, Ecuador may not be able access external financing on favorable terms. For further information regarding the external debt payment record of Ecuador and the history of defaults, see "*Public Debt—Debt Obligations.*"

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

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

*The Government could fail to implement its policy plans as presented to the IMF.*

On March 11, 2019, the executive board of the IMF approved a U.S.\$4,200 million arrangement under the IMF's Extended Fund Facility for Ecuador, enabling the disbursement of U.S.\$652 million on March 13, 2019, and the subsequent disbursement of U.S.\$251 million on July 2, 2019. The Republic presented a Memorandum of Economic and Financial Policies to the IMF outlining the Government's policy plan over the subsequent three years, the implementation of which the IMF will monitor and review on a quarterly basis by means of certain performance criteria, targets and benchmarks, see "*Public Debt—IMF's Extended Fund Facility*".

On December 11, 2019, the Republic (i) presented the Updated Memorandum of Economic and Financial Policies outlining the Government's policy plan over the subsequent two years, the implementation of which the IMF will monitor and review on a quarterly basis by means of certain performance criteria, targets and benchmarks, and (ii) requested (a) completion of the second and third review of the arrangement under the IMF's Extended Fund Facility and the disbursement of the associated amount of about U.S.\$498.0 million for budget support, and (b) a waiver of nonobservance of the performance criteria on net international reserves given that the macroeconomic impact of the breach was minor, as well as certain modifications to program requirements reflected therein.

The Updated Memorandum of Economic and Financial Policies included, among other measures, the Government's intention to (i) submit to the National Assembly by the end of February 2020, revised amendments to the Public Planning and Finance Code, and (ii) resubmit to the National Assembly by April 2020 after consultation with various stakeholders and building consensus, a revised version of the amendments to the Organic Monetary and Financial Law, which were incorporated as part of the draft Law on Economic Development that the National Assembly rejected on November 17, 2019, see "*Public Debt—IMF's Extended Fund Facility*".

On December 19, 2019, the IMF's Executive Board concluded its combined second and third reviews of the Government's economic program supported under the Extended Fund Facility. In these reviews, the IMF reported that the end-September benchmark under the arrangement with the IMF concerning the submission by the Republic of amendments to the Organic Monetary and Financial Law fell short of being fully implemented since the draft law submitted did not incorporate the double veto procedure for the appointment and dismissal of members of the Central Bank board, though it contained other important provisions that would strengthen the institutional foundations of the Central Bank. Other structural benchmarks for the second and third reviews were either met or implemented with a slight delay. Given the rejection of the draft Law on Economic Development, new program conditionalities were accepted by the IMF to allow the authorities more time to reach consensus and complete these structural reforms. In particular, the submission of certain amendments to the Public Planning and Finance Code consistent with program commitments were accepted as a structural benchmark for the fourth review and that of the revised Organic Monetary and Financial Law amendments as a structural benchmark for the fifth review. The IMF granted the Republic's request to modify the end-December 2019 targets on the non-oil primary balance including fuel subsidies to partially accommodate the shortfall due to the delay in asset monetization, on net international reserves due to a higher deficit and financing shortfalls, and on social assistance spending due to the postponement of one of the programs to 2020. After the IMF staff's recommendations to the IMF's Executive Board for completion of the second and third reviews, and support for the Republic's requests of waivers for nonobservance of certain targets, on December 19, 2019, the IMF's Executive Board approved the disbursement to the Republic of approximately U.S.\$498 million.

Failure by the Republic to successfully implement the policy plans supported under the IMF's Extended Fund Facility and meet the performance criteria, targets and benchmarks and recommendations contained in the second and third reviews, including without limitation, with respect to the level of net international reserves could delay or prevent future disbursements, which could in turn negatively affect the Republic's ability to meet its other domestic and international debt obligations, including the Notes. The international reserves of the Republic as of December 31, 2019 were U.S.\$3,397.1 million, see "*Balance of Payments and Foreign Trade—International Reserves.*" The December 2019 IMF staff report reflected projected year-end international reserves of U.S.\$4,819 million. Accordingly, there is a shortfall between the IMF projected international reserves as of December 31, 2019 and the actual international reserves as of this date. At this time, we have no assurance as to when the IMF will publish its next quarterly report, and thus there is no certainty as to the impact it may have on the secondary performance of the Notes.

*The consequences of the data breach of personal information, if any, are unknown at this time*

On September 11, 2019, an internet security firm issued a report that stated that it had uncovered a major data breach of personal information of Ecuador's population contained on an unsecured server maintained by a marketing firm. According to the report, the breach may involve personal information with respect to the entire Ecuadorian population and information leaked included information contained in government registries and records, including identification numbers and records and home addresses. Although the Attorney General and other government officials have confirmed the breach and launched an investigation, the extent of the data breach and its effect on the Ecuadorian economy, if any, are not known at this time and is not possible to predict. In response to the data breach, on September 19, 2019, the President submitted to the National Assembly a draft law on protection of personal data, currently under review and debate. On October 3, 2019, the National Assembly's International Relations Commission approved initiating an investigation into the data breach. As of the date of this Offering Circular, this investigation had not yet concluded. See "*The Republic of Ecuador – Data Breach*".

## 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 Republic has launched several initiatives, among them the Housing For All Program, led by the Ministry of Urban Development and Housing, which offers subsidies for certain segments of social housing. Proceeds of the Notes will initially be received in the Republic's sole Treasury account at the Central Bank, it is expected that the Proceeds of the Notes will be transferred immediately and held in a trust account established for the purposes of financing social housing through loans that will be available at participating financial institutions to first-time buyers which meet the conditions of the Program (as defined in *“Summary—The Offering—Use of Proceeds”*). Each such participating financial institution will then securitize its social housing loan portfolio under the Program by creating and transferring it to a trust issuing securities backed by the loan portfolio. In order to participate in the Program, a financial institution must, among other requirements, have a risk rating equal to or above "A" (which under Superintendency of Banks regulation means that the financial institution in question has a solid financial record and is well regarded in the money markets despite certain acceptable weaknesses, and any deviation in the results of such financial institution's historic levels is expected to be limited and easily addressable, and the probability of such financial institution having significant negative issues is very low despite it being slightly higher than that of other financial institutions with higher credit rating) and be in compliance with minimum solvency, liquidity and capital requirements. Housing units acquired through the Program must be finalized, meet certain requirements in their design and be valued at a price not exceeding the equivalent to 177.66 or 228.42 times the minimum wage, depending on the applicant's economic segment. As of the date of this Offering Circular, the minimum wage is U.S.\$400 per month. For more detailed information on the Program and the use of proceeds of the Notes, see the Operating Manual for the Program in Social Housing or ROP at the Program Website (see, <https://www.finanzas.gob.ec/bono-social>). This website is not incorporated by reference into this Offering Circular.

The Republic has also formalized the main characteristics of its social bond within a social bond framework dated September 30, 2019. The eligibility requirements of the social bond are based on the selection criteria of the loans defined by the Monetary and Financial Policy and Regulation Board and the Executive Decree 681 of February 25, 2019 and are further described in the social bond framework and the ROP. The framework formalizes a number of items, including (i) the main characteristics of the eligible mortgage loans; (ii) the social objective, Affordable Housing; (iii) the target population; (iv) governance and the process for the evaluation and selection of the eligible loans; and (v) the process of monitoring, data collection, consolidation and reporting.

The Republic has appointed Vigeo Eiris, an independent provider of environmental, social and governance research and analysis, to evaluate the Republic's social bond framework and the alignment thereof with relevant industry standards, including ICMA's 2018 Social Bond Principles. The results are documented in Vigeo Eiris' Second Party Opinion which is available on the Program Website. In particular, Vigeo Eiris has confirmed that the Program's framework aligns with the four pillars of ICMA's 2018 Social Bond Principles and contributes to the Republic's commitments to the realization of the Republic's poverty reduction and access to decent and affordable housing targets.

## 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 2020, the total population of Ecuador is approximately 17.5 million. Approximately 49.3% of the population live in the Pacific coastal plains, 44.8% live in the Andean highlands, 5.5% 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 64.0% of the population is urban. Quito, the country's capital, is the largest city with 2.78 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 2.72 million. 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

	2015	2016	2017	2018	2019	2020
<b>Total population (million)</b> .....	16.3	16.5	16.7	17.0	17.3	17.5
Female (%) .....	50.5	50.5	50.5	50.5	50.5	50.5
Male (%) .....	49.5	49.5	49.5	45.5	49.5	49.5
Urban (%) .....	63.4	63.6	63.7	63.8	63.9	64.0
Rural (%) .....	36.6	36.4	36.3	36.2	36.1	36.0
<b>Functional age groups (%)</b>						
Child (0-14).....	30.7	30.3	29.9	29.5	29.1	28.7
Adult (15-64) .....	62.5	62.8	63.1	63.3	63.6	63.9
Elderly (65+).....	6.8	6.9	7.0	7.2	7.4	7.5
<b>Demographic Indicators</b>						
Average Annual Growth (%) .....	1.6	1.5	1.6	1.5	1.4	1.4
<b>Birth Rate (per thousand)<sup>(1)</sup></b>	17.7	16.5	17.2	n/a	n/a	n/a
Infant Mortality Rate (per 1,000 live births) .....	8.9	9.2	9.7	n/a	n/a	n/a
Fertility Rate (per woman).....	2.5	2.5	n/a	n/a	n/a	n/a
<b>Average Life Expectancy (age)<sup>(1)</sup></b>						
Female .....	79.1	79.3	79.5	n/a	n/a	n/a
Male .....	73.4	73.7	73.9	n/a	n/a	n/a
Overall .....	76.2	76.5	76.7	n/a	n/a	n/a

*Source: Based on data from the Instituto Nacional de Estadística y Censo ("National Institute of Statistics" or "INEC"). 2020 figures are based on the INEC's projections as posted on their website [www.ecuadorencifras.gob.ec](http://www.ecuadorencifras.gob.ec), last visited on January 12, 2020.*

(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 relative to certain countries in South America, Central America and the United States:

### Selected Comparative Social Statistics

	Ecuador	Bolivia	Paraguay	Honduras	Guatemala	Costa Rica	United States
Average life expectancy <sup>(1)</sup> .....	77.1	69.8	77.6	71.3	71.8	78.9	80.1
Adult literacy rate <sup>(2)</sup> .....	94.4%	92.5%	94.7%	89.0%	81.3%	n/a	n/a
Mean years of schooling <sup>(2)</sup> .....	10.13 <sup>(3)</sup>	9.7	8.5	6.5	6.4	8.6	13.4
Population below poverty line <sup>(5)</sup> .....	24.5% <sup>(4)</sup>	38.6%	22.2%	29.6%	59.3%	21.7%	15.1

*Source: Ecuador data based on INEC projections and remaining country data based on World Bank data (last accessed online in May 2019) unless otherwise indicated.*

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

(2) Based on data from UNESCO (last accessed online in May 2019). Latest available data for Bolivia is from 2015, for Guatemala, from 2014; for the other countries, from 2016.

(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 December 2018, the poverty line was U.S.\$84.79/month, per capita. Data for Bolivia is based on the international standard of U.S.\$2/day. Latest available data for Honduras, Guatemala and Costa Rica is from 2014; for the United States, from 2010; for the other countries, from 2015.

### 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 Ríos 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. 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 was approximately U.S.\$2,805 million, out of which U.S.\$1,419 million had already been used towards reconstruction efforts. As of July 31, 2019, the total assigned budget to reconstruct the infrastructure damaged by the Pedernales Earthquake was approximately U.S.\$2,943.6 million out of which U.S.\$1,979.6 million had already been 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 *Ley Orgánica de Solidaridad y de Corresponsabilidad Ciudadana para la Reconstrucción de las Zonas Afectadas por el Terremoto de 16 de Abril de 2016* (the "Law of Solidarity") was published and became effective. The Law of Solidarity includes the following measures:

- increasing the value added tax ("VAT") by 2% (from 12% to 14%) for one year starting June 1<sup>st</sup>, 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, 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.

In an effort to promote the reconstruction of the territories affected by the Pedernales Earthquake, the Law of Solidarity was amended on February 21, 2019, by the Organic Law Reforming the Organic Code of Production, Trade and Investment, and the Organic Law of Solidarity, including measures such as assigning necessary funding for the development and implementation of new degrees in technical schools and universities in the provinces of Manabí and Esmeraldas, tailored to the specific needs of those territories, and the development of related infrastructure; mandating public banks to give preference in opening lines of credit to entrepreneurs and others involved in productive activities in those territories; and providing for special tax incentives for residents of those provinces.

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 has conducted special audits on the distribution of resources for relief and restoration efforts in relation to the Pedernales Earthquake, in some of which the Office of the Comptroller General 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, for a four-year term.

## **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 Quito* (the "Tribunal of Penal Safeguards of the Quito 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 CNE. 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 and Guillermo Lasso of the CREO-SUMA party, came in second. 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. 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. President Moreno assumed the presidency of Ecuador on May 24, 2017 with Jorge Glas as vice president for a four-year term. After the election, President Moreno stated, in light of Ecuador's economic climate, that Ecuador's priority is to push for economic and social development through generating employment, equality and social justice, eradicating extreme poverty and reducing inequality while maintaining dollarization.

Pursuant to Article 149 of the 2008 Constitution, the vice president performs all functions assigned to the post by the President. On August 3, 2017, President Moreno relieved vice president Glas of his official duties pursuant to 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 an executive 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. Mr. Glas further appealed his sentence, which the National Court of Justice dismissed on October 16, 2019, confirming his sentence. On December 20, 2019, the National Electoral Council approved its report containing the council's findings on the Bribe 2012-2016 investigation over alleged illicit campaign contributions made to the Alianza PAIS party from 2012 to 2017. On January 3, 2020, at a preliminary hearing, a judge at the National Court of Justice ordered former President Correa, former vice president Glas, and several former ministers and government officials to stand trial over their alleged involvement in the Bribe 2012-2016 case.

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 Housing for All Program to generate employment and grant access to housing to the poorest families in the country. The Housing for All Program includes the construction of 325,000 houses between 2017 and 2021 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 Program is expected to generate more than 136,000 jobs. Following his announcement, on September 1, 2017, President Moreno issued 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 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.

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 CAF and the IDB, 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.

The following table shows the composition of the National Assembly as of the date of this Offering Circular:

<b>Political Party</b>	<b>Number of Members</b>
Alianza PAIS	43
Independientes	7
Izquierda Democrática	1
Movimiento CREO	26
Movimiento SUMA	5
Movimientos Provinciales	4
Pachakutik	5
Partido Social Cristiano	16
Sociedad Patriótica	2
Other political groups	28
<b>Total</b>	<b>137</b>

*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 were 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 to 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 interinstitutional 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, unless the public debt reaches a level below the public debt ceiling of 40% of GDP, the public debt ceiling will not apply. The law also provides for the implementation of a fiscal stability plan by the Ministry of Economy and Finance for the period from 2018 to 2021. 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 mandated that the Ministry of Economy and Finance issue within 90 days from August 21, 2018, a new regulation implementing a new accounting methodology, to 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 issued Decree 537 repealing Decree 1218 in its entirety, which became effective on October 30, 2018, see "*Public Debt—Methodology for Calculating the Public Debt to GDP Ratio*".

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 New Methodology, which provides that the calculation of the public debt to GDP ratio is to 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. The New Methodology defines total public debt as the sum of the public debt incurred by the entities comprising the public sector and adds certain debt instruments to the calculation of public debt that were not previously included, including oil presales, see "*Public Debt—Methodology for Calculating the Public Debt to GDP Ratio*." The April 2019 Debt Bulletin was the first report on public debt issued that followed the New Methodology. The Regulation Implementing the Public Debt to GDP Ratio Calculation Methodology provides that by November 14, 2019, the Ministry of Economy and Finance was required to publish public debt figures calculated using the New Methodology going back to October 2010. Such deadline has not been met due to unexpected delays in gathering and consolidating the data, with the release of these updated public debt figures expected within the weeks following this Offering Circular. Once these past public debt figures are published using the New Methodology, those numbers may vary from the public debt figures presented in this Offering Circular for the comparable period which were calculated based on the old methodology.

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; an examination finalized in April 2019, regarding the contracts with service providers (including lawyers, banks, financial agents and other firms) involved in public debt transactions, covering the period between January 1, 2012 and December 31, 2017; an examination finalized in April 2019, regarding the Republic's use of shares of public banks to pay the Central Bank of Ecuador, covering the period between January 1, 2016 and December 31, 2017; an examination finalized in May 2019, regarding the entry, registration and use of funds from oil presale contracts, covering the period between January 1, 2012 and December 31, 2017; and a follow-up examination finalized in May 2019, regarding the application of the recommendations under the CGR Audit Report, covering the period between April 6, 2018 and October 31, 2018; and (ii) an ongoing examination regarding the GSI Loan Facility, the Gold Derivative Transaction and the Bond Derivative Transaction, see "*Public Debt—GSI Loan Facility*".

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 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 total public debt, instead of short-term securities with a term of "up to 360 days" as it was set forth in Decree 1218. Decree 537 repealed Decree 1218 on October 30, 2018, see "*Public Debt—Methodology for Calculating the Public Debt to GDP Ratio.*" 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 an indictment, the court would hold a pre-trial hearing. The alleged offenders would not be considered criminally liable unless determined through a trial process.

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.

### **Recent measures by President Moreno**

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's cabinet included former ministers under former President Correa's cabinet such as the Minister of Education, the Minister of Health and the Minister of the Interior.

As part of the Government's plan to restructure and reduce the size of the Government and enact institutional austerity measures:

- As of the date of this Offering Circular, President Moreno has decreed and completed the elimination of 19 entities including ministries and secretariats, the merger of ten such entities and the creation of five new ones;
- President Moreno decreed the reduction by 10% and 5% of the salaries of high and mid-level government officials, respectively;
- On February 6, 2019, the Public Companies Coordinator Company requested from the country's public companies a plan to gradually reduce their payrolls by 10%, amounting to approximately 3,000 to 3,500 layoffs and approximately U.S.\$60 million in annual savings; and
- Between December 2018 and February 2019, the Government laid off 11,820 employees in the public sector, of which 8,916 belonged to the executive branch, 207 to the judicial branch, 556 to the legislative branch, and the rest to other public entities. Most of these layoffs consisted of employees under temporary or occasional—related to a particular need of the employer not in the ordinary course of business—employment contracts.

On June 22, 2017, through executive decree No. 50, President Moreno created the Production and Taxation Advisory Council which is headed by the Ministry of Production, Foreign Trade and Investment 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.

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. The Transitional Citizen Participation and Social Control Council finished conducting public evaluations and examinations on 23 candidates in January 2019, of which the nine candidates with the highest scores were appointed to the Court on February 5, 2019. Members of the Constitutional Court are appointed for a nine-year period.

For the second time in his presidency, on November 22, 2018, President Moreno requested his entire cabinet to submit their resignation. 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 3, 2018 President Moreno appointed seven new cabinet members including the new ministers of Education, Tourism, and for the Environment, as well as four other Secretaries of State.

On December 21, 2018, President Moreno issued Decree 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 619 on the shrimp sector. Under Decree 619, the base price of high-octane gasoline "super" for the automotive sector is determined on a monthly basis by Petroecuador based on the international WTI price per barrel of crude oil plus average costs, including transportation, storage, commercial and other costs. At a consumer level, retailers will set their selling price based on market conditions. Under Decree 619, however, the price of diesel for the automotive sector remained fixed at U.S.\$1.037.

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.

On May 13, 2019, President Moreno issued decree No. 732 eliminating SENPLADES and replaced it with the newly-formed Technical Secretariat for Planning, which secretariat is now responsible for across-the-board national planning.

On October 1, 2019, President Moreno issued Decree 883 expanding the scope of the liberalization of prices for hydrocarbons by eliminating the subsidy on certain types of gasoline and diesel and thereby increasing the prices for these fuels. Following the elimination of the subsidies, prices for gasoline type "extra" and diesel for the automotive sector began to be set on a monthly basis by Petroecuador based on average prices and costs.

On October 3, 2019, various groups organized protests relating to the elimination of the subsidies and increase in prices. On October 14, 2019, President Moreno issued Decree 894 terminating Decree 883, reversing the elimination of the subsidies and ordering the creation of a new policy on subsidies for hydrocarbons. Decree 894 did not set a deadline to implement this new policy. By reversing the elimination of the subsidies, Decree 894 returned the price of gasoline and diesel to the prices existing on October 1, 2019. Decree 894 commits the Government to design a more targeted subsidy policy through a new decree. On December 21, 2019, President Moreno announced that a new proposed policy is being reviewed with emphasis being put on strategies to eradicate the contraband of subsidized products and on determining which sectors and groups to focus the new subsidies policy on and is expected to be implemented between the months of February and April 2020.

On October 18, 2019, President Moreno presented before the National Assembly the draft Law on Economic Development, aimed at reforming several of the Republic's tax and financial laws. Specifically, the Law on Economic Development's objective was to, on the one hand, increase revenue by U.S.\$450 million by progressively taxing corporations and individuals with higher yearly income, and imposing new taxes such as a tax on plastic bags and e-cigarettes; and in addition introducing a number of measures to create (a) a more efficient tax system for taxpayers and (b) reforming certain aspects of Ecuador's financial laws and regulations to, among other objectives, (i) enhance fiscal sustainability establishing stricter budget controls and (ii) strengthen dollarization by enhancing the Central Bank's autonomy. After the protests held in October 2019, President Moreno modified the proposed draft Law on Economic Development to remove the elimination of gas subsidies as part of the draft law.

On November 17, 2019, the National Assembly voted to reject the draft Law on Economic Development. In response, on November 21, 2019, President Moreno presented the draft Organic Law on Tax Simplification,

replacing the draft Law on Economic Development with respect to certain aspects of the intended tax reform. The Organic Law on Tax Simplification was first approved by the National Assembly on December 9, 2019, and after a Presidential partial veto, it was finally approved on December 30, 2019, and became effective on December 31, 2019. The Organic Law on Tax Simplification eliminates income tax advances, VAT and Special Consumption Tax ("ICE") on certain products and services (e.g. certain web services, and electric and public vehicles), provides for 100% debt relief of interest and charges on certain student loans, a progressive taxing calendar for corporations and individuals with higher yearly income, and imposes new special taxes on supermarket plastic bags, certain mobile services and certain beers, among other tax reforms targeting certain micro-entrepreneurs, immigrants, exporters, agricultural manufactures, and others.

The Government indicated in its Updated Memorandum of Economic and Financial Policies presented to the IMF on December 11, 2019, that it is currently studying a new draft law modifying certain aspects of the banking and monetary reforms intended under the draft Law on Economic Development. Presentation to the National Assembly of amendments to the Public Planning and Finance Code are expected by the end of February 2020, and presentation of amendments to the Organic Monetary and Financial Law, after consultation with various stakeholders and building consensus, are expected by April 2020, see "*Public Debt—IMF's Extended Fund Facility.*"

## **Data Breach**

On September 11, 2019, an internet security firm issued a report that stated that it had uncovered a major data breach of personal information of Ecuador's population contained on an unsecured server maintained by a marketing firm. According to the report, the breach may involve personal information with respect to the entire Ecuadorian population and information leaked included information contained in government registries and records, including identification numbers and records and home addresses. The Attorney General and other government officials have confirmed the breach and launched an investigation. In response to the breach, on September 19, 2019, the President submitted to the National Assembly a draft law on protection of personal data, currently under review and debate. On October 3, 2019, the National Assembly's International Relations Commission approved initiating an investigation into the data breach. As of the date of this Offering Circular, this investigation had not yet concluded.

## **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. On March 13, 2019, the Republic gave UNASUR formal notice of Ecuador's application to terminate its membership in UNASUR. Under the Republic's constitution, the government's decision to exit UNASUR requires approval by the National Assembly. Under UNASUR's constitutive treaty, the Republic's exit will be binding six months after the date of formal notice provided that the Republic's internal approvals are satisfied. On March 22, 2019 President Moreno met with other presidents of South America in Chile to discuss the creation of PROSUR, an initiative by the Chilean and Colombian presidents for a new regional organization that would replace UNASUR. On September 17, 2019, the National Assembly voted in favor of denouncing UNASUR's constitutive treaty, enabling President Moreno to formally withdraw Ecuador from the international organization in November 2019.

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 October 1, 2019, the Ministry of Energy and Non-Renewable Natural Resources announced that Ecuador will no longer be a member of OPEC citing the enhancement of the country's fiscal sustainability as the reason for the decision. Effective January 1, 2020, Ecuador is no longer a member of OPEC.

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 March 11, 2019, the executive board of the IMF approved a U.S.\$4,200 million arrangement under the IMF's Extended Fund Facility, enabling the disbursement of U.S.\$652 million, which was made on March 13, 2019. On June 28, 2019, the IMF's Executive Board completed its first review of Ecuador's economic performance under Ecuador's arrangement with the IMF under the Extended Fund Facility, which allowed Ecuador to draw U.S.\$251 million from the facility on July 2, 2019. For more information on the IMF's Extended Fund Facility, see "*Public Debt—IMF's Extended Fund Facility*."

In March 2019, the Minister of Economy and Finance of Ecuador presented its application to become a member of the OECD's Development Centre. As part of that process, the Republic will become a signatory to several OECD undertakings, including anti-bribery and foreign investment, will participate in OECD's regional program for Latin America and the Caribbean and will produce a country-level multidimensional assessment with an emphasis on productivity. On May 21, 2019, Ecuador became a member of the OECD Development Centre.

#### *Treaties and Other Bilateral Relationships*

Since 1965, Ecuador has negotiated 30 bilateral investment treaties out of which 27 have been entered into. 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 enactment of its 1998 Constitution, Ecuador 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 Auditoría Integral Ciudadana de los Tratados de Protección Recíproca de Inversiones y del Sistema de Arbitraje en Materia de Inversiones* ("CAITISA") delivered the final audit report on 27 bilateral investment treaties to former President Correa, which finalized a process initiated in 2008. The audit report concluded that bilateral investment treaties are not useful for attracting foreign direct investment, because Ecuador only received 0.79% of the global foreign direct investment that flowed to Latin America and the Caribbean. The principal sources of foreign direct investment that flow into Ecuador are from Brazil, Mexico and Panama, none of which have a bilateral investment treaty with Ecuador, and of the seven largest foreign investors in Ecuador, only 23% come from a country which has a bilateral investment treaty with Ecuador. The CAITISA report recommended that Ecuador should enter into agreements with direct investors on a case-by-case basis, allowing more flexibility in 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 European Union 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 relationship 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 20, 2019, United States Secretary of State Mike Pompeo visited Ecuador as part of efforts to continue reinvigorating the bilateral relationship between Ecuador and the United States. President Moreno and Secretary Pompeo expressed their respective countries' wishes to work closely on strengthening their commercial relationship, to join efforts against corruption and the illicit drug trade, and to increase cooperation and collaboration on security matters, including cybersecurity, and agreed to set in motion processes for enabling extradition in cases involving corruption.

On July 4, 2018, the Republic 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. Starting on January 1, 2020, the Republic downgraded its relations with Venezuela to merely consular, with Ecuadorian consulates remaining in the Venezuelan cities of Caracas, Maracaibo and Valencia.

Furthermore, on July 5, 2018, the National Assembly 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 Government, in 2018, 955,637 Venezuelan citizens entered Ecuador, and 801,851 exited Ecuador. On August 4, 2018, the Ministry of Foreign Relations and Human Mobility, in coordination with the Ministries of the 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).

On January 23, 2019, President Moreno joined other heads of government around the world in recognizing the President of the National Assembly of Venezuela, Juan Guaidó, as that country's legitimate interim President. On January 31, 2019, the National Assembly passed a resolution backing President Moreno's recognition of Juan Guaidó as interim President of Venezuela. On January 30, 2019 interim President Guaidó formally requested diplomatic recognition of his appointed Ambassador to Ecuador, which the government of Ecuador granted on February 7, 2019. On February 25, 2019 René de Sola Quintero gave his diplomatic credentials as Venezuela's Ambassador to Ecuador. On March 2, 2019, following an invitation by President Moreno, interim President Guaidó made a formal visit to Ecuador and met with President Moreno.

On May 15, 2019, Ecuador, together with Peru and Colombia, signed a trade agreement with the United Kingdom to preserve their mutual trade commitments should the United Kingdom exit the European Union as a result of the United Kingdom's exit from the European Union. With this trade agreement, the Republic and the United Kingdom intend to replicate their current trade commitments under the Multiparty Trade Agreement with the European Union. This agreement will not enter into force while the Multiparty Trade Agreement continues to apply to the United Kingdom. On October 23, 2019, the Republic and the United Kingdom agreed to temporarily maintain their agreements under the Multiparty Trade Agreement in respect of each other to account for the time between the

date the United Kingdom exits the European Union and the entry into force of the trade agreement signed on May 15, 2019.

On July 15, 2019, representatives of Ecuador and the United Kingdom signed a joint declaration in Quito for the enhancement of bilateral relations between the two countries. The joint declaration highlighted the aspirations of both countries to establish more frequent dialogue on regional and multilateral priorities and to work more closely on shared issues. Both countries agreed to re-initiate conversations on a double-taxation treaty and other means to promote trade and investment, and expressed their desire to work closely against corruption, to increase scholarship opportunities for master degrees in the United Kingdom for Ecuadorian nationals, and to fight ocean contamination and climate change within and beyond the framework of the Paris Agreement. As of the date of this Offering Circular, both countries are in the process of negotiating a double-taxation treaty.

On July 25, 2019, President Moreno issued decree No. 826 ("Decree 826") granting amnesty and creating the mechanisms to grant a temporary residence visa for humanitarian reasons to all Venezuelans who as of that date had entered Ecuador legally even if they had overstayed their permitted time to visit the country, provided that, as of that date, they had not breached the laws of the Republic. Venezuelans who wish to enter Ecuador starting 30 days after the decree comes into force will be required to possess either one such temporary residence visa for humanitarian reasons or any other type of visas issued by the Republic. On October 26, 2019, under Decree 826, the Government started the process of regularizing the legal status of Venezuelan migrants who arrived in Ecuador on or before July 26, 2019. This consisted of providing applicants with a humanitarian visa allowing them to remain in the country legally. This regularization process is expected to close on March 31, 2020.

On November 1, 2019, the Republic became a member of the Asian Infrastructure Investment Bank ("AIIB"), a multilateral development bank headquartered in Beijing. Membership to the AIIB grants the Republic access to, among other benefits, direct financing, investment opportunities and guarantees.

#### *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 along with the European Union, 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. During United States Secretary of State Mike Pompeo's visit to Ecuador on July 20, 2019, Secretary Pompeo and President Moreno expressed in a joint declaration their respective countries' intentions to join efforts against the illicit drug trade.

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. The Republic is currently in negotiations with Chile and Mexico in order to join the Pacific Alliance, with rounds held from October 28 to 30, 2019, in Santiago, Chile, and from November 13 to 14, 2019, in Mexico City, Mexico.

## THE ECUADORIAN ECONOMY

### Gross Domestic Product

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.

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 was 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 a 2.4% increase in real terms. This increase was 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. 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.

Real GDP for 2018 was U.S.\$71,933 million, compared to U.S.\$70,956 million in 2017, representing a 1.4% increase in real terms. This increase was mainly due to a 2.9% increase in government expenditure as a final consumer, a 2.7% increase in household expenditure as final consumers, a 2.1% increase in gross fixed capital formation, and a 0.9% increase in exports of goods and services. In 2018, the nominal GDP reached U.S.\$107,562 million representing a 3.1% increase from U.S.\$104,296 million in 2017. 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%.

Real GDP for the first nine months of 2019 was U.S.\$54,083 million, compared to U.S.\$53,787 million for the first nine months of 2018, representing a 0.55% increase in real terms. Real GDP for the third quarter of 2019 was U.S.\$18,069.9 million compared to U.S.\$18,080.8 million for the same period of 2018, representing a 0.1% decrease in real terms. This decrease was mainly due to the 4.9% decrease of construction activity, a 2.8% decrease in final consumption of the general government, a 2.8% decrease in general government expenditure in collective services, a U.S.\$21.5 million decrease in wages driven by the 2.2% decrease in total number of public employees.

Nominal GDP for the first nine months of 2019 reached U.S.\$81,273 million representing a 1.1% increase from U.S.\$80,351 million for the same period in 2018. Nominal GDP for the third quarter of 2019 was U.S.\$27,140.1 million compared to U.S.\$27,078.4 million for the same period of 2018, representing a 0.2% increase in real terms. This increase rate was mainly due to the 4.9% decrease of construction activity, a 2.8% decrease in final consumption of the general government, a 2.8% decrease in general government expenditure in collective services, a U.S.\$21.5 million decrease in wages driven by the 2.2% decrease in total number of public employees.

Inflation decreased from 0.35% for the 12-month period ended November 30, 2018 to 0.04% for the 12-month period ended November 30, 2019. This decrease was primarily due to a decrease in the prices of clothing and footwear, furniture and household items, hotels and restaurants, food and non-alcoholic beverages and communications. According to the Central Bank, inflation decreased from 0.27% for the 12-month period ended December 31, 2018 to -0.07% for the 12-month period ended December 31, 2019.

**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,	
	2014	2015	2016	2017	2018	2018	2019
	Real GDP (in millions of U.S.\$).....	70,105	70,175	69,314	70,956	71,933	53,787
Real GDP growth .....	3.8%	0.1%	-1.2%	2.4%	1.4%	1.5%	0.6%
Nominal GDP.....	101,726	99,290	99,938	104,296	107,562	80,351	81,273

*Source: Based on figures from the Central Bank Quarterly National Accounts for the Third Quarter of 2019.*

**Nominal GDP by Economic Sector<sup>(1)</sup>**  
(in millions of U.S. dollars, except for percentages)

	For the Year Ended December 31,								For the Nine Months Ended September 30,			
	2014	% of GDP	2015	% of GDP	2016	% of GDP	2017	% of GDP	2018	% of GDP	2018	2019
Manufacturing <sup>(2)</sup> .....	13,717	13.48	13,513	13.61	13,592	13.60	13,866	13.29	14,223	13.12	10,354	10,403
Construction .....	10,891	10.71	11,125	11.20	11,976	11.98	12,087	11.59	12,239	11.29	9,185	8,821
Petroleum and mining.....	11,267	11.08	4,691	4.72	3,800	3.80	5,024	4.82	6,049	5.58	4,691	4,621
Trade (commerce) .....	10,545	10.37	10,218	10.29	9,632	9.64	9,960	9.55	10,452	9.64	7,590	7,623
Agriculture .....	8,122	7.98	8,406	8.47	8,441	8.45	8,533	8.18	8,791	8.11	6,272	6,328
Social services.....	7,833	7.70	8,489	8.55	8,777	8.78	9,280	8.90	9,888	9.12	7,223	7,567
Government services <sup>(3)</sup> .....	6,682	6.57	6,660	6.71	6,885	6.89	7,062	6.77	7,164	6.61	5,280	5,105
Administrative activity <sup>(4)</sup> .....	7,016	6.90	6,887	6.94	6,574	6.58	7,072	6.78	8,122	7.49	5,840	5,996
Transportation .....	4,338	4.26	4,773	4.81	5,414	5.42	5,387	5.17	5,364	4.95	4,121	4,196
Finance and insurance .....	3,166	3.11	3,165	3.19	3,073	3.07	3,536	3.39	3,762	3.47	2,741	2,980
Telecommunications .....	2,127	2.09	1,984	2.00	1,916	1.92	1,932	1.85	1,982	1.83	1,473	1,488
Electricity and water.....	1,253	1.23	1,509	1.52	1,685	1.69	1,826	1.75	1,772	1.63	1,312	1,376
Shrimp.....	563	0.55	445	0.45	501	0.50	660	0.63	725	0.67	495	527
Others <sup>(5)</sup> .....	14,208	13.97	17,427	17.55	17,670	17.68	18,070	17.33	17,865	16.48	13,775	14,241
<b>Total GDP .....</b>	<b>101,726</b>	<b>100</b>	<b>99,290</b>	<b>100</b>	<b>99,938</b>	<b>100</b>	<b>104,296</b>	<b>100</b>	<b>107,562</b>	<b>100</b>	<b>80,351</b>	<b>81,273</b>

*Source: Based on information from the Central Bank for the Third Quarter of 2019.*

(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,	
	2014	2015	2016	2017	2018	2018	2019
Real GDP Growth .....	3.8	0.1	-1.2	2.4	1.4	1.5	0.6
Import of goods & services <sup>(1)</sup> .....	4.8	-8.2	-9.6	12.2	5.8	5.5	2.0
<b>Total Supply of Goods &amp; Services</b> .....	<b>4.0</b>	<b>-1.9</b>	<b>-3.1</b>	<b>4.4</b>	<b>2.4</b>	<b>2.4</b>	<b>0.9</b>
Public Sector Consumption .....	6.7	2.1	-0.2	3.2	2.9	3.3	-0.7
Private Consumption .....	2.7	-0.1	-2.4	3.7	2.7	2.1	1.8
Gross Fixed Capital Formation .....	2.3	-6.2	-8.9	5.3	2.1	3.0	-2.9
Exports of goods and services <sup>(1)</sup> .....	6.2	-0.6	1.4	0.7	0.9	1.0	3.8
<b>Total Final Demand</b> .....	<b>4.0</b>	<b>-1.9</b>	<b>-3.1</b>	<b>4.4</b>	<b>2.4</b>	<b>2.4</b>	<b>0.9</b>

*Source: Based on figures from the Central Bank Quarterly National Accounts for the Third Quarter of 2019.*

(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,				
	2014	2015	2016	2017	2018 <sup>(1)</sup>
Per capita Nominal GDP (current U.S.\$) .....	6,347	6,099	6,046	6,217	6,318
Per capita Real GDP .....	4,374	4,311	4,194	4,229	4,226
Population (in thousands) <sup>(2)</sup> .....	16,027	16,279	16,529	16,777	17,023

*Source: Based on figures from Table 4.3.5 of the Central Bank's Monthly Bulletin for November 2019.*

(1) Preliminary data published by the Central Bank based on the aggregation of quarterly data.

(2) 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,	
	2014	2015	2016	2017	2018	2018	2019
Consumption							
Public Sector Consumption .....	10,252.3	10,471.8	10,453.9	10,790.0	11,167.2	8,322.2	8,267.5
Private Consumption .....	43,088.8	43,049.2	42,011.6	43,577.6	44,487.0	33,179.7	33,782.5
Total Consumption .....	53,341.2	53,521.0	52,465.5	54,367.6	55,654.2	41,502.0	42,050.0
Gross Investment							
Gross Fixed Capital Formation .....	18,626.3	17,465.3	15,917.1	16,762.3	17,093.0	12,881.9	12,504.2
Change in Inventory .....	471.2	-123.1	-568.2	388.0	348.2	306.4	178.0
Exports of goods and services <sup>(1)</sup> .....	19,342.0	19,218.8	19,491.9	19,631.7	19,858.2	14,872.4	15,442.4
Imports of goods and services <sup>(1)</sup> .....	21,675.4	19,907.4	17,992.2	20,193.8	21,083.2	15,776.0	16,092.0
Real GDP	70,105.4	70,174.7	69,314.1	70,955.7	71,870.5	53,786.6	54,082.6

*Source: Based on figures from the Central Bank Quarterly National Accounts for the Third Quarter of 2019.*

(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.

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*".

On October 18, 2019, President Moreno presented before the National Assembly the draft Law on Economic Development, aimed at reforming several of the Republic's tax and financial laws. Specifically, the Law on Economic Development's objective was to, on the one hand, increase revenue by U.S.\$450 million by progressively taxing corporations and individuals with higher yearly income, and imposing new taxes such as a tax on plastic bags and e-cigarettes; and in addition introducing a number of measures to create (a) a more efficient tax system for taxpayers and (b) reforming certain aspects of Ecuador's financial laws and regulations to, among other objectives, (i) enhance fiscal sustainability establishing stricter budget controls and (ii) strengthen dollarization by enhancing the Central Bank's autonomy. After the protests held in October 2019, President Moreno modified the proposed draft Law on Economic Development to remove the elimination of gas subsidies as part of the draft law, see "*The Republic of Ecuador—Recent Measures by President Moreno*".

On November 17, 2019, the National Assembly voted to reject the draft Law on Economic Development. In response, on November 21, 2019, President Moreno presented the draft Organic Law on Tax Simplification, replacing the draft Law on Economic Development with respect to certain aspects of the intended tax reform. The Organic Law on Tax Simplification was first approved by the National Assembly on December 9, 2019, and after a Presidential partial veto, it was finally approved on December 30, 2019, and became effective on December 31, 2019. The Organic Law on Tax Simplification eliminates income tax advances, VAT and Special Consumption Tax ("ICE") on certain products and services (e.g. certain web services, and electric and public vehicles), provides for

100% debt relief of interest and charges on certain student loans, a progressive taxing calendar for corporations and individuals with higher yearly income, and imposes new special taxes on supermarket plastic bags, certain mobile services and certain beers, among other tax reforms targeting certain micro-entrepreneurs, immigrants, exporters, agricultural manufactures, and others.

The Government indicated in its Updated Memorandum of Economic and Financial Policies presented to the IMF on December 11, 2019, that it is currently studying a new draft law modifying certain aspects of the banking and monetary reforms intended under the draft Law on Economic Development. Presentation to the National Assembly of amendments to the Public Planning and Finance Code are expected by the end of February 2020, and presentation of amendments to the Organic Monetary and Financial Law, after consultation with various stakeholders and building consensus, are expected by April 2020, see "*Public Debt—IMF's Extended Fund Facility.*"

### ***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, 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 Ministry for the Environment; (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. On January 28, 2019, President Moreno issued decree 649 ("Decree 649") amending the procedures in the General Regulation to the Mining Law concerning confiscated equipment and mining products due to illegal exploitation.

### ***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 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, unless the public debt reaches a level below the public debt ceiling of 40% of GDP, the public debt ceiling will not apply. The law also provides for the implementation of a fiscal stability plan by the Ministry of Economy and Finance for the period from 2018 to 2021. The law sets forth that in each subsequent fiscal year after 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 mandated that the Ministry of Economy and Finance issue within 90 days from August 21, 2018, a new regulation implementing a new accounting methodology, to 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 issued Decree 537 repealing Decree 1218 in its entirety, which became effective on October 30, 2018, see "*Public Debt—Methodology for Calculating the Public Debt to GDP Ratio*." On October 15, 2018, President Moreno issued Decree 537 repealing Decree 1218 in its entirety, which became effective on October 30, 2018, see "*Public Debt—Methodology for Calculating the Public Debt to GDP Ratio*." For more information on the CGR Audit Report, see "*Public Debt—Review and Audit by the Office of the Comptroller General*."

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 New Methodology, which provides that the calculation of the public debt to GDP ratio is to 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. See "*Public Debt—Methodology for Calculating the Public Debt to GDP Ratio*." 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. See "*Public Debt—Organic Law for Productive Development, Investment, Employment and Fiscal Stability*."

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.

On April 30, 2019, in line with the Letter of Intent presented to the IMF, the Ministry of Economy and Finance published the *Plan de Acción para el Fortalecimiento de las Finanzas Públicas* ("Action Plan for the Strengthening of Public Finances") with 17 proposals aimed at strengthening fiscal and budgetary rules and planning, and improving sustainability in the operations of the National Treasury. Among the proposals, the Ministry of Economy and Finance will send the President a draft bill modifying certain provisions of the Public Planning and Finance Code to further limit the Executive's discretion to outspend the national budget from 15% to 5% in order to increase credibility over each year's set fiscal goals; to substitute the CETES with a new short-term

instrument that guarantees its use within the budgetary year of issuance and placement; and to include a chapter in the Public Planning and Finance Code with a functional outline of the fiscal rules to increase transparency.

On October 18, 2019, President Moreno presented before the National Assembly the draft Law on Economic Development which included certain amendments to the Public Planning and Finance Code aimed, among other objectives, to enhance fiscal sustainability establishing stricter budget controls. However, on November 17, 2019 the National Assembly rejected those amendments. As part of the program with the IMF, the Government intends to submit to the National Assembly by the end of February 2020, revised amendments to the Public Planning and Finance Code. The amendments intend to ensure that the role of the Minister of Economy and Finance as the fiscal oversight authority is strengthened; that annual budgets are prepared in line with best international practices; that the fiscal rules framework is further strengthened, including escape clauses, automatic correction mechanisms, and in-year fiscal reporting; that government discretion to amend approved budgets is limited and a robust framework for contingency allocation is introduced; that budget execution is kept in check by comprehensive, timely, and proper government accounting and reporting, including a comprehensive definition of public debt, as well as the adoption of better cash management practices and commitment controls. For more on the IMF's Extended Fund Facility, see "*Public Debt—IMF's Extended Fund Facility*."

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

#### ***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.

#### ***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 *Código Orgánico Monetario y Financiero* (the “Monetary and Financial Law”) in order to address weaknesses of the Republic's financial system stemming from the banking crisis in 2000. To achieve its objectives, the Monetary and Financial Law creates a new regulatory body, the 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 *Corporación de Seguros de Depósito* (“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. On December 27, 2017, the National Assembly approved transferring the role of manager of the electronic payment system from the Central Bank to the national financial system which is mainly composed of private banking. On January 3, 2018, the *Junta de Política y Regulación Monetaria y Financiera* (“Monetary and Financial Policy and Regulation Board”) ordered that electronic money accounts in the Central Bank be closed and deactivated before April 16, 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. As of October 31, 2016, before Resolution No. 302-2016-F was issued, Ecuador's financial institutions held U.S.\$4,274.6 million in reserves at the Central Bank. As of December 31, 2016, after Resolution No. 302-2016-F was issued, Ecuador's financial institutions held U.S.\$6,044.1 million in reserves at the Central Bank. As of November 30, 2019, Ecuador's financial institutions held U.S.\$4,267.2 million in reserves at the Central Bank.

On October 18, 2019, President Moreno presented before the National Assembly the draft Law on Economic Development which included certain amendments to the Monetary and Financial Law. These amendments aimed to ensure that the Central Bank had clear objectives and limited functions, designed to fully support the dollarization regime. They encompassed measures to strengthen the Central Bank's autonomy including in terms of its budget, improve the Central Bank's governance by establishing a board with fiduciary responsibilities to the Central Bank, and build a strong internal and external audit function. The amendments prohibited all direct and indirect lending by the Central Bank to the government or the public sector, while remaining able to provide

temporary liquidity support to public banks, if needed for prudential purposes. However, on November 17, 2019 the National Assembly rejected those amendments. As part of the program with the IMF, after consultation with various stakeholders and building consensus, the Government intends to resubmit to the National Assembly the amendments to the Central Bank part of the Monetary and Financial Law by April 2020. For more on the IMF's Extended Fund Facility, see "*Public Debt—IMF's Extended Fund Facility*."

#### ***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. On June 26, 2019, the Civil Procedure Code was modified by the *Ley Orgánica Reformatoria del Código Orgánico General de Procesos* ("Organic Law Reforming the Civil Procedure Code"), see "*The Ecuadorian Economy—Economic and Social Policies—Organic Law Reforming the Civil Procedure Code*."

#### ***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 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.

### ***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 holders of the Notes*" 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 and prior to the publication of the April 2019 Debt Bulletin, the Ministry of Economy and Finance had only been releasing public debt to GDP ratio information applying the aggregation methodology. In its April 2019 Debt Bulletin, the Ministry of Economy and Finance disclosed public aggregate and consolidated debt figures as of April 30, 2019.

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, unless the public debt reaches a level below the public debt ceiling of 40% of GDP, the public debt ceiling will not apply. The law also provides for the implementation of a fiscal stability plan by the Ministry of Economy and Finance for the period from 2018 to 2021. The law sets forth that in each subsequent fiscal year after 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 mandated that the Ministry of Economy and Finance issue within 90 days from August 21, 2018, a new regulation implementing a new accounting methodology, to 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 issued Decree 537 repealing Decree 1218 in its entirety, which became effective on October 30, 2018, see "*Public Debt—Methodology for Calculating the Public Debt to GDP Ratio*." On October 15, 2018, President Moreno issued 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, see "*Public Debt—Methodology for Calculating the Public Debt to GDP Ratio*."

### ***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 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 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 (*exequátor*). 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*."

#### ***New Commercial Code***

On May 29, 2019, the new *Código de Comercio* ("New Commercial Code") was published and became effective. The New Commercial Code updates and modernizes the legal framework of commercial transactions in Ecuador. Among its 1,328 articles, it modifies the statute of limitations for commercial obligations, consolidates the legal framework on leasing and commercial leases, seeks to reduce excessive formalities, creates a legal framework for electronic commerce, and codifies and regulates other types of commercial transactions such as brokerage, supply, distribution systems, logistics, and others.

#### ***Organic Law on Tax Simplification***

On December 9, 2019, the National Assembly approved the *Ley Orgánica de Simplicidad y Progresividad Tributaria* ("Organic Law on Tax Simplification"), and after a Presidential partial veto, it was published and became effective on December 31, 2019. The Organic Law on Tax Simplification, which replaces the draft Law on Economic Development in certain aspects of the intended tax reform, eliminates income tax advances, VAT and Special Consumption Tax ("ICE") on certain products and services (e.g. certain web services, and electric and public vehicles), provides for 100% debt relief of interest and charges on certain student loans, a progressive taxing calendar for corporations and individuals with higher yearly income, and imposes new special taxes on supermarket plastic bags, certain mobile services and certain beers, among other tax reforms targeting certain micro-entrepreneurs, immigrants, exporters, agricultural manufactures, and others.

#### **Anti-Corruption Measures in Ecuador**

Since President Moreno was elected, the Government of Ecuador has been putting in place several initiatives to fight 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.

On February 6, 2019 President Moreno issued decree No. 665 creating the *Secretaría Anticorrupción de la Presidencia de la República* ("Anticorruption Secretariat") tasked with, among others, setting an agenda for the creation of public policies and actions allowing for whistleblowing on corrupt acts within the administration; coordinating collaboration between governmental institutions, courts and entities involved in investigating, trying and penalizing corruption cases; and articulating with the Ministry of Foreign Affairs and Human Mobility the implementation of existing international agreements on the subject.

On February 18, 2019 President Moreno announced his plans to form the *Comisión Internacional contra la Corrupción* ("International Commission against Corruption") with the aim of providing support to governmental agencies charged with denouncing, investigating and prosecuting acts of corruption in Ecuador. The International Commission against Corruption is composed of five international experts on corruption and three secretariats with other national and international experts. Members of the International Commission against Corruption will be designated by agreement between the government and the United Nations Office on Drugs and Crime. The International Commission against Corruption was formally created on May 13, 2019.

On February 25, 2019 the CNE partnered with the Financial and Economic Analysis Agency to provide mutual collaboration in, among others, detecting money laundering and the financing of criminal enterprises. On June 6, 2019, the heads of Ecuador's Office of the Comptroller General and the *Comisión Nacional Anticorrupción* ("National Anticorruption Commission") signed a two-year collaboration agreement to carry out coordinated efforts to better process corruption complaints and to implement preventive measures, to identify and promote best practices, to enhance communication between both entities, in order to develop training programs promoting ethical behavior, and to promote civic involvement throughout the country to increase public accountability. On June 11, 2019, the *Función de Transparencia y Control Social* (the "Transparency Committee"), composed of representatives of 14 government entities and presided over by the Comptroller General, approved a national plan aimed at building inter-institutional collaboration in the fight against corruption.

On July 25, 2019, President Moreno issued decree No. 828 ("Decree 828") designating the Anticorruption Secretariat as Ecuador's representative authority under the terms of the Inter-American Convention against Corruption.

### **Strategic Sectors of the Economy**

The Ministry for the Environment, 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 the Ministry for the Environment 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.

<b>Strategic Sector Investment<sup>(1)</sup></b> (in millions of U.S.\$)				
	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016<sup>(2)</sup></b>
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 <sup>(3)</sup> .....	67	66.12	56.31	26
<b>Total Investment .....</b>	<b>6,529</b>	<b>7,017</b>	<b>5,734</b>	<b>4,409</b>

*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 Ministry for the Environment 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 Natural 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 decree No. 471 extending the term for the implementation of the merger until September 14, 2018. The merger was implemented in September 2018.

### **Oil Sector**

Ecuador's oil reserves are managed directly by state-owned oil companies Petroecuador and Petroamazonas and through service contracts with other Ecuadorian and foreign companies. Oil exploitation operations are conducted under the supervision and regulation of the Ministry of 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 declined in relation to the percentage of GDP of non-petroleum revenues during that 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.\$45.68 in 2015 to U.S.\$34.96 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 31% in the average price of petroleum per barrel from U.S.\$34.96 in 2016 to U.S.\$45.68 in 2017. In 2018, crude oil exports totaled U.S.\$7,853 million, a 26.9% increase from U.S.\$6,190 million in 2017. This increase was due to an increase in the average international price of petroleum per barrel from U.S.\$45.68 in 2017 to U.S.\$60.55 in 2018, despite a 4% decrease in export volume, from 18,950 thousand metric tons to 18,192 thousand metric tons. In the first ten months of 2019, crude oil exports totaled U.S.\$6,478 million, a 4.2% decrease from U.S.\$6,764 million in the first ten months of 2018. This decrease was primarily due to a 10.8% decrease in the average price of petroleum per barrel from U.S.\$62.5 to U.S.\$55.7. In the first eleven months of 2019, crude oil exports totaled U.S.\$7,052 million, a 4.0% decrease from U.S.\$7,346 million in the first eleven months of 2018.

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 2018, revenues from non-petroleum sources in the non-financial public sector totaled U.S.\$27,644 million, an 8.5% increase from U.S.\$25,473 million in 2017. This increase was primarily due to an increase in revenues from tax collections. Revenues from non-petroleum sources in the non-financial public sector as of September 30, 2019, totaled U.S.\$12,857 million, a 2.3% decrease from U.S.\$13,157 million in the same period in 2018. This decrease was primarily due to an increase in non-tax revenue. Revenues from non-petroleum sources in the non-financial public sector as of October 31, 2019, totaled U.S.\$22,183 million, a 1.5% decrease from U.S.\$22,521 million in the same period in 2018.

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 2018, Central Government oil revenues represented 1.9% of GDP and 10.4% of Central Government revenues and non-petroleum revenues represented 16.7% of GDP and 89.6% 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 8.0% of GDP and 22.2% of non-financial public sector revenues and non-petroleum revenues represented 25.6% of GDP and 71.1% of non-financial sector revenues. In 2018, Central Government oil revenues reached U.S.\$2,109 million, which is an increase from the U.S.\$1,676 million in 2017. This increase was due to variations in price and volume of imports of oil derivatives, while oil production decreased by 5.14 million barrels, price per barrel increased by U.S.\$13.94 during that period. For more information on revenues of the non-financial public sector, see "*Public Sector Finances—Non-Financial Public Sector Revenues and Expenditures*." Central Government oil revenues reached U.S.\$1,649 million as of September 30, 2019, a 1.5% decrease compared to U.S.\$1,674 million for the same period in 2018. This decrease was primarily due to the decrease in the price per barrel of oil in 2019. Central Government

oil revenues reached U.S.\$1,864 million as of October 31, 2019, a 1.8% increase compared to U.S.\$1,831 million for the same period in 2018.

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 Natural Resources, along with technical teams from Petroecuador and Petroamazonas, to start carrying out the process to merge Petroecuador and Petroamazonas. On April 24, 2019, President Moreno issued Decree 723 ordering the merger of Petroecuador and Petroamazonas into a single public company, and creating the Temporary Merger Unit charged with managing the merger under the supervision of the Minister of Energy and Non-Renewable Natural Resources. The decree also sets December 31, 2020 as the deadline for completion of the merger.

#### *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 No. 315 ("Decree 315") and decree No. 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,					For the Ten Months Ended October 31,	
	2014	2015	2016	2017	2018	2018	2019
Petroleum <sup>(1)</sup>	557	543	548	531	517	517	528
Public Companies <sup>(2)</sup>	157,976	154,308	158,118	152,092	146,351	121,731	126,613
Other operators	45,166	43,922	42,593	41,837	42,438	35,506	34,011
Total	<b>203,142</b>	<b>198,230</b>	<b>200,711</b>	<b>193,929</b>	<b>188,789</b>	<b>157,237</b>	<b>160,625</b>
Natural Gas Production <sup>(3)</sup>	<b>20,410</b>	<b>17,550</b>	<b>18,633</b>	<b>16,337</b>	<b>12,461</b>	<b>10,636</b>	<b>9,495</b>

*Source: Petroleum data is based on figures from the Central Bank November 2019 Monthly Bulletin (Table 4.1.1).*

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

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

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

According to the Central Bank's Monthly Bulletin for August 2019, 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 Central Bank's Monthly Bulletin for August 2019, 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 bpd). In 2017, state-owned companies were responsible for 78.4% of production, compared to 78.8% 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 Central Bank's Monthly Bulletin for December 2019, oil field crude production, including that of private and state-owned companies, reached 188.8 million barrels for the year 2018, representing a 2.7% decrease from the 193.9 million barrels produced in 2017 (and a decrease of 2.7% in barrels per day). According to the Central Bank's Monthly Bulletin for December 2019, oil field crude production, including that of private and state-owned companies, reached 177.0 million barrels for the eleven months ended November 30, 2019, representing a 2.5% increase from the 172.7 million barrels produced in the same period of 2018 (and an increase of 2.5% in barrels per day).

In 2018, state-owned companies were responsible for 77.5% of production, compared to 78.4% in 2017. This decrease was principally due to delays in production schedules resulting from delays in acquisitions and temporary limitations in works and facilities, and to the increase in private oil production in 2018. In the nine months ended September 30, 2019, state-owned companies were responsible for 78.7% of production, compared to 77.4% of production in the same period of 2018. This increase was principally due to the production increase in the Auca and ITT fields. In the eleven months ended November 30, 2019, state-owned companies were responsible for 78.9% of production, compared to 77.5% of production in the same period of 2018.

The vast majority (95%) of Ecuador's oil blocks are located onshore. The most productive oil blocks are located in the northeastern part of the country, with Shushufindi and Auca as two of the oldest and most productive

fields. Crude oil production has increased in the last ten years with the opening of the *Oleoducto de Crudos Pesados* (the "OCP") pipeline (see "*Transportation*" below), which removed a chokepoint on heavy crude oil transportation in the country. Production in existing fields has leveled off in recent years as the result of the natural decline in the productivity of existing blocks, particularly older blocks such as Shushufindi, which has been in operation for over forty years. In January of 2012, in order to boost production, Petroecuador signed incremental production contracts with two oil company consortiums. *Consorcio Shushufindi*, currently composed of oil field services companies Schlumberger, through its subsidiary Shushufindi Holdings B.V. and Tecpetrol, through its subsidiary Tecpetrol Servicios, S.L. was awarded the contract for the Shushufindi field. The company Pardaliserivices S.A., which comprises 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 to 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.\$350 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 at the time 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 announced their opposition to the removal of the moratorium and the executive decree authorizing the development of the ITT fields; however, the National Assembly approved the use of the ITT fields and, as of May 2014, the Ministry for the Environment had 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 86,618 bpd on October 31, 2018, reached 71,663 bpd in July 2019, and it is expected to surpass the level of 120,000 bpd by 2021. As of October 31, 2019, the following platforms were in operation: Tiputini A with 20 drilled wells and an average production of 8,743.2 bpd; Tiputini B with 3 drilled wells and no production; Tiputini C with 35 drilled wells (29 production wells) and an average production of 10,360.94 bpd; Tiputini D with 13 drilled wells and an average production of 6,989.69 bpd; Tiputini E with 11 drilled wells and an average production of 1,389.94 bpd; Tambococha A with 20 drilled wells and an average production of 11,089.32 bpd; Tambococha D with 24 drilled wells and an average production of 10,242.41 bpd, Tambococha B with 11 drilled wells and an average production of 18,982.35 bpd, and Tambococha E with 12 drilled wells and an average production of 11,887.3 bpd.

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 August 2016, Petroamazonas started oil production in the Sacha field located at block 60, in the Orellana province. As of April 2019, production in the Sacha field reached 70,021 bpd, making it one of the most productive oil fields in the country. The Sacha field is estimated to have crude oil reserves of approximately 362 million barrels.

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.

On January 23, 2019 Petroamazonas endorsed the "Zero Routine Flaring by 2030" initiative whereby it commits to incorporate sustainable utilization or conservation of its oil fields associated gas without routine flaring, and to implement economically viable solutions to eliminate this practice as soon as possible, and no later than 2030.

On May 22, 2019, as part of the XII Interfields Oil Round, the Government, acting through the Ministry of Energy and Non-Renewable Natural Resources, entered into seven participation agreements for the exploration and exploitation of seven new oil blocks in the Sucumbíos province: Arazá Este, Iguana, Perico, Espejo, Sahino, Charapa and Chanangue, with the following companies: Petróleos Sudamericanos del Ecuador Petrolamerec S.A. (two agreements), Gran Tierra Energy Colombia LLC (three agreements) and the consortium formed by Frontera Energy Colombia Corp. and Geopark Perú S.A.C. (two agreements). The Government estimates that these agreements will result in a total U.S.\$1,170 million investment by those companies in the next four years. These fields are expected to produce 18,000 bpd by 2024.

On September 30, 2019, block 43, which includes the 139 ITT fields of Ishipingo, Tipituni and Tambococha, reached 82,658 bdp in oil production, becoming the area with the largest oil operation in Ecuador. This increase in the production in this area was principally due to the opening for production of the Tambococha fields on September 24, 2019, with an average of 4,250 bpd of oil. The ITT fields are expected to generate approximately U.S.\$603 million in revenues in 2020.

On October 3, 2019, various groups organized protests relating to the elimination of the subsidies and increase in prices. The protests lasted for almost two weeks and President Moreno relocated the government to Guayaquil on a temporary basis. For more information, see "*The Republic of Ecuador—Recent measures by President Moreno.*" From October 7 through October 13, 2019, protesters relating to the elimination of subsidies occupied certain fields and disrupted oil productions by among other things, blocking roads allowing for the transportation of crude oil, causing the Government to suspend oil production in 20 oil fields located in the provinces of Orellana, Sucumbíos and Napo, resulting in U.S.\$136.86 million in losses. As part of the Government's efforts to normalize production after the unrest, the Tambococha fields 65 and 66 were opened for production in October 2019. As a result, by October 31, 2019, block 43 reached 86,618 bpd in oil production. As of the date of this offering circular, oil production has normalized.

#### *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.\$45.68 in 2015 to U.S.\$34.96 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 31% in the average price of petroleum per barrel from U.S.\$34.96 in 2016 to U.S.\$45.68 in 2017. In 2018, crude oil exports totaled U.S.\$7,853 million, a 26.9% increase from U.S.\$6,190 million in 2017. This increase was due to an increase in the average price of petroleum per barrel from U.S.\$45.68 in 2017 to U.S.\$60.55 in 2018, despite a 4% decrease in export volume. In the first ten months of 2019, crude oil exports totaled U.S.\$6,478 million, a 4.2% decrease from U.S.\$6,764 million in the first ten months of 2018. This decrease was primarily due to a 10.8% decrease in the average price of petroleum per barrel from U.S.\$62.5 to U.S.\$55.7. In the first eleven months of 2019, crude oil exports totaled U.S.\$7,052 million, a 4.0% decrease from U.S.\$7,346 million in the first eleven months of 2018.

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 2017, 89.5% of the value of oil exports was crude oil and 10.5% was oil derivatives. In 2018, 89.2% of the value of oil exports was crude oil and 10.8% 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 2018, the three main destinations of oil exports were the United States of America, Peru and Chile with 51.1%, 16.1% and 14.6%, respectively. In the first ten months of 2019, they were the United States, Panama and Chile with 45.5%, 21.6% and Chile 14.6%, respectively.

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 Trading International Pte Ltd ("PTT International"), pursuant to which Petroecuador received 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 Oman Trading International Ltd ("OTI"), pursuant to which Petroecuador received an initial prepayment of U.S.\$300 million for fuel oil to be delivered to OTI during the 30-month term of the contract, which has been already fully amortized by Petroecuador. 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, 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 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 2018, the SOTE transported 125.6 million barrels, averaging 344.0 thousand bpd. In the first eleven months of 2019, the SOTE transported 113,916 million barrels, averaging 341.1 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. Repairs of the affected tranche of the SOTE pipeline were finished in four days, after which the pipeline was fully operational again. A remediation

plan to address the environmental damage of the spill was immediately put in place by the Ecuadorian authorities. With a U.S.\$4.5 million investment in these remediation efforts, the Ministry for the Environment hired an outside company to conduct the geological studies that were necessary to take appropriate actions to prevent this incident from happening again in the area. In addition, the Ministry of the Environment hired 394 workers who assisted in cleaning the affected area, performed tests on water in the affected area, distributed drinking water and food to the affected communities, and established a community health program to address health concerns.

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 18o to 24o 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 bpd. In 2018, the OCP pipeline transported 61.2 million barrels, averaging 167.6 thousand bpd. In the first eleven months of 2019, the OCP pipeline transported 62,379 million barrels, averaging 186.8 thousand bpd.

#### *Refining*

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

In the first nine months of 2019, Petroecuador's oil-derivatives production amounted to 57.8 million barrels, including gasoline, diesel, fuel oil, jet fuel, liquefied petroleum and fuel blends in terminals, which represented a decrease of 4.7% compared to the 60.6 million barrels of oil derivatives produced in the same period of 2018. This decrease was due to an increase in interruptions due to programmed maintenance of facilities in 2019. In 2019, Petroecuador's oil-derivatives production amounted to 64.8 million barrels, including gasoline, diesel, fuel oil, jet fuel, liquefied petroleum and fuel blends in terminals, which represented a decrease of 7.2% compared to the 70.2 million barrels of oil derivatives produced in the same period of 2018. This decrease was mainly due to unscheduled maintenance in three of the country's refineries.

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. 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 the first nine months of 2019, the domestic consumption of oil derivatives was 68.8 million barrels, which represents a 0.3% increase compared to the 68.6 million barrels for the same period in 2018. In the first ten months of 2019, the domestic consumption of oil derivatives was 91.3 million barrels, which represents a 2.4% decrease compared to the 91.3 million barrels for the same period in 2018. Ecuadorian refineries only produce sufficient oil derivatives to meet approximately 65% of domestic demand. Accordingly, Ecuador is a net importer of oil derivatives, even though it is a net exporter of crude oil.

In February 2013, Petroecuador announced that the Esmeraldas refinery would be undergoing a project of preventative maintenance, which resulted in reduced operations until year-end 2015, when all maintenance was completed. Reduced production by the Esmeraldas refinery during the 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 March 6, 2019, two units of the refinery were shut down for maintenance. Maintenance work on both units successfully ended on April 26, 2019 and August 2, 2019, respectively, after which the whole plant resumed normal operations.

As of December 31, 2019, 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 ("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 through RDP, on March 12, 2019, the Superintendent of Companies, Securities and Insurance approved RDP's liquidation and ordered RDP to commence winding up proceedings. There are currently certain preliminary investigations about, and legal proceedings against, RDP that need to be resolved prior to RDP's liquidation. RDP's liquidation is expected to last several months. As of the date of this Offering Circular, RDP has not yet been liquidated.

In March 2019, the Minister of Energy and Non-Renewable Natural Resources announced that Ecuador will launch in 2019 an international bid for an estimated U.S.\$6,500 investment in building and operating a new refinery capable of handling up to 300,000 bpd, the location of which is still to be determined. The bid would also include a concession to improve the facilities in the Esmeraldas refinery. On August 27, 2019, the Ministry of Energy and Non-Renewable Natural Resources made a public call for potential investors to express their interest in designing, building and operating a new refinery. The deadline for interested parties to submit their "expressions of interest" in the project ended on October 21, 2019, at which time six submissions were made. As of the date of this Offering Circular, the Ministry of Energy and Non-Renewable Natural Resources has not announced the results of such evaluation.

#### *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 executive decree No. 338 ("Decree 338"), which was issued in August 2005, and as subsequently modified. Any future change to the profit margin would require a new executive 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 executive decree No. 490 which provided that from August 27, 2018, the final price to consumers of high-octane gasoline "super" was fixed at U.S.\$2.98.

On December 21, 2018, President Moreno issued Decree 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 619 on the shrimp sector. Under Decree 619, the base price of high-octane gasoline "super" for the automotive sector is determined on a monthly basis by Petroecuador based on the international WTI price per barrel of crude oil plus average costs, including transportation, storage, commercial and other costs. At a consumer level, retailers will set their selling price based on market conditions. Under Decree 619, however, the price of diesel for the automotive sector remained fixed at U.S.\$1.037.

On October 1, 2019, President Moreno issued Decree 883 expanding the scope of the liberalization of prices for hydrocarbons by eliminating the subsidy on certain types of gasoline and diesel and thereby increasing the prices for these fuels. Following the elimination of the subsidies, prices for gasoline type "extra" and diesel for the automotive sector began to be set on a monthly basis by Petroecuador based on average prices and costs.

On October 3, 2019, various groups organized protests relating to the elimination of the subsidies and increase in prices. On October 14, 2019, President Moreno issued Decree 894 terminating Decree 883, reversing the elimination of the subsidies and ordering the creation of a new policy on subsidies for hydrocarbons. Decree 894 did not set a deadline to implement this new policy. By reversing the elimination of the subsidies, Decree 894 returned the price of gasoline and diesel to the prices existing on October 1, 2019. Decree 894 commits the Government to design a more targeted subsidy policy through a new decree. On December 21, 2019, President Moreno announced that a new proposed policy is being reviewed with emphasis being put on strategies to eradicate the contraband of subsidized products and on determining which sectors and groups to focus the new subsidies policy on and is expected to be implemented between the months of February and April 2020.

Also as part of the austerity measures under the Plan of Prosperity, 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 November 30, 2019, Petroecuador maintains a network of 46 service stations of its own and 200 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 October 31, 2019, Ecuador had approximately 144,830 million cubic feet of proven natural gas reserves and 305,178 million cubic feet of proven and probable natural gas reserves. As of December 31, 2019, CELEC consumed an average of approximately 28 million cubic feet of natural gas per day in the plant Termogas Machala and the Ecuadorian industry consumed an average of approximately 4.6 million cubic feet of natural gas per day. Their consumption of natural gas defines their 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 2018, Petroamazonas produced approximately 34.14 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 the first nine months of 2019, Petroamazonas produced approximately 31.23 million standard cubic feet per day of natural gas in those locations.

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.

On April 24, 2019, President Moreno issued decree No. 724 ("Decree 724") releasing the price of natural gas, liquefied petroleum gas and compressed natural gas produced in the Amistad fields for certain industrial activities to fluctuate based on market conditions. Before Decree 724, prices for these types of gas for certain industrial activities were set periodically by the Government. However, for certain activities in the manufacturing, hospitality and restaurant sectors, as well as for welfare kitchens and other Government programs, Decree 724 sets the price of these types of gas at U.S.\$2.0 per million British Thermal Units, up to a maximum amount of subsidized volume of gas which will be set periodically by the *Agencia de Regulación y Control Hidrocarburífero* (the "Hydrocarbons Regulatory Agency" or "ARCH"). Decree 724 did not affect the prices of gas for domestic use.

## **Mining**

The mining sector represents an important source of potential resources for the development of the Republic. As of December 31, 2018, Ecuador had potential copper reserves valued at approximately U.S.\$131,587 million, potential gold reserves valued at U.S.\$52,639 million, molybdenum reserves valued at U.S.\$10,207 million, and silver reserves valued at U.S.\$2,650 million. In total, the nation estimated reserves valued at U.S.\$197,083 million.

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 (0.50% in 2018, 0.48% in 2017, 0.47% in 2016, 0.35% in 2015 and 0.35% in 2014). 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. Of these five mining projects, the Mirador Project and the Fruta del Norte Project started production in 2019, both projects with an expected U.S.\$860 million investment over 2019 and 2020.

The Mirador Project, located in the Zamora Chinchipe province, is the largest copper project in Ecuador. The Mirador Project 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 second semester of 2018, the executed investment was U.S.\$1,169 million and Ecuacorriente S.A. is planning an investment of approximately U.S.\$2,015 million (exploration, economic evaluation, construction, mine closure and other investments). The expected life cycle of the mine is 27-30 years from the start of production. The Republic expects that the project will generate approximately U.S.\$7.64 billion in revenue for the Republic. Despite the project being partially suspended over environmental concerns since March 2018, the construction of the copper mine was completed and began operations on July 18, 2019, becoming Ecuador's first large-scale mining project. During its first six months of operations, it is expected that the Mirador Project will produce 10,000 tons of copper per day, after which production is expected to increase slowly, eventually reaching 60,000 tons of copper per day. The Mirador Project also features Ecuador's first processing plant for large-scale mining, encompassing all stages of processing to make the copper ready for export.

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 started operations in the fourth quarter of 2019. From 2007 to the first semester of 2018 the executed investment was U.S.\$669 million, Lundin Gold is planning an investment of approximately U.S.\$1.24 billion (exploration, economic evaluation, CAPEX, OPEX, and mine closure) that will be made over a 13-15-year period. The gold and silver ore deposit in the Zamora Chinchipe Province began construction in the second quarter of 2017. The Government estimates that the project will produce 3,500 tons of ore and silver per day. The Republic expects that the project will generate approximately U.S.\$1,523 million. The Fruta del Norte Project was formally inaugurated on November 14, 2019.

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. This project is classified as medium mining as it is expected to produce an 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 was expected to start production in the third quarter of 2018 but 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 2020 and start production in 2022. 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 Minister 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. On February 1, 2019, the CNE approved public consultations to be held on March 24, 2019, in the Girón canton, Azuay province, to approve or reject mining activities in Girón. In response, the Ministry of Energy and Non-Renewable Natural Resources lodged a complaint with the Constitutional Court to enjoin the consultations alleging the CNE lacked legal authority to approve them. On March 13, 2019, a judge temporarily suspended the public consultations until the Constitutional Court ruled on the matter. On March 18, 2019 the Constitutional Court rejected the complaint on the basis that the statute of limitations had elapsed. On March 24, 2019, the consultations were held, resulting in the rejection of mining activity in Girón by 87.79% of the votes. Following the vote, INV Metals, Inc. announced that it was considering relocating its processing and waste

facilities outside of Girón, as Loma Larga's mineral resources and reserves are already located outside of Girón, and is seeking further legal clarification on the results of the consultations and the potential implications.

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. The San Carlos Panantza project is currently suspended due to protests by the Shuar-Achuar Nankints community based on the allegation that the project is being constructed on ancestral lands.

There are also six 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. As of the date of this Offering Circular, the aggregate executed investment for these projects has been U.S.\$274 million.

From March of 2016 to December 31, 2017, 275 concessions were granted through a mining concession request process, with a commitment of a four-year investment totaling more than U.S.\$1,299 million, with the participation of internationally recognized companies (BHP, Newcrest, Goldcorp, Aurania, Lumina, Anglo America, Lundin Gold and Hancock, among others).

On April 24, 2019, President Moreno issued decree No. 722 requiring that, within 30 days, the Minister of Energy and Non-Renewable Natural Resources update, define and issue a new Ecuadorian mining policy and the guidelines for its application and execution. On June 30, 2019, the Government officially presented the new mining policy which sets out the plans for the mining sector for the years 2019 to 2030, giving the sector a central role in the country's economic development. On August 22, 2019, the Government's *Agencia de Regulación y Control Minero* (the "Mining Control Agency" or "ARCOM") published the *Reglamento para el Control de las Exportaciones de Minerales* (the "Regulation on Mining Exports Control") which creates the mechanisms to trace the origin of extracted minerals set for exportation, to sample and verify their composition, and to authorize their exportation through the issuance of certificates. On October 7, 2019, a court issued an injunction against the Regulation on Mining Exports Control, preventing the ARCOM from issuing new certificates allowing for mining exports. Until October 23, 2019, 53 exports remained suspended due to the injunction. On October 30, 2019, a court revoked the injunction allowing for the ARCOM to resume the application of the Regulation on Mining Exports Control.

### **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 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. The Republic has engaged a new contractor to resume works on the Toachi Pilaton plant to complete construction. The project is expected to be completed in 2021.

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. From 2014 through 2018, the sectors represent an average of approximately 1.6% of GDP per year. In 2018, the electric and water sectors contributed a total of U.S.\$1,771.8 million to the GDP, a decrease compared to U.S.\$1,826.5 million in 2017. This decrease was principally due to a 6.3% decrease of average prices compared to 2017, despite a 3.5% increase in production. For the third quarter of

2019, the electric and water sectors contributed a total of U.S.\$1,376 million to the GDP, an increase compared to U.S.\$1,312 million for the same period in 2018. This increase was principally due to a 7.5% increase in production by the Hidroapuete Hydroelectric Power Plant, and the increase in production of other plants such as Manduriacu and San Bartolo, compared to a 5.1% decrease in year-to-year production in Coca Codo Sinclair and a 7.4% increase in thermal generation compared to the third quarter of 2018.

On October 1, 2019, CELEC EP authorized the entry into a U.S.\$60.1 million line of credit with the Government of Japan, through the Japan International Cooperation Agency (the "JICA") to develop the 50 megawatt Chachimbiro geothermal project which will required an estimated U.S.\$250 million investment, to be located at the Urcuquí canton of the Imbabura province. The Government is moving forward with this project as part of its long-term national policy to expand the electric power sector of Ecuador.

## **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 2014, the telecommunications sector accounted for U.S.\$2,127 million of GDP. This amount decreased in 2015, when the telecommunication sector accounted for U.S.\$1,984 million. In 2016, the telecommunications sector decreased again and accounted for U.S.\$1,916 million. From 2014 through 2018, the telecommunications sector represented an average of approximately 1.94% 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 2018, the telecommunications sector accounted for U.S.\$1,982 million (1.83% of the GDP), an increase of 2.6% compared to U.S.\$1,932 million (1.85% of the GDP) in 2017. This increase was principally due to an increase in the average number of active mobile service lines by 2% and a 6.7% increase in the number of internet accounts from 10.6 million in 2017 to 11.3 million in 2018. For the third quarter of 2019, the mail and communications sector accounted for U.S.\$1,488 million (1.83% of the GDP), an increase compared to U.S.\$1,473 million (1.83% of the GDP) in the same period of 2018. This increase was principally due to an increase in active lines for mobile devices, of internet services, and an increase in courier activities driven by the increase in remittances.

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.

## **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. According to FAO's preliminary results for 2018, Ecuador represented 34.6% of worldwide banana exports in 2018. Ecuador also exports significant amounts

of coffee, flowers, and cacao. The agricultural sector constituted an average of 8.24% of GDP per year for the years 2014 through 2018. In 2017, the agricultural sector represented 8.18% of GDP, a decrease compared to 8.45% in 2016. In 2018, the agricultural sector represented 8.11% of the GDP compared to 8.18% of the GDP in 2017.

Between 2014 and 2018, Ecuador's banana exports increased by 24%. The value of these exports increased by 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 thousand metric tons in 2016 to 6,573 thousand 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 2018, banana exports totaled U.S.\$3,196 million, a 5.3% increase from U.S.\$3,035 million in 2017 primarily due to a 2.9% increase in the export volume from 6,573 thousand metric tons to 6,761 thousand metric tons, as well as due to a 2.4% increase in the unit price per metric ton from U.S.\$461.6 to U.S.\$472.7. In the first ten months of 2019, banana exports totaled U.S.\$2,695 million, a 2.45% increase from U.S.\$2,631 million in the first ten months of 2018, primarily due to a 1.7% increase in the amount exported (from 5,590 thousand metric tons to 5,686 thousand metric tons), a growth in the unit price per metric ton (0.7%) from U.S.\$470.7 to U.S.\$474.1. In the first eleven months of 2019, banana exports totaled U.S.\$2,964 million, a 2.5% increase from U.S.\$2,891 million in the first eleven months of 2018.

Ecuador also exports significant amounts of cacao. 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 2018, cacao exports totaled U.S.\$664 million, a 12.9% increase from U.S.\$588 million in 2017 primarily due to a 3.4% increase in exports from 284 thousand metric tons to 294 thousand metric tons and a 9.2% increase in the unit price per metric ton from U.S.\$2,070.3 to U.S.\$2,260.9. In the first ten months of 2019, cacao exports totaled U.S.\$473 million, a 4.3% decrease from U.S.\$494 million in the first ten months 2018. This decrease was mainly due to a 7.9% decrease in exported volume from 217.1 to 199.9 metric tons. In the first eleven months of 2019, cacao exports totaled U.S.\$557.1 million, a 3.6% decrease from U.S.\$577.7 million in the first ten months 2018.

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. 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 2018, flower exports totaled U.S.\$852 million, a 3.4% decrease from the U.S.\$881 million in 2017 primarily due to a 0.9% decrease in production, from 159 thousand metric tons to 158 thousand metric tons and a 2.5% decrease in the unit price per metric ton from U.S.\$5,543.5 to U.S.\$5,407.1. In the first ten months of 2019, flower exports totaled U.S.\$745 million, a 1.8% increase from the U.S.\$732 million in the first ten months of 2018. This increase was mainly due to a 4.1% increase in the unit price per exported metric ton from U.S.\$5,422.2 to U.S.\$5,643.4. In the first eleven months of 2019, flower exports totaled U.S.\$807.7 million, a 1.9% increase from the U.S.\$792.8 million in the first eleven months of 2018.

## **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.

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 2018, shrimp exports totaled U.S.\$3,235 million, a 6.5% increase from U.S.\$3,038 million in 2017 primarily due to a 15.6% increase in the quantity exported from 438 thousand metric tons to 506 thousand metric tons, despite a 7.9% decrease in the unit price per metric ton from U.S.\$6,936 to U.S.\$6,391. In the first ten months of 2019, shrimp exports totaled U.S.\$3,208 million, a 18.6% increase from U.S.\$2,704 million in the first ten months of 2018. This increase was mainly due to a 28% increase in the exported amount from 417 to 533 thousand metric tons despite a 7.3% unit price decrease per metric ton from U.S.\$6,487 to U.S.\$6,013. In the first eleven months of 2019, shrimp exports totaled U.S.\$3,598 million, a 21.1% increase from U.S.\$2,972 million in the first eleven months of 2018.

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 2018, fishing exports, other than shrimp, totaled U.S.\$303.7 million, a 25.2% increase from U.S.\$242.5 million in 2017 primarily due to a 6.3% increase in export volume from 73 thousand metric tons to 78 thousand metric tons and a 17.8% increase in the unit price per metric ton from U.S.\$3,321.7 to U.S.\$3,912.2. In the first ten months of 2019, fishing exports, other than shrimp, totaled U.S.\$268 million, a 0.1% decrease from U.S.\$268 million in the first ten months of 2018. This decrease was mainly due to a 2.7% decrease in the unit price per metric ton from U.S.\$3,922 to U.S.\$3,816 despite a 2.7% increase in the exported volume from 68 to 70 thousand metric tons. In the first eleven months of 2019, fishing exports, other than shrimp, totaled U.S.\$289.4 million, a 1.4% increase from U.S.\$285.3 million in the first eleven months of 2018.

## **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, 13.48%, 13.61%, 13.60%, 13.29% and 13.12% to the GDP, per year for the years 2014, 2015, 2016, 2017 and 2018, respectively.

Ecuador's main manufactured non-petroleum exports are canned seafood, automobile assembly, processed cocoa, and processed coffee. In 2016, manufacturing increased by 0.6% reaching U.S.\$13,592 million. In 2017, manufacturing reached U.S.\$13,866 million, an increase of 2.0% compared to U.S.\$13,592 million in 2016. In 2018, manufacturing reached U.S.\$14,223 million, an increase of 2.6% compared to U.S.\$13,866 million in 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. In the first ten months of 2019, 23.2% of Ecuador's non-petroleum exports, or U.S.\$2,576.4 million, were sold in the European Union, compared to 25.9%, or U.S.\$2,760.5 million, for the same period in 2018. On May 15, 2019, Ecuador, together with Peru and Colombia, signed a trade agreement with the United Kingdom to preserve their mutual trade commitments should the United Kingdom exit the European Union as a result of the United Kingdom's exit from the European Union. With this trade agreement, the Republic and the United Kingdom intend to replicate their current trade commitments under the Multiparty Trade Agreement with the European Union. This agreement will not enter into force while the Multiparty Trade Agreement continues to apply to the United Kingdom. For more information, see *Balance of Payments and Foreign Trade—Foreign Trade—Trade Policy*.

## **Construction**

In 2017, the construction sector accounted for 11.59% of GDP, compared to 11.98% of GDP in 2016. In 2015, construction activity decreased by 0.8% in real terms compared with 2014. In 2016, construction activity decreased by 5.8% 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 4.4% in real terms compared with 2016. In 2018, construction activity increased by 0.6% in nominal terms compared with 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 still ongoing. 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**

In 2016, 1.41 million tourists visited the country in 2016, 1.62 million in 2017 and 2.4 million in 2018. 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 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. The 2019 Budget allocated U.S.\$18.0 million for tourism. The 2020 Budget allocates U.S.\$21.3 million for tourism.

In 2018, the largest number of foreign entrants to the Republic came from Venezuela accounting for 39.4% of foreign entrants, followed by the United States and Colombia, accounting for 14.5% and 13.3% of foreign entrants, respectively. As of the first ten months of 2019, the largest number of foreign entrants came from Venezuela accounting for 27.02% of foreign entrants, followed by the United States and Colombia, accounting for 21.99% and 12.50% of foreign entrants, respectively.

## **Transportation**

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 the one-year period between May 2018 and May 2019, the Government invested approximately U.S.\$800 million in building, rebuilding and expanding 14 highways and five bridges, and started the Quito-Guayaquil super-highway connecting Ecuador's two most important cities. During that period, the Government granted concessions for the construction of roads and highways connecting the cities of Machala and Salinas to Guayaquil, and started the process to grant a concession over the construction of a highway connecting Jujan, Quevedo and Santo Domingo.

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 the date of this Offering Circular, approximately 90% of construction of the subway system in Quito has been completed. On March 18, 2019 President Moreno boarded a subway train to signal the beginning of the testing of the subway system. The President announced that the project is expected to be fully functioning by the end of the year. This metro system is expected to connect the northern business and residential 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 and U.S.\$152.2 million loans from CAF. In February 2014, the municipality of Cuenca began construction of the *Tranvía Cuatro Ríos*, a 21.4-kilometer tram system with 27 stations. The project is planned to connect the airport and city-center to the outlying suburbs of the city. The project is estimated to cost U.S.\$232 million and was financed, in part, by a 15-year loan 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 increased from U.S.\$354 for 2015 to U.S.\$400 for 2020. Public sector employee wages are based on the wage scale determined by the Ministry of Employment. The following table shows the increase in minimum wage from 2015 to 2020.

**Monthly Minimum Wage <sup>(1)</sup>**  
(in U.S.\$)

<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
354	366	375	386	394	400

*Source: Ministry of Employment.*

*(1) Minimum wages set annually.*

Private employee salaries received a boost with the introduction of the "Living Wage" concept into the Republic's labor laws. 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,					As of September 30,	
	2014	2015	2016	2017	2018	2018	2019
Total Population <sup>(1)</sup> .....	16,027	16,279	16,529	16,777	17,224	17,084	17,393
Labor Force <sup>(2)</sup> .....	11,159	11,399	11,696	11,938	12,239	12,140	12,359
Labor Force Participation <sup>(3)</sup> .....	7,195	7,499	7,874	8,086	8,027	8,266	8,379
Labor Force Participation Rate .....	64.47%	65.78%	67.32%	67.73%	65.59%	68.09%	67.80%
Employed Labor Force .....	6,921	7,141	7,464	7,712	7,731	7,934	7,972
Unemployed Labor Force .....	273	358	410	374	296	333	407
Unemployment Rate <sup>(4)</sup> .....	3.80%	4.77%	5.20%	4.62%	3.69%	4.03%	4.86%

*Source: Based on figures from INEC as of September 2019.*

(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 2014 to 2018, the unemployment rate decreased by 0.11% from 3.80% to 3.69%. 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 2014 to 2018, 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 46.69% to 54.56%. The underemployment rate increased from 48.09% in 2015 to 53.39% in 2016. In 2017 the underemployment rate decreased to 52.95% from 53.39% in 2016, but increased again in 2018 to 55.25%.

The labor force participation rate of the Ecuadorian economy increased by an aggregate of 1.12% from 2014 to 2018 and unemployment and underemployment decreased by 0.11% and increased by 8.6 %, 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 3.83% from 4.62% in 2017.

As of September 2019, the labor force participation rate decreased to 67.80% from 68.09% as of September 2018. As of September 2019, the underemployment rate increased to 55.99% from 55.77% as of September 2018. As of September 2019, the unemployment rate increased to 4.86% from 4.03% as of September 2018.

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

## Wage and Unemployment

	As of December 31,					As of September 30,	
	2014	2015	2016	2017	2018	2018	2019
Unemployment rate (% of economically active population) <sup>(1)</sup> .....	3.80	4.77	5.20	4.62	3.69	4.03	4.86
Underemployment rate (% of economically active population) <sup>(2)</sup> .....	46.69	48.09	53.39	52.95	55.25	55.77	55.99

*Source: Based on figures from INEC as of September 2019.*

(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<sup>(1)</sup> (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 <sup>(2)</sup> .....	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 poverty and increases in levels of rural poverty. The urban poverty rate decreased from 16.4% to 15.3% between 2014 and 2018, while the rural poverty rate increased from 35.3% to 40.0% across the same time frame, resulting in an aggregate increase of the poverty rate from 22.5% as of December 2014 to 23.2% as of December 2018. Extreme poverty rates have also decreased from 4.5% of all urban households in 2014 to 4.1% of all urban households in 2018, and increased from 14.3% of all rural households in 2014 to 17.7% of all rural households in 2018, resulting in an aggregate increase of the extreme poverty rate from 7.7% as of December 2014 to 8.4% as of December 2018.

The urban poverty rate increased to 16.3% as of September 2019 from 14.2% as of September 2018, and the rural poverty rate decreased to 40.3% from 41.8% across the same time frame, resulting in an aggregate increase of the poverty rate from 23.0% as of September 2018 to 23.9% as of September 2019. Extreme poverty rates have also increased from 3.8% of all urban households as of September 2018 to 4.6% of all urban households as of September 2019, and decreased from 19.4% of all rural households as of September 2018 to 17.4% of all rural households as of September 2019, resulting in an aggregate decrease of the extreme poverty rate from 8.8% as of September 2018 to 8.7% as of September 2019.

As of December 2018, the urban and rural aggregate poverty and extreme poverty rates increased to 23.2% and 8.4%, from 21.5% and 7.9% as of December 2017, respectively. As of September 2019, the urban and rural aggregate poverty rate increased to 23.9% from 23.0% as of September 2018, and the extreme poverty rate decreased to 8.7% from 8.8% as of September 2018.

The Republic believes that the significant expansion of the *Bono de Desarrollo Humano* ("Human Development Bond") undertaken by the Government represents an important means of support of Ecuadorian households living in poverty. The Human Development Bond is 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 Human Development Bond was enhanced from U.S.\$50 up to U.S.\$150 depending on the number and age of dependent children.

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

**Percentage of Households in Poverty**  
(in percentages)

	Poverty Based on Income <sup>(1)</sup>			Extreme Poverty Based on Income <sup>(2)</sup>			Poverty Based on Lack of Basic Necessities <sup>(3)</sup>		
				Urban	Rural	Total	Urban	Rural	Total
	Urban	Rural	Total	Urban	Rural	Total	Urban	Rural	Total
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
September 2018.....	14.2	41.8	23.0	3.8	19.4	8.8	n/a	n/a	n/a
September 2019 .....	16.3	40.3	23.9	4.6	17.4	8.7	n/a	n/a	n/a

*Source: Based on figures from INEC as of September 2019.*

(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.S.\$47.78/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 *Instituto Ecuatoriano de Seguridad Social* ("Ecuadorian Social Security Institute" or "IESS"), as well as by the *Instituto de Seguridad Social de las Fuerzas Armadas* and the *Instituto de Seguridad Social de la Policía Nacional* (the Social Security programs of the Armed Forces or "ISSFA" and the Ecuadorian Police Department or "ISSPOL," respectively). The Ecuadorian Social Security System is a trans-generational model where the current work force funds the benefits of those who are no longer in the work force and permits retirees to also make on-going contributions to their retirement fund.

Social security benefits are a constitutional right for all workers and their families, designed to protect the insured in case of illness, maternity, unemployment, disability, old age and death. The social security system also provides financing for workers' housing. Ecuador's social security system is financed by contributions from the Government, employers and employees. The level of employee contribution is based on an employee's income. The monthly pension is based on a percentage of the insured's average monthly earnings in his or her five highest years of earnings. The minimum monthly pension for 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 August 31, 2019, IESS, ISSFA and ISSPOL had 409,894, 45,016 and 24,698 beneficiaries, respectively.

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 2018, total non-financial public sector contributions to social security were U.S.\$5,512 million, or 5.2% of GDP, an increase from U.S.\$5,414 million, or 5.2% of GDP in 2017. In the first eight months of 2019, total non-financial public sector contributions to social security were U.S.\$3,817 million, an increase from U.S.\$3,741 million in the first eight months of 2018. This increase was primarily due to an increase in coverage and contributions as a result of policies implemented by the Ministry of Labor as well as the IESS, such as certain reliefs of employer fines and interests. In the first nine months of 2019, total non-financial public sector contributions to social security were U.S.\$4,277 million, an increase from U.S.\$4,181 million in the first nine months of 2018. In the first ten months of 2019, total non-financial public sector contributions to social security were U.S.\$4,920.3 million, an increase from U.S.\$4,626.8 million in the first ten months of 2018.

In 2018, IESS's beneficiaries included 3.31 million affiliates, 0.48 million pensioners, 4.60 million dependents, 1.18 million people covered through rural social security and 0.01 million people that receive benefits related to work related risks. For 2018, IESS's expenditures totaled approximately U.S.\$3.39 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 December 31, 2018, BIESS was the largest holder of Government securities, with 39.1% of its portfolio investment, or U.S.\$7,383 million, in Government holdings. As of October 31, 2019, BIESS was still the largest holder of Government securities, with 39% of its portfolio investment, or U.S.\$7,858.9 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 *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.

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 that it would carry out 27 special audits to verify compliance by the IEES with the recommendations of previous exams, audit the administrative management of main IEES 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 of 19 out of 44 completed audits on the IEES for the period from January 1, 2013 to May 31, 2018, finding, among others, that hundreds of employees of the IEES were deducted approximately U.S.\$378,932 from their salaries since 2015, money which was divested to several political parties; that in some cases moneys assigned to a particular account within the IEES did not reach in their entire amounts their intended units, causing deficits within those units; that approximately U.S.\$18 million generated in interests for penalties assessed to employers for late registration of employees in the IEES never reached the respective beneficiary employees; that different formulas were used to calculate administrative expenses for purposes of paying reserve funds; that moneys were returned to beneficiaries that did not have the right to those funds, and no actions were taken to right those mistakes; and that hundreds of people were hired throughout the audited period without documentation and justification. These audits are part of 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.

As a result of this draft report, as of mid-February, approximately U.S.\$1.2 million in administrative penalties had been pre-established, 60 public officials had been dismissed and 9 reports establishing potential criminal liability of officials had been sent to the corresponding prosecutor's office.

## **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 (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. The 2019 Budget allocated U.S.\$5,345.7 million for Government education and other education initiatives. The 2020 Budget allocates U.S.\$5,530.1 million for Government education and other education initiatives.

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. The 2019 Budget allocated U.S.\$3,138.5 million for Ecuador's health sector which was later modified to U.S.\$3,018.3 million. The 2020 Budget allocates U.S.\$3,003.7 million for Ecuador's health sector. Recent reforms include a mandatory increase in hours and pay for medical professionals, and the creation of mobile clinics intended to ensure vaccinations in the most remote areas of the country. The Government has also signed various agreements with private companies to produce generic drugs in the country.

## LEGAL PROCEEDINGS

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

### 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. 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 June 6, 2013 the District Court confirmed the award in favor of Chevron.

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.

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."

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 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 arbitral tribunal is expected to make a determination regarding the amounts of any financial compensation owed by the Republic to Chevron by the end of the year 2021.

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. As of the date of this Offering Circular, the court has not yet made

a ruling on this request. No reparation or compensation amounts have been discussed yet. These issues are assigned for Track 3 of the arbitration.

On April 26, 2019, the arbitral tribunal issued Procedural Order No. 56, in which the tribunal established the procedural calendar for Track 3 of the arbitration. Pursuant to such calendar: (i) on May 31, 2019, Chevron was scheduled to present its memorial on damages; (ii) on February 20, 2020, Ecuador must present its response memorial to Chevron's memorial on damages; (iii) on September 18, 2020, Chevron must present its reply memorial on damages; (iv) on January 8, 2021, Ecuador must present its sur-reply memorial on damages. The arbitral tribunal has established that the hearing on Track 3 of the arbitration shall take place from March 15 to March 28, 2021.

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 September 12, 2014, the tribunal decided the claim in favor of Perenco, finding the Republic liable for breach of contract and the bilateral investment treaty between the Republic and the Republic of France, pending parties' submissions on damages.

On December 5, 2011, Ecuador filed two counterclaims against Perenco for environmental damage and failure to maintain the facilities of blocks 7 and 21, in an approximate amount of U.S.\$2 billion. On 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. The Republic received the expert's report on December 19, 2018.

After parties' submissions commenting on the expert report and a hearing held on March 11 and 12, 2019, in which the expert was cross-examined and final allegations with regard to the counterclaims were argued, on September 27, 2019, the tribunal ordered the Republic to pay Perenco U.S.\$448.8 million in damages on the principal claim, and U.S.\$23 million as contribution to Perenco's legal fees and costs, plus interest until full payment, and at the same time ordered Perenco to pay the Republic U.S.\$54.4 million in compensation for environmental damages, and U.S.\$6.3 million as contribution to the Republic's legal fees and costs, plus interest until full payment. Both parties were ordered to cover the tribunal's costs and independent expert fees.

On October 2, 2019, the Republic requested before ICSID the suspension of the tribunal's December 27, 2019, decision, as well as its annulment. On November 18, 2019, an ad-hoc arbitral committee was formed to decide on the Republic's request. As of the date of this Offering Circular, the ad-hoc arbitral committee has not issued a decision.

### **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 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. On May 17, 2019, the trial court held a hearing where it established the procedural calendar for the damages phase. Pursuant to said calendar: (i) the parties must produce their lists of witnesses and experts by January 31, 2020, and (ii) the hearings phase will begin on June 8, 2020, and is scheduled to last between 4 and 6 weeks.

### **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 Ecuadorian 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 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. On June 21, 2017, the Ecuadorian Constitutional Court granted the petition and set aside the suspension order. Subsequently, the parties reached an agreement to settle the constitutional claim.

The arbitral tribunal held a hearing on October 12, 2016. 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. On April 24, 2019, a hearing on damages took place in the city of London. As of the date of this Offering Circular, the tribunal has not ruled on damages.

### **Hutchison Port Investments Ltd**

In 2012, the Manta Port Authority (the "APM") represented by Ecuador's 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.

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. On

March 15, 2019, the Supreme Court of Panama partially annulled the award in favor of APM. Although the amount of the award was not affected by the decision, the entities Hutchison Investments Limited and Hutchison Port Holdings Limited were excluded from the award. On March 21, 2019, Ecuador's Attorney General, in representation of APM, presented a request for clarification of the decision, which was denied on April 12, 2019. As of the date of this offering circular, enforcement of the award is being pursued both in the British Virgin Islands and in Ecuador.

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

In April 2019, Sinohydro Corporation notified CCS of the existence of Dispute 2019-001, related to the amounts charged to CCS by ARCONEL for the unavailability of the Coca Codo Sinclair hydroelectric plant. Upon Sinohydro Corporation's request, a new JCD was formed. As of the date of this Offering Circular, a calendar of the proceedings has not been established.

#### **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-TRAINSAINTER contract"). The CFI-TRAINSAINTER 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-TRAINSAINTER 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-TRAINSAINTER 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-TRAINSAINTER 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 of Panama") 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 Cantidad*) in Panama against CFI seeking annulment of the CFI-TRAINSAINTER 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.

### **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.

### **Daniel Penades**

On January 30, 2015, Daniel Penades issued proceedings against the Republic of Ecuador in respect of an alleged U.S.\$455,000 holding of 2030 Notes. The Republic was served with a notification of the claim on September 16, 2015. On January 15, 2016, the Republic filed a motion to dismiss Mr. Penades's complaint. On September 30, 2016, the United States District Court for the Southern District of New York granted the Republic's motion to dismiss.

On May 21, 2018, Mr. Penades filed again against the Republic in the United District Court for the Southern District of New York concerning his alleged U.S.\$455,000 holding of 2030 Notes and a U.S.\$50,000 holding of 2012 Notes. In this new complaint, Mr. Penades demands for payment of full principal and accrued interests under the indentures of both his alleged holdings of 2030 Notes and 2012 Notes, and demands that the court order such interest payments be made pro rata with payments made under subsequent bonds issued by the Republic. On August 8, 2019, the court granted the Republic's motion to dismiss the Amended Complaint. Accordingly the case is closed.

### **GLP**

This proceeding involves an investment arbitration initiated by Consorcio GLP against the Republic under the Bilateral Investment Treaty between Ecuador and Spain. In May 2018, a hearing on the question of jurisdiction was held. On December 21, 2018, the tribunal decided on the question of jurisdiction by denying Ecuador's motion and affirming its jurisdiction over the merits of the case, and ordered Ecuador to pay the plaintiff U.S.\$245,358.4 and EUR239,229.2 in costs and fees. On February 28, 2019, the tribunal established the schedule for the proceedings on the merits. On June 28, 2019, the plaintiff filed its brief on the merits of its claims and asked the court to order the Republic to pay the plaintiff U.S.\$48,315,958.33 in damages. The tribunal set hearings on the merits of the case for May 18 to 22, 2020.

### **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 approximately U.S.\$29 million. As of the date of this Offering Circular, the arbitral tribunal is being formed.

#### **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 Effluents of the Esmeraldas Refinery", under which WorleyParsons claims that there is an outstanding debt of U.S.\$3.2 million. Ecuador considers that the six-month consultation period under the bilateral investment treaty between Ecuador and the United States of America began on March 19, 2018. On February 14, 2019, WorleyParsons notified the Republic it had initiated investment arbitration proceedings against the Republic under the Bilateral Investment Treaty between Ecuador and the United States based on the foregoing allegations. The amount of the claim is approximately U.S.\$83 million. WorleyParsons further requested the arbitral tribunal to order the Republic to remove the claims issued by the Office of the Comptroller General against WorleyParsons (as described below), and to order the Republic's Internal Revenue Service to remove an alleged U.S.\$115 million tax assessment against WorleyParsons. As of the date of this Offering Circular, the members of the tribunal have been designated and the parties are currently expecting to be notified with the initial procedural order from the tribunal.

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 Determinación Civil Culposa*) against WorleyParsons, following those audits, for a total amount of approximately U.S.\$120 million.

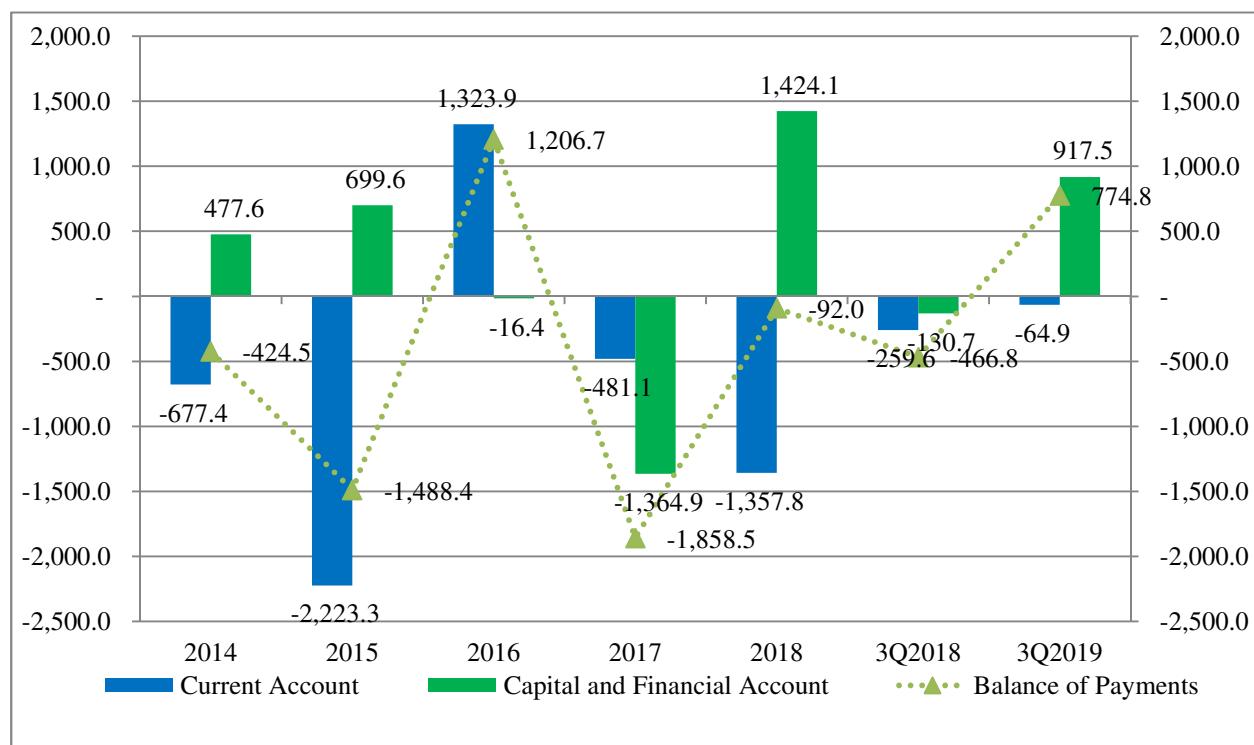
## **INDRA**

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 2014 and 2018, Ecuador experienced fluctuations between balance of payments deficits and surpluses. While there was a surplus in 2016, there were deficits in 2014, 2015, 2017 and 2018. For the third quarter of 2019 there was a balance of payment surplus of U.S.\$774.8 million, compared to the balance of payment deficit of U.S.\$466.8 for the same period in 2018.



Source: Based on Figures from the Central Bank Balance of Payments Quarterly Bulletin for the Third Quarter of 2019. 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.\$677.4 million in 2014. This improvement was due to the improvement in the trade balance from a deficit of U.S.\$528.6 million in 2013 to a deficit of U.S.\$63.5 million in 2014, which was due to an increase in non-petroleum exports in 2014, particularly banana and shrimp exports.

In 2015, Ecuador's balance of payment deficit grew to U.S.\$1,488.4 million as a result of a decrease in the current account. The current account decreased from a deficit of U.S.\$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. The current account recorded a deficit of U.S.\$2,223.3 million in 2015 as compared to a surplus of U.S.\$1,323.9 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 in 2015 to a surplus of U.S.\$1,567.3 million in 2016, which resulted from a decrease in imports particularly with respect to fuel and lubricants as well as capital goods.

In 2017, there was a balance of payments deficit of U.S.\$1,858.5 million, as compared to the U.S.\$1,206.7 million balance of payments surplus in 2016. This deficit in 2017 in the balance of payments was due to a deficit of U.S.\$481.1 million in the current account and a deficit of U.S.\$1,433.6 in the financial account.

In 2018, there was a balance of payments deficit of U.S.\$92.0 million, a decrease in the deficit compared to the U.S.\$1,858.5 million balance of payments deficit in 2017. This decrease in the deficit was primarily due to an increase in foreign direct investment of U.S.\$782.6 million, a decrease in income from portfolio investments of U.S.\$3,889.7 million, a decrease in assets from other investments of U.S.\$4,221.8 million and an increase of liabilities from other investments by U.S.\$1,935.6 million.

For the third quarter of 2019, there was a balance of payments surplus of U.S.\$774.8 million, an increase compared to the U.S.\$466.8 million balance of payments deficit in the third quarter of 2018. This increase was primarily due to the decrease in the current account deficit by U.S.\$194.7 million due to a 1.1% increase in exports compared to a 5.7% decrease in imports, and to the capital and financial account surplus in the amount of U.S.\$917.5 million driven by the issuance and sale of sovereign bonds during the third quarter of 2019.

In the years from 2014 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 was a non-petroleum trade balance deficit in the years 2014 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. In 2014 there was 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. This decrease 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 2018, remittances increased to U.S.\$3,030.6 million, a 6.7% increase from the U.S.\$2,840.2 million in 2017.

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

	Annual Balance of Payments <sup>(1)</sup> (in millions of U.S.\$)					For the nine months ended September 30,	
	As of December 31,					2018	2019
	2014	2015	2016	2017	2018		
<b>Current Account</b>	<b>-668.7</b>	<b>-2,221.0</b>	<b>1,321.1</b>	<b>-491.8</b>	<b>-1,488.1</b>	<b>-604.0</b>	<b>-380.5</b>
Trade balance	-63.5	-1,649.8	1,567.3	311.4	-263.0	183.2	536.5
Exports <sup>(2)</sup>	26,596.5	19,048.7	17,425.4	19,618.3	22,122.8	16,654.8	17,108.6
Petroleum and derivatives	13,275.9	6,660.3	5,459.2	6,913.6	8,801.7	6,755.5	6,715.3
Non-petroleum	12,448.6	11,670.3	11,338.5	12,208.9	12,804.4	9,511.4	10,031.7
Non-registered commerce and other exports	872.0	718.1	627.7	495.8	516.7	387.8	361.6
Imports	-26,660.0	-20,698.5	-15,858.1	-19,306.8	-22,385.8	-16,471.6	-16,572.1
Services	-1,170.7	-805.2	-1,054.5	-1,103.1	-710.7	-518.2	-665.1
Rendered services (credit)	2,346.3	2,391.3	2,139.8	2,191.1	2,539.5	1,864.8	1,900.8
Transportation	437.0	444.3	409.8	413.6	430.1	319.9	318.9
Travel	1,482.1	1,551.4	1,443.6	1,548.1	1,871.1	1,371.6	1,404.0
Other	427.1	395.7	286.4	229.5	238.3	173.3	177.8
Rendered services (debit)	-3,517.0	-3,196.6	-3,194.3	-3,294.2	-3,250.2	-2,383.0	-2,565.9
Transportation	-1,743.9	-1,510.1	-1,238.2	-1,471.4	-1,548.6	-1,134.6	-1,224.5
Travel	-634.6	-638.6	-661.1	-686.7	-654.2	-495.4	-566.5
Other	-1,138.5	-1,047.8	-1,295.0	-1,136.0	-1,047.4	-753.0	-774.9
Investment income	-1,543.0	-1,728.5	-1,845.7	-2,364.8	-2,923.3	-2,057.2	-2,256.6
Inflows (credit)	120.7	140.3	163.8	185.1	235.9	180.3	152.5
Outflows (debit)	-1,663.8	-1,868.8	-2,009.5	-2,549.9	-3,159.2	-2,237.5	-2,409.1
Employees' remuneration	-11.4	-13.5	-14.4	-14.5	-14.6	-10.9	-11.2
Direct investment income	-664.9	-601.1	-436.0	-363.8	-458.0	-325.4	-293.7
Portfolio investment income	-143.2	-230.9	-300.7	-808.4	-1,260.3	-884.4	-909.7
Other	-844.2	-1,023.4	-1,258.4	-1,363.2	-1,426.2	-1,016.7	-1,194.5
Net transfers	2,108.5	1,962.5	2,653.9	2,664.6	2,408.9	1,788.2	2,004.7
Emigrant remittances	2,461.7	2,377.8	2,602.0	2,840.2	3,030.6	2,250.4	2,391.4
<b>Capital and financial account</b>	<b>468.9</b>	<b>697.4</b>	<b>-13.5</b>	<b>-1,354.2</b>	<b>1,554.3</b>	<b>959.7</b>	<b>2,043.6</b>
Capital account	66.8	-69.1	-813.8	68.7	-192.5	-211.9	49.9
Financial account	402.1	766.5	800.3	-1,422.9	1,746.8	1,171.7	1,993.7
Direct Investment	776.6	1,331.3	754.7	624.6	1,455.9	850.7	610.8
Portfolio Investment	1,500.4	1,473.4	2,200.9	6,490.6	2,600.9	2,665.7	2,417.2
Other Investment	-1,874.9	-2,038.1	-2,155.3	-8,538.1	-2,310.0	-2,344.7	-1,034.4
Errors and omissions	-224.6	35.2	-100.8	-12.5	-158.1	-123.0	-133.6
<b>Total balance of payments</b>	<b>-424.5</b>	<b>-1,488.4</b>	<b>1,206.7</b>	<b>-1,858.5</b>	<b>-92.0</b>	<b>232.7</b>	<b>1,529.6</b>
Financing	424.5	1,488.4	-1,206.7	1,858.5	92.0	-232.7	-1,529.6
International Reserves <sup>(3)</sup>	411.5	1,453.1	-1,762.9	1,807.8	-225.5	-241.9	-2,453.8
IMF loans	0.0	0.0	365.2	0.0	0.0	-	902.8
Exceptional Financing, net <sup>(4)</sup>	13.0	35.3	191.0	50.7	317.4	9.3	21.5

Source: Based on figures from the Central Bank 2019 Quarterly Balance of Payments Bulletin for the Third Quarter of 2019. 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<sup>(1)</sup>**  
(in millions of U.S.\$)

	June 2018	September 2018	June 2019	September 2019
<b>Current Account.....</b>	<b>-267.4</b>	<b>-259.6</b>	<b>-35.4</b>	<b>-64.9</b>
<b>Trade balance.....</b>	<b>-16.0</b>	<b>-84.5</b>	<b>165.1</b>	<b>313.3</b>
Exports <sup>(2)</sup> .....	5,556.8	5,738.4	5,881.0	5,804.2
Imports .....	-5,572.9	-5,822.9	-5,715.9	-5,490.9
<b>Services.....</b>	<b>-154.9</b>	<b>-168.3</b>	<b>-176.5</b>	<b>-265.9</b>
Rendered services (credit) .....	597.5	655.7	651.0	624.7
Transportation.....	107.2	114.7	107.6	113.7
Travel.....	439.3	487.1	487.5	442.2
Other.....	50.9	54.0	55.9	68.9
Rendered services (debit) .....	-752.4	-824.0	-827.4	-890.6
Transportation.....	-363.2	-396.1	-406.8	-415.7
Travel.....	-152.5	-168.8	-181.2	-207.7
Other.....	-236.8	-259.1	-239.5	-267.3
<b>Investment income.....</b>	<b>-713.3</b>	<b>-699.1</b>	<b>-694.4</b>	<b>-805.1</b>
Inflows (credit) .....	61.0	59.4	50.1	48.4
Outflows (debit) .....	-774.3	-758.5	-744.5	-853.5
Employees' remuneration.....	2.1	2.2	1.9	2.1
Other outflows investment income <sup>(3)</sup> .....	58.9	57.2	48.1	46.3
<b>Net transfers.....</b>	<b>616.9</b>	<b>692.3</b>	<b>670.5</b>	<b>692.7</b>
Emigrant remittances .....	767.3	768.1	809.6	845.6
Other transfers .....	117.0	115.3	110.7	109.4
Outgoing transfers .....	-267.5	-191.1	-249.8	-262.2
<b>Capital and financial account</b>	<b>-1,446.6</b>	<b>-130.7</b>	<b>98.2</b>	<b>917.5</b>
<b>Capital account .....</b>	<b>-245.6</b>	<b>17.8</b>	<b>16.6</b>	<b>18.3</b>
<b>Financial account .....</b>	<b>-1,201.0</b>	<b>-148.5</b>	<b>81.6</b>	<b>899.2</b>
Direct Investment .....	221.6	297.4	275.9	127.9
Portfolio Investment .....	-91.6	-59.9	-303.1	1,991.1
Other Investment .....	-1,331.0	-386.0	108.9	-1,219.7
<b>Errors and omissions .....</b>	<b>-8.5</b>	<b>-76.4</b>	<b>54.6</b>	<b>-77.9</b>
<b>Total balance of payments.....</b>	<b>-1,722.5</b>	<b>-466.8</b>	<b>117.4</b>	<b>774.8</b>
<b>Financing.....</b>	<b>1,722.5</b>	<b>466.8</b>	<b>-117.4</b>	<b>-774.8</b>
International Reserves <sup>(4)</sup> .....	1,701.3	473.7	-122.4	-1,035.1
IMF loans .....	-	-	-	251.1
Exceptional Financing, net <sup>(5)</sup> .....	21.2	-6.9	5.0	9.2

*Source: Based on figures from the Central Bank 2019 Quarterly Balance of Payments Bulletin for the Third Quarter of 2019. 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 2014, the current account improved and registered a deficit of U.S.\$677.5 million (0.67% of GDP) compared to a deficit of U.S.\$944.3 million (0.99% of GDP) in 2013, 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.\$1,323.9 million (1.32% 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.\$481.1 million (0.46% of GDP), a decrease of U.S.\$1,805.0 million in the deficit compared to the U.S.\$1,323.9 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 2018, the current account registered a deficit of U.S.\$1,357.8 million, an increase of U.S.\$876.8 million in the deficit compared to the U.S.\$481.1 million deficit in 2017. This increase in the deficit was mainly due to a deficit in the trade balance of U.S.\$263.0 million, a deficit in the services balance of U.S.\$709.8 million and a deficit in the investment income balance of U.S.\$2,793.9 million, despite a surplus in net transfers of U.S.\$2,408.9 million. For the third quarter of 2019, the current account registered a deficit of U.S.\$64.9 million, a U.S.\$194.7 million decrease in the deficit compared to the U.S.\$259.6 million deficit for the same period in 2018. This decrease in the deficit was mainly due to a U.S.\$397.9 million increase in the goods account which offset the U.S.\$203.6 million increase in the deficit of the services and rent accounts. This increase in the goods account was driven by a 1.1% increase in exports and a 5.7% decrease in imports.

Although imports increased by 2.6% in 2014, the rate of increase was lower compared to 2013, principally due to the Republic's promotion of domestic production. 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 previous 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. In 2017, imports totaled U.S.\$19,306.8 million compared to U.S.\$15,858.1 million in 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 tariff surcharges on various consumer goods imports in June 2017. In 2018, imports totaled U.S.\$22,385.8 million compared to U.S.\$19,306.8 million in 2017. This increase in the level of imports was primarily due to a 13.7% increase in imports of consumer goods, a 36.4% increase in imports of fuel and lubricants, an 11.6% increase in imports of commodities, an 11.1% increase in imports of capital assets, and a 47.8% increase in various imports.

For the third quarter of 2019, imports totaled U.S.\$5,490.9 million compared to U.S.\$5,822.9 million for the third quarter of 2018. This decrease in the level of imports was primarily due to a 10.1% decrease in imports of consumer durables and a 12.7% decrease in imports of commodities.

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 tariff surcharges on various consumer goods imports contributed to this decrease. The trade balance in 2018 resulted in a deficit of U.S.\$263.0 million, as compared to the U.S.\$311.4 million surplus in 2017. This deficit in 2018 was mainly due to a 36.4% increase in imports of fuel. The trade balance for the third quarter of 2019 resulted in a surplus of U.S.\$313.3 million, as compared to the U.S.\$84.5 million deficit for the same period in 2018. This increase in the surplus was mainly due to a 1.1% increase in total exports driven by an increase in exports of goods such as shrimp, coffee and banana, compared to a 5.7% decrease in total imports driven by a decrease in imports of consumer durables and commodities.

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 2018 resulted in a deficit of U.S.\$709.8 million, a decrease in the deficit compared to the U.S.\$1,103.1 million deficit in 2017. This decrease in the deficit was mainly due to an increased in tourism in Ecuador. The services balance for the third quarter of 2019 resulted in a deficit of U.S.\$265.9 million, an increase in the deficit compared to the U.S.\$168.3 million deficit for the same period in 2018. This increase in the deficit was mainly due to a U.S.\$66.6 million increase in services received and a U.S.\$44.9 million decrease in services rendered, especially services related to travel.

The investment income balance registered a deficit of U.S.\$1,842.9 million in 2016, which was an increase from the deficits of U.S.\$1,730.8 million and U.S.\$1,551.8 million in 2015 and 2014, respectively. The continued increases from 2014 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.\$2,354.1 million, an increase in the deficit compared to the U.S.\$1,842.9 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 in 2018 resulted in a deficit of U.S.\$2,793.9 million, an increase in the deficit compared to the U.S.\$2,354.1 million deficit in 2017. This increase in the deficit was mainly due to an increase in interest payments by Ecuador for the investment portfolio from U.S.\$808.4 million to U.S.\$1,260.3 million. The investment income balance for the third quarter of 2019 resulted in a deficit of U.S.\$805.1 million, an increase in the deficit compared to the U.S.\$699.1 million deficit for the same period in 2018. This increase in the deficit was mainly due to a U.S.\$50.2 million increase in interest revenues from portfolio investments and a U.S.\$47.4 million increase in foreign loans.

Remittances, which are primarily denominated in U.S. dollars and Euros, are an important source of net transfers to Ecuador's current account. 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 2014 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 was 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. In 2018, remittances totaled U.S.\$3,030.6 million, an increase compared to the U.S.\$2,840.2 million in 2017. This increase in remittances was due to the improvement in the economic situation of the main countries where Ecuadorians living abroad reside. For the third quarter of 2019, remittances totaled U.S.\$845.6 million, an increase compared to the U.S.\$768.1 million for the same period in 2018. This increase in remittances was mainly due to a U.S.\$59.5 million increase in remittances from the United States driven by the improvement of the American economy.

## **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 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.\$16.4 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.\$1,364.9 compared to the deficit of U.S.\$16.4 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 2018, the capital and financial account registered a surplus of U.S.\$1,424.1 million compared to the U.S.\$1,364.9 million deficit in 2017. This increase in the surplus in the capital and financial account in 2018 was primarily due to an increase in foreign direct investment of U.S.\$782.6 million, a decrease in income from portfolio investments of U.S.\$3,889.7 million, a decrease in assets from other investments of U.S.\$4,221.8 million and an increase in liabilities from other investments of U.S.\$1,935.6 million. For the third quarter of 2019, the capital and financial account registered a surplus of U.S.\$917.5 million compared to the U.S.\$130.7 million deficit for the same period in 2018. This increase in the surplus in the capital and financial account was primarily due to the issuance and sale of U.S.\$2,000 million in sovereign bonds, compared to the U.S.\$1,219.7 million deficit in the “other investments” account, showing a U.S.\$984.2 million balance in assets and a U.S.\$235.5 million decrease in liabilities.

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. In 2018, foreign direct investment totaled U.S.\$1,410.0 million, an increase compared to the U.S.\$618.8 million in 2017. This increase was principally due to a positive net flow of debt between related companies where service of the debt outpaced amortization. For the third quarter of 2019, foreign direct investment totaled U.S.\$127.9 million, a decrease compared to the U.S.\$297.4 million for the same period in 2018. This decrease was principally due to a U.S.\$66.9 million decrease in sale of shares of stock and in other capital investments, a U.S.\$6.1 million decrease in reinvested earnings and a U.S.\$96.5 million decrease in the “Other capital” account.

In 2014 and 2015, portfolio investment registered a surplus of U.S.\$1,500.4 million and U.S.\$1,473.4 million, respectively. In 2016, portfolio investment showed a surplus of U.S.\$2,200.9 million. In 2017, portfolio investment showed a surplus of U.S.\$6,490.6 million. In 2018, portfolio investment registered a U.S.\$2,600.9 million surplus, a decrease in the surplus compared to the U.S.\$6,490.6 million surplus in 2017. This decrease in the surplus was mainly due to debt settlements by U.S.\$296 million and a decrease in bond issuances. For the third quarter of 2019, portfolio investment registered a U.S.\$1,991.1 million surplus, compared to the U.S.\$59.9 million deficit for the same period in 2018. This increase in the deficit was mainly due to the offering by the Republic of U.S.\$2,000 million during that period.

### **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 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 the net income of oil exports (U.S.\$2,065 million) and the 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 net cash withdrawals from the financial system by U.S.\$589 million.

As of November 30, 2019, Ecuador's International Reserves totaled U.S.\$3,178.7 million, an increase from November 30, 2018 when International Reserves totaled U.S.\$2,382.2 million. This increase in International Reserves was principally due to a higher net income from crude oil exports than money transfers from oil derivatives imports resulting in a net increase in international reserves of U.S.\$2,040 million, and a U.S.\$1,717 million increase in public external debt during the period; with this increase in the inflow of money partly offset by a net increase in money transfers abroad from the public and private financial sectors, in the amounts of U.S.\$1,489 million and U.S.\$1,055 million, respectively, and to net cash withdrawals from the financial system totaling U.S.\$415 million. As of December 31, 2019, Ecuador's International Reserves totaled U.S.\$3,397.1 million, a 26.9% increase from December 31, 2018 when International Reserves totaled U.S.\$2,676.5 million, and a 6.9% increase from November 30, 2019, when International Reserves totaled U.S.\$3,178.7 million.

As of November 30, 2019, Ecuador's International Reserves totaled U.S.\$3,178.7 million, a 22.4% decrease from October 31, 2019. As of October 31, 2019, Ecuador's International Reserves totaled U.S.\$4,097.8 million, a 20.1% decrease from September 30, 2019. As of September 30, 2019, Ecuador's International Reserves totaled U.S.\$5,130.4 million, a 34.7% increase from August 31, 2019.

## 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 Ecuadorean export products. According to exports (FOB) data, in 2016, 2017 and 2018 exports of petroleum and petroleum derivatives accounted for approximately 32.5%, 36.2% and 40.7% of total exports, respectively. Between 2014 and 2018, non-petroleum exports, which include, among others, flowers, vehicles, manufactured textile products and seafood, increased by 17.0% in 2014, but decreased by 6.3% and 2.8% in the years 2015 and 2016, before rebounding to 7.7% and 4.9% growth in the years 2017 and 2018. Ecuador's total export trade decreased steadily during the years 2014 to 2016, but grew steadily in 2017 and 2018. According to exports (FOB) data, in 2018, overall exports increased to U.S.\$21,606 million, compared to U.S.\$19,122 million for 2017. In the first ten months of 2019, overall exports amounted to U.S.\$18,434 million, an increase of 1.1% compared to U.S.\$18,235 million for the same period in 2018. This increase was mainly due to 6% increase in the exported volume of goods from 25,888.9 to 27,445.3 thousand metric tons. In the first eleven months of 2019, overall exports amounted to U.S.\$20,312 million, an increase of 1.1% compared to U.S.\$19,900 million for the same period in 2018.

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

**Overall Balance of Trade <sup>(1)</sup>**  
(in millions of U.S.\$)

	<b>Exports</b>	<b>Imports</b>	<b>Balance</b>
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
Year Ended December 31, 2018.....	22,122.8	-22,385.8	-263.0
Period Ended September 30, 2018.....	16,654.8	-16,471.6	183.2
Period Ended September 30, 2019.....	17,108.6	-16,572.1	536.5

*Source: Based on Figures from the Central Bank Balance of Payments Quarterly Bulletin for the Third Quarter of 2019.*

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

**Overall Balance of Trade <sup>(1)</sup>**  
(in millions of U.S.\$)

	<b>Exports</b>	<b>Imports</b>	<b>Balance</b>
Second Quarter of 2018.....	5,556.8	-5,572.9	-16.0
Third Quarter of 2018 .....	5,738.4	-5,822.9	-84.5
Fourth Quarter of 2018.....	5,468.0	-5,914.2	-446.2
First Quarter of 2019 .....	5,423.4	-5,365.2	58.2
Second Quarter of 2019.....	5,881.0	-5,715.9	165.1
Third Quarter of 2019 .....	5,804.2	-5,490.9	313.3

*Source: Based on Figures from the Central Bank Balance of Payments Quarterly Bulletin for the Third Quarter of 2019.*

(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 European Union 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 (cement) 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 SENAЕ eliminated the custom control service tariff following the instructions of the General Secretariat of the Community of Andean Nations.

On May 15, 2019, Ecuador, together with Peru and Colombia, signed a trade agreement with the United Kingdom to preserve their mutual trade commitments should the United Kingdom exit the European Union as a result of the United Kingdom's exit from the European Union. With this trade agreement, the Republic and the United Kingdom intend to replicate their current trade commitments under the Multiparty Trade Agreement with the European Union. This agreement will not enter into force while the Multiparty Trade Agreement continues to apply to the United Kingdom.

There have also been other measures taken to increase local production, including the creation of the Ministry of Production, Foreign Trade, Investments and Fisheries 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;
- 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; and
- Signing a trade agreement with the United Kingdom to preserve their mutual trade commitments should the United Kingdom exit the European Union as a result of "Brexit."

### **Composition of Trade**

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%).

In 2018, overall exports amounted to U.S.\$21,606 million, an increase of 13.0% compared to U.S.\$19,122 million in 2017. This increase was primarily due to an increase in the unit price in the main export products, particularly petroleum, combined with an increase in export volumes, mainly petroleum.

In the first ten months of 2019, overall exports amounted to U.S.\$18,434 million, an increase of 1.1% compared to U.S.\$18,235 million for the same period in 2018. This increase was mainly due to 6% increase in the exported volume of goods from 25,888.9 to 27,445.3 thousand metric tons. In the first eleven months of 2019,

overall exports amounted to U.S.\$20,312 million, an increase of 1.1% compared to U.S.\$19,900 million for the same period in 2018.

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

	Exports - (FOB) <sup>(1)</sup> (in millions of U.S.\$ and as a % of total exports)												For the Eleven Months Ended November 30,	
	For the Year Ended December 31,													
	2014		2015		2016		2017		2018		2018		2019	
	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%
Crude oil.....	13,016	50.6	6,355	34.7	5,054	30.1	6,190	32.4	7,853	36.3	7,346	36.9	7,051	34.7
Bananas and plantains .....	2,577	10.0	2,808	15.3	2,734	16.3	3,035	15.9	3,196	14.8	2,891	14.5	2,964	14.6
Petroleum derivatives .....	259	1.0	305	1.7	405	2.4	724	3.8	948	4.4	879	4.4	903	2.8
Shrimp.....	2,513	9.8	2,280	12.4	2,580	15.4	3,038	15.9	3,235	15.0	2,971	14.9	3,598	17.7
Cacao .....	576	2.2	693	3.8	621	3.7	588	3.1	664	3.1	577	2.9	557	2.7
Coffee.....	24	0.1	18	0.1	18	0.1	17	0.1	13	0.1	11	0.1	6	0.0
Tuna and other fish.....	296	1.2	258	1.4	244	1.5	242	1.3	304	1.4	285	1.4	289	1.4
Flowers.....	918	3.6	820	4.5	802	4.8	881	4.6	852	3.9	793	4.0	808	4.0
Metal manufacturing <sup>(2)</sup> .....	519	2.0	510	2.8	402	2.4	440	2.3	523	2.4	479	2.4	399	2.0
Other products <sup>(3)</sup> .....	5,024	19.5	4,284	23.4	3,936	23.4	3,967	20.7	4,018	18.6	3,666	18.4	3,736	18.4
<b>Total .....</b>	<b>25,724</b>	<b>100</b>	<b>18,331</b>	<b>100</b>	<b>16,798</b>	<b>100</b>	<b>19,122</b>	<b>100</b>	<b>21,606</b>	<b>100</b>	<b>19,900</b>	<b>100</b>	<b>20,312</b>	<b>100</b>

*Source: Based on figures from the Central Bank December 2019 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)

	For the Eleven Months Ended November 30,											
	2014		2015		2016		2017		2018		2018	
	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%
<b>Consumer goods</b>												
Non-durable goods.....	3,014	10.9	2,695	12.5	2,140	13.1	2,505	12.5	2,716	11.7	2,503	11.7
Durable goods.....	2,230	8.0	1,593	7.4	1,241	7.6	1,944	9.7	2,362	10.2	2,189	10.2
Postal traffic.....	208	0.8	131	0.6	136	0.8	165	0.8	173	0.7	156	0.7
<b>Fuel and combustibles .....</b>	<b>6,617</b>	<b>23.9</b>	<b>4,171</b>	<b>19.4</b>	<b>2,632</b>	<b>16.1</b>	<b>3,350</b>	<b>16.7</b>	<b>4,509</b>	<b>19.4</b>	<b>4,163</b>	<b>19.5</b>
<b>Primary materials</b>												
Agriculture.....	1,351	4.9	1,199	5.6	1,112	6.8	1,243	6.2	1,497	6.5	1,363	6.4
Industrial.....	6,147	22.2	5,445	25.3	4,501	27.6	5,401	27.0	5,854	25.2	5,424	25.4
Construction materials .....	1,120	4.0	658	3.1	413	2.5	475	2.4	590	2.5	539	2.5
<b>Capital goods</b>												
Agriculture.....	128	0.5	144	0.7	117	0.7	141	0.7	162	0.7	152	0.7
Industrial.....	4,898	17.7	3,948	18.3	2,978	18.2	3,427	17.1	3,679	15.9	3,377	15.8
Transportation equipment ....	1,954	7.0	1,471	6.8	992	6.1	1,308	6.5	1,574	6.8	1,455	6.8
<b>Other</b> .....	<b>60</b>	<b>0.2</b>	<b>63</b>	<b>0.3</b>	<b>62</b>	<b>0.4</b>	<b>53</b>	<b>0.3</b>	<b>77</b>	<b>0.3</b>	<b>67</b>	<b>0.3</b>
<b>Total</b> .....	<b>27,726</b>	<b>100</b>	<b>21,518</b>	<b>100</b>	<b>16,324</b>	<b>100</b>	<b>20,010</b>	<b>100</b>	<b>23,193</b>	<b>100</b>	<b>21,388</b>	<b>100</b>

*Source: Based on figures from the Central Bank December 2019 Monthly Bulletin (Table 3.1.7)*

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

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

	January 1 – November 30													
	2014		2015		2016		2017		2018		2018		2019	
	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%
<b>Americas</b>														
United States.....	11,240	43.7	7,226	39.4	5,436	32.4	6,057	31.7	6,672	30.9	6,130	30.8	6,005	29.6
Peru.....	1,582	6.1	934	5.1	934	5.6	1,283	6.7	1,615	7.5	1,486	7.5	922	4.5
Colombia.....	951	3.7	784	4.3	811	4.8	763	4.0	833	3.9	767	3.9	764	3.8
Chile.....	2,328	9.0	1,138	6.2	1,151	6.9	1,236	6.5	1,467	6.8	1,365	6.9	1,464	7.2
Panama.....	1,398	5.4	442	2.4	662	3.9	936	4.9	1,244	5.8	1,211	6.1	1,724	8.5
Other (Americas) <sup>(2)</sup> .....	1,554	6.0	1,247	6.8	1,090	6.5	1,009	5.3	1,113	5.1	997	5.0	1,098	5.4
Total Americas.....	19,052	74.1	11,771	64.2	10,083	60.0	11,284	59.0	12,942	59.9	11,955	60.1	11,977	59.0
<b>Europe</b>														
European Union (EU).....	2,981	11.6	2,773	15.1	2,832	16.9	3,173	16.6	3,269	15.1	2,999	15.1	2,820	13.9
Italy.....	431	1.7	326	1.8	461	2.7	587	3.1	647	3.0	600	3.0	435	2.1
United Kingdom.....	176	0.7	166	0.9	139	0.8	200	1.0	187	0.9	172	0.9	150	0.7
Germany.....	526	2.0	549	3.0	531	3.2	502	2.6	494	2.3	450	2.3	301	1.5
Spain.....	525	2.0	484	2.6	547	3.3	601	3.1	582	2.7	545	2.7	588	2.9
Other (EU) <sup>(3)</sup> .....	1,323	5.2	1,249	6.8	1,153	6.9	1,283	6.7	1,359	6.3	1,232	6.2	7	6.6
Rest of Europe <sup>(4)</sup> .....	1,072	4.2	903	5.0	902.5	5.4	970	5.1	963	4.5	878	4.4	5	4.6
Total Europe.....	4,053	15.8	3,676	20.1	3,734	22.2	4,144	21.7	4,232	19.6	3,878	19.5	3,748	18.5
<b>Asia</b>														
Taiwan.....	7	0.0	6	0.0	9	0.1	12	0.1	6	0.0	6	0.0	10	0.0
Japan.....	326	1.3	331	1.8	320	1.9	389	2.0	319	1.5	298	1.5	278	1.4
China.....	485	1.9	723	3.9	656	3.9	772	4.0	1,494	6.9	1,353	6.8	2,679	13.2
South Korea.....	57	0.2	173	0.9	83	0.5	115	0.6	104	0.5	92	0.5	145	0.7
Other countries <sup>(5)</sup> .....	1,558	6.1	1,475	8.0	1,775	10.6	2,307	12.1	2,368	11.0	2,191	11.0	6	6.3
Total Asia.....	2,433	9.5	2,708	14.8	2,842	16.9	3,595	18.8	4,291	19.9	3,940	19.8	4,401	21.7
<b>Africa</b>														
Africa.....	122	0.5	105	0.6	65	0.4	43	0.2	83	0.4	75	0.4	134	0.7
<b>Oceania</b>														
Oceania.....	45	0.2	51	0.3	52	0.3	54	0.3	54	0.2	49	0.2	48	0.2
<b>Other countries</b>														
Other countries.....	20	0.1	20	0.1	21	0.1	3	0.0	4	0.0	3	0.0	4	0.0
<b>Total</b> .....	<b>25,724</b>	<b>100</b>	<b>18,331</b>	<b>100</b>	<b>16,798</b>	<b>100</b>	<b>19,122</b>	<b>100</b>	<b>21,606</b>	<b>100</b>	<b>19,900</b>	<b>100</b>	<b>20,312</b>	<b>100</b>

Source: Based on figures from the Central Bank December 2019 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.\$)

	As of December 31,					Jan. 1–Nov. 30	
	2014	2015	2016	2017	2018	2018	2019
<b>Americas<sup>(1)</sup></b>							
Mexico .....	967	656	491	660	732	680	649
United States.....	8,751	5,806	4,116	4,532	5,534	5,076	4,911
<b>Central America</b> .....	104	96	95	120	126	117	103
<b>South America and the Caribbean</b>							
Argentina .....	501	235	218	375	409	381	256
Brazil.....	863	712	672	867	962	886	863
Bolivia.....	114	183	192	196	234	214	204
Colombia.....	2,201	1,766	1,421	1,716	1,923	1,757	1,722
Chile.....	583	551	480	560	538	494	472
Panama .....	1,442	1,022	889	1,274	1,724	1,683	1,528
Peru.....	1,024	789	689	830	876	814	768
Rest of Americas and Caribbean <sup>(1)</sup> .....	678	487	368	468	443	408	520
<b>TOTAL AMERICA</b> .....	<b>17,227</b>	<b>12,302</b>	<b>9,630</b>	<b>11,598</b>	<b>13,502</b>	<b>12,510</b>	<b>11,995</b>
<b>Europe</b>							
Germany .....	578	497	398	481	518	481	434
Italy.....	326	344	258	262	319	286	239
Spain.....	618	430	357	620	572	510	627
UK.....	151	87	51	97	97	91	94
Rest of EU <sup>(2)</sup> .....	1,315	1,126	793	1,113	1,459	1,319	1,287
Rest of Europe <sup>(3)</sup> .....	302	313	313	248	275	252	317
<b>TOTAL EUROPE</b> .....	<b>3,288</b>	<b>2,796</b>	<b>2,170</b>	<b>2,821</b>	<b>3,241</b>	<b>2,938</b>	<b>2,998</b>
<b>Asia</b>							
China.....	3,613	3,266	2,549	3,064	3,589	3,321	3,429
Japan.....	574	478	293	408	416	385	470
Taiwan.....	213	182	123	139	162	150	121
South Korea .....	902	792	526	616	707	633	540
Rest of Asia <sup>(4)</sup> .....	1,548	1,431	783	1,049	1,268	1,175	1,104
<b>TOTAL ASIA</b> .....	<b>6,851</b>	<b>6,148</b>	<b>4,275</b>	<b>5,276</b>	<b>6,141</b>	<b>5,665</b>	<b>5,665</b>
<b>Postal Traffic and regions excluding the Americas, Europe and Asia<sup>(5)</sup></b> .....	<b>360</b>	<b>272</b>	<b>249</b>	<b>315</b>	<b>309</b>	<b>274</b>	<b>307</b>
<b>Total</b>	<b>27,726</b>	<b>21,518</b>	<b>16,324</b>	<b>20,010</b>	<b>23,193</b>	<b>21,388</b>	<b>20,964</b>

*Source: Based on figures from the Central Bank December 2019 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.\$772.4 million, U.S.\$1,322.7 million and U.S.\$769.0 million in 2014, 2015 and 2016, respectively. In 2017, foreign direct investment reached U.S.\$618.8 million, a decrease compared to the U.S.\$769.0 million in 2016. This decrease was principally due to a U.S.\$158.0 million decrease in the shares and other equity security interest 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 2018, foreign direct investment reached U.S.\$1,410 million, an increase compared to U.S.\$618.4 million in 2017. This increase was principally due to a positive net flow of debt between related companies where service of the debt outpaced amortization. In 2018, the mining and oil sectors represented the largest percentage of foreign direct investment with 52.4% of all investment; commerce and services rendered to businesses followed representing 14.3% and 11.9% of foreign direct investment, respectively.

For the third quarter of 2019, foreign direct investment reached U.S.\$127.9 million, a decrease compared to U.S.\$297.4 million for the third quarter of 2018. This decrease was principally due to a U.S.\$66.9 decrease in equity investment in shares of stock and a U.S.\$6.1 decrease in reinvested earnings. In the nine months ended September 30, 2019, the mining and oil sectors represented the largest percentage of foreign direct investment with 58.9% of all investment; manufacturing and services rendered to businesses followed representing 14.9% and 11.5% of foreign direct investment, respectively.

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 the period ended September 30,	
	2014		2015		2016		2017		2018		2018	2019
	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	U.S.\$
Agriculture, forestry, hunting and fishing....	38.9	5.0	67.8	5.1	42.0	5.6	124.6	19.9	59.4	4.1	50.8	37.8
Commerce <sup>(1)</sup> .....	148.1	19.1	175.2	13.2	123.0	16.3	100.6	16.1	200.0	13.7	143.8	28.3
Construction .....	4.7	0.6	6.8	0.5	30.5	4.0	59.1	9.5	89.0	6.1	63.7	-14.9
Electricity, gas and water .....	(4.7)	-0.6	61.8	4.6	1.2	0.2	2.1	0.3	6.6	0.5	4.1	6.0
Petroleum <sup>(2)</sup> .....	685.3	88.2	559.8	42.0	465.8	61.7	68.5	11.0	773.5	53.1	316.7	359.5
Manufacturing .....	108.5	14.0	263.6	19.8	38.0	5.0	143.9	23.0	106.0	7.3	72.5	91.1
Social and personal services .....	14.0	1.8	(10.9)	-0.8	(2.0)	-0.3	(3.9)	-0.6	(1.5)	-0.1	0.1	-5.2
Services rendered to businesses .....	29.1	3.7	249.8	18.8	17.1	2.3	82.6	13.2	167.3	11.5	153.7	70.1
Transportation, storage and communications.....	(247.4)	-31.9	(42.7)	-3.2	39.0	5.2	47.1	7.5	55.7	3.8	45.4	38.1
<b>Total</b>	<b>776.6</b>	<b>100</b>	<b>1,331.3</b>	<b>100</b>	<b>754.7</b>	<b>100</b>	<b>624.6</b>	<b>100</b>	<b>1,455.9</b>	<b>100</b>	<b>850.7</b>	<b>610.8</b>

*Source: Based on Figures from the Central Bank Balance of Payments Quarterly Bulletin for the Third Quarter of 2019*

(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, sures at a rate of 25,000 sures 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 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. In 2017, the Ecuadorian Development Bank made a total of approximately over U.S.\$505.96 million in disbursements to Ecuador's Autonomous Decentralized Governments. In 2018, the Ecuadorian Development Bank made a total of approximately over U.S.\$420.7 million in disbursements to Ecuador's Autonomous Decentralized Governments. During the period from January 1, 2019 through December 31, 2019, the Ecuadorian Development Bank made a total of U.S.\$576.3 million in disbursements to Ecuador's Autonomous Decentralized Governments.

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.

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.

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.

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 the net income of oil exports and the net payment of external public debt, 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 net cash withdrawals from the financial system by U.S.\$589 million. As of November 30, 2019, Ecuador's International Reserves totaled U.S.\$3,178.7 million, an increase from November 30, 2018 when International Reserves totaled U.S.\$2,382.2 million. This increase in International Reserves was principally due to a higher net income from crude oil exports than money transfers from oil derivatives imports resulting in a net increase in international reserves of U.S.\$2,040 million, and a U.S.\$1,717 million increase in public external debt during the period; with this increase in the inflow of money partly offset by a net increase in money transfers abroad from the public and private financial sectors, in the amounts of U.S.\$1,489 million and U.S.\$1,055 million, respectively, and to net cash withdrawals from the financial system totaling U.S.\$415 million. As of December 31, 2019, Ecuador's International Reserves totaled U.S.\$3,397.1 million, a 26.9% increase from December 31, 2018 when International Reserves totaled U.S.\$2,676.5 million, and a 6.9% increase from November 30, 2019, when International Reserves totaled U.S.\$3,178.7 million.

As of November 30, 2019, Ecuador's International Reserves totaled U.S.\$3,178.7 million, a 22.4% decrease from October 31, 2019. As of October 31, 2019, Ecuador's International Reserves totaled U.S.\$4,097.8 million, a 20.1% decrease from September 30, 2019. As of September 30, 2019, Ecuador's International Reserves totaled U.S.\$5,130.4 million, a 34.7% increase from August 31, 2019.

On October 18, 2019, President Moreno presented before the National Assembly the draft Law on Economic Development which, among other reforms, was aimed at reforming certain aspects of Ecuador's financial laws and regulations to, among other objectives, (i) enhance fiscal sustainability establishing stricter budget controls and (ii) strengthen dollarization by enhancing the Central Bank's autonomy, see "*The Republic of Ecuador—Recent Measures by President Moreno*". On November 17, 2019, the National Assembly voted to reject the draft Law on Economic Development. In response, on November 21, 2019, President Moreno presented the draft Organic Law on Tax Simplification, replacing the draft Law on Economic Development with respect to certain aspects of the intended tax reform. The Organic Law on Tax Simplification was first approved by the National Assembly on December 9, 2019, and after a Presidential partial veto, it was finally approved on December 30 and became effective on December 31, 2019, see "*The Republic of Ecuador—Recent Measures by President Moreno*".

The Government indicated in its Updated Memorandum of Economic and Financial Policies presented to the IMF on December 11, 2019, that it is currently studying a new draft law modifying certain aspects of the banking and monetary reforms intended under the draft Law on Economic Development. Presentation to the National Assembly of amendments to the Public Planning and Finance Code are expected by the end of February 2020, and presentation of amendments to the Organic Monetary and Financial Law, after consultation with various

stakeholders and building consensus, are expected by April 2020, see “*Public Debt—IMF’s Extended Fund Facility.*”

## **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 Ecuadorian 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. 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 <sup>(1)</sup>	Commercial <sup>(2)</sup>	Consumer	Mortgage	Small Business <sup>(3)</sup>	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: the Codification of Resolutions of the Board of Monetary and Financial Policy Regulations.*

- (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, (c) microcredit extended accumulation, as loans in excess of U.S.\$10,000 and (d) agricultural microcredit. 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, 2019.

### Classification of Aggregate Assets of the Ecuadorian Private Banking System <sup>(1)</sup>

(as a % of total loans)

As of November 30, 2019				
Category	Commercial loans	Consumer loans	Mortgage loans	Small business
A	80.00	93.95	95.97	94.78
B	13.70	1.77	1.93	1.37
C	4.84	1.60	0.59	1.03
D	0.43	0.69	0.83	0.62
E	1.02	1.99	0.69	2.20
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

*Source: Superintendent of Banks as of November 2019. Based on data from private banks.*

- (1) As of the date of this Offering Circular, 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 totaled 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 *Ley Orgánica de Economía Popular y Solidaria* ("Law of Popular and Solidary Economy") 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 Law of Popular and Solidary Economy. As of December 31, 2018 the Liquidity Fund consisted of approximately U.S.\$2,807.61 million, a 6.95% increase compared with December 31, 2017, when the Liquidity Fund totaled U.S.\$2,625.14 million. Of the U.S.\$2,807.61 million in the Liquidity Fund as of December 31, 2018, U.S.\$2,645.83 million corresponded to private financial institutions and U.S.\$161.78 million corresponded to financial institutions formed under the Law of Popular and Solidary Economy. A major factor contributing to this increase was the growth in the contributions of the popular and solidarity system. As of November 30, 2019, the Liquidity Fund consisted of approximately U.S.\$2,998.51 million, an increase of U.S.\$249.7 million compared with November 30, 2018, when the Liquidity Fund amounted to U.S.\$2,748.8 million. Of the U.S.\$2,998.5 million in the Liquidity Fund as of November 30, 2019, U.S.\$2,775.1 million corresponded to private financial institutions and U.S.\$223.4 million corresponded to popular and solidarity financial institutions.

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 CFN, a separate Government institution. The Deposit insurance administered by COSEDE had assets of U.S.\$1,009 million, U.S.\$1,236 million, U.S.\$1,452 million, U.S.\$1,678 million and U.S.\$1,912 million as of December 31, 2014, 2015, 2016, 2017 and 2018, respectively. As of November 30, 2019, COSEDE had assets corresponding to its administration of deposit insurance funds from various financial institutions of U.S.\$2,170.6 million, an increase from 1,881.2 million as of November 30, 2018.

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.

	<b>Number of Financial Institutions</b>						<b>As of November 30<sup>(3)</sup>,</b>	
	<b>As of December 31,</b>					<b>2018</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>			
Banks .....	24	22	23	24	24	24	24	
National banks .....	23	21	22	23	23	23	23	
Private.....	22	20	21	22	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 .....	54	41	37	33	38	38	40	
Savings and loans associations <sup>(1)</sup> .....	37	24	25	26	31	31	33	
Small lending institutions .....	4	4	4	4	4	4	4	
Financial institutions.....	9	10	5	0	0	0	0	
Public banks .....	4	3	3	3	3	3	3	
Insurance companies <sup>(2)</sup> .....	40	39	37	33	31	31	31	
Insurance companies.....	38	37	35	32	30	30	30	
Reinsurance companies .....	2	2	2	1	1	1	1	
Credit-card issuing entities .....	2	1	0	0	0	0	0	
<b>Total</b>	<b>120</b>	<b>103</b>	<b>97</b>	<b>90</b>	<b>93</b>	<b>93</b>	<b>95</b>	

*Source: Superintendent of Banks as of November 2019.*

(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.

(3) Except as otherwise indicated.

### **Banking System**

#### **Overview**

As of November 30, 2019, 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 78 in 2014 to 62 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.\$33.6 billion in 2014 to U.S.\$30.9 billion in 2015. As of December 31, 2017, the assets for the banking system totaled U.S.\$38,975 million, 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. As of November 30, 2019, the assets of the banking system totaled U.S.\$42,888 million, an increase of 7.55% from U.S.\$39,879 million as of November 30, 2018. This increase was principally due to a U.S.\$2,340 million or 9.2% increase in the loan portfolio. As of December 31, 2019, the assets of the banking system totaled U.S.\$44,583 million, which increased from U.S.\$40,984 million as of December 31, 2018.

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,					
	2014	2015	2016	2017	2018	2019
Total assets (in billions of U.S. dollars).....	33.6	30.9	35.6	39.0	41.0	44.6
Non-performing loans (as % of total loans).....	1.33%	1.45%	1.34%	1.21%	2.6%	2.73%

*Source: Superintendent of Banks as of December 2019.*

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 <sup>(1)</sup>	Annual growth rate of Time and Demand Deposits
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%
December 31, 2019.....	19,764	12,374	32,138	7.7%

*Source: Superintendent of Banks as of December 2019.*

(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, 2014 through December 31, 2018, total time and demand deposits increased 9.2%, from U.S.\$26,875 million to U.S.\$29,352 million. 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. As of November 30, 2019, private banks' time and demand deposits totaled U.S.\$30,668 million, an increase of 4.7% compared to November 30, 2018. This increase was principally due to an increase in time deposits of U.S.\$1,540 million. As of December 31, 2019, private banks' time and demand deposits totaled U.S.\$32,138.0 million, an increase compared to U.S.\$29,845 million as of December 31, 2018.

The majority of funding for the Ecuadorian banking system is comprised of demand deposits, which increased 4.7% from U.S.\$19,014 million in 2014 to U.S.\$19,912 million in 2017. Time deposits increased 20.1% from U.S.\$7,861 million in 2014 to U.S.\$9,440 million in 2017. As of December 31, 2018, time deposits totaled U.S.\$10,388 million, an increase of 10.0% since December 31, 2017. This increase was principally due to an increase in time deposits with a 180 and 360 days term. As of November 30, 2019, private bank's time deposits totaled U.S.\$12,069 million, an increase of 14.6% since November 30, 2018. This increase was mainly due to a 23.89% increase in time deposits with a 181 and to 360 days term and a 17.9% increase in time deposits with a 91 to 180 days term. As of December 31, 2019, private bank's time deposits totaled U.S.\$12,374.4 million, an increase from U.S.\$10,388 million as of December 31, 2018.

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 November 30, 2019, the balance of foreign liabilities in the banking sector amounted to approximately U.S.\$2,391.6 million, which is an increase of 46.8% from the balance of foreign liabilities in November 30, 2018, which was U.S.\$1,628.7 million. As of December 31, 2019, the balance of foreign liabilities in the banking sector amounted to approximately U.S.\$2,512 million, which increased compared to the balance of foreign liabilities as of December 31, 2018, which was U.S.\$1,799 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)		
	<b>Demand deposits</b>	<b>Time deposits</b>	<b>Foreign financing</b>
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
December 31, 2019.....	50	31	6

*Source: Superintendent of Banks as of December 2019.*

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)	
	<b>Portfolio of current loans</b>	<b>Investments</b>
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
December 31, 2019 .....	65.5	14.0

*Source: Superintendent of Banks as of November 2019.*

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, generated 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 December 31, 2018, the banking system represented 79.65% of the total assets of the private financial system. The banking system, for the year ended December 31, 2018, generated a profit of U.S.\$553.8 million, which according to data from the Superintendent of Banks represented 0.51% of Ecuador's nominal GDP and an increase compared to U.S.\$395.8 million as of December 31, 2017. The banking system strengthened between 2017 and 2018, and its assets expanded by 5.15% due to an 11.60% increase in the loan portfolio.

As of November 30, 2019, the banking system represented 77.5% of the total assets of the private financial system. For the period ended in November 30, 2019, the banking system made a profit of U.S.\$560.0 million compared to U.S.\$504.3 million for the same period in 2018. This increase was mainly due to the growth in the amount of interest received and discounts earned as compared to the amount of interest paid and discounts granted.

As of November 30, 2019, the assets of the banking system totaled U.S.\$42,888 million, an increase of 7.55% from U.S.\$39,879 million as of November 30, 2018. This increase was principally due to a U.S.\$2,340 million or 9.2% increase in the loan portfolio. As of December 31, 2019, the assets of the banking system totaled U.S.\$44,583 million, which increased from U.S.\$40,984 million as of December 31, 2018.

Ecuador's banks use their resources primarily to extend loans. Between 2014 and 2018, the Ecuadorian banking system's total loan portfolio increased by U.S.\$7,522 million (39.41%) and past due loans increased by U.S.\$152 million (26.92%). 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, 2019

Loans	Deposits
Commercial, <sup>(1)</sup> Productive and Consumer Loans.....	25,220
Microenterprise Loans.....	2,010
Education Loans.....	413
Real Estate and Public Housing Loans.....	2,386
<b>Total</b>	<b>30,029</b>
	<b>Total</b>
	19,764
	Time Deposits .....
	12,374
	Guarantee Deposits .....
	1
	Others.....
	1,539
	<b>33,678</b>

*Source: Superintendent of Banks as of December 2019.*

<sup>(1)</sup> Commercial loans refers to both the priority and ordinary loan portfolios under Ecuadorian banking regulation.

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 <sup>(1)</sup>	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, 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	97.0%	3.0%
December 31, 2018 .....	26,609	717	27,325	97.4%	2.6%
December 31, 2019 .....	29,209	821	30,029	97.3%	2.7%

*Source: Superintendent of Banks as of December 2019.*

(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 days overdue. Non-interest accruing 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 was 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 November 30, 2019, the delinquency rate decreased to 3.05% compared to the 3.10% delinquency rate as of November 30, 2018. This decrease was principally due to a more significant growth in the productive loan portfolio (a 9.0% increase) than the growth of the unproductive loan portfolio (a 7.2% increase). As of November 30, 2019, 45.8% of all current loans were commercial, 38.2% were consumer, 8.0% were housing, 6.6% were microcredit and 1.4% were education related. As of December 31, 2019, 45.8% of all current loans were commercial, 38.34% were consumer, 7.9% were housing, 6.6% were microcredit and 1.4% 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. As of November 30, 2019, banking deposits, including guarantee deposits and restricted deposits, totaled U.S.\$32,177 million, an increase from the U.S.\$30,608 million as of November 30, 2018. As of December 31, 2019, banking deposits, including guarantee deposits and restricted deposits, totaled U.S.\$33,678 million, an increase from the U.S.\$31,257 million as of December 31, 2018.

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. Total current loans to the private sector from the private banking sector increased to U.S.\$28,687 million as of November 30, 2019. Total current loans to the private sector from the private banking sector increased from U.S.\$26,609 million as of December 31, 2018, to U.S.\$29,209 million as of December 31, 2019.

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,											
	2014		2015		2016		2017		2018		2019	
	U.S. \$	%	U.S.\$	%	U.S. \$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%
Commercial	72	12.7	98	14.3	117	16.2	118	15.6	93	13.0	103	12.5
Consumer Real estate	383	68.0	438	63.7	428	59.3	448	61.6	466	65.0	534	65.4
Microcredit Education <sup>(1)</sup>	31	5.3	39	5.6	59	8.1	61	8.4	64	9.0	71	8.7
Total	79	13.8	90	13.1	97	13.5	79	10.9	86	12	94	11.5
	<b>565</b>	<b>100</b>	<b>687</b>	<b>100</b>	<b>721</b>	<b>100</b>	<b>728</b>	<b>100</b>	<b>717</b>	<b>100</b>	<b>821</b>	<b>100</b>

## Banking Sector

The first, second and third largest banks by assets value in Ecuador are Banco del Pichincha, Banco del Pacífico and Produbanco, respectively. As of December 31, 2019, the three banks accounted for about 47.4% of the reported combined income and 50.9% of Ecuador's banking assets. Return on equity for these three banks averaged 13.9% as of December 31, 2019, a decrease of 1.1% compared to December 31, 2018, while net profit for these three banks increased from U.S.\$280.0 million in 2018 to U.S.\$292.0 million as of December 31, 2018.

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, 2019, Banco del Pacífico had approximately U.S.\$6,082 million, an increase compared to U.S.\$5,534 million as of December 31, 2018,. According to the Superintendent of Banks, Banco del Pacífico's profits were U.S.\$100.3 million for each of the years ended December 31, 2019, and 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 2.47% 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. According to the Superintendent of Banks, as of December 31, 2019, approximately 2.9% 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 October 31, 2019, the Ecuadorian Stock Exchanges combined listed the securities of approximately 392 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, 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. As of October 31, 2019, U.S.\$1,092.1 million worth of securities were traded in the secondary market, representing 11.7% of the Ecuadorian securities market. Repo trading represented 0.3% of the total market.

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

	As of December 31,					As of October 31,	
	2014	2015	2016	2017	2018	2018	2019
Repos .....	203.3	23.0	14.2	44.6	37.2	31.6	24.0
Other <sup>(1)</sup> .....	7,340.8	5,023.8	8,318.5	6,578.2	7,438.2	5,829.4	9,300.4
<b>Total .....</b>	<b>7,544.1</b>	<b>5,046.8</b>	<b>8,332.7</b>	<b>6,622.8</b>	<b>7,475.4</b>	<b>5,861.0</b>	<b>9324.4</b>

Source: *Bolsa de Valores de Guayaquil* ("Guayaquil 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 was 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.

As of October 31, 2019, U.S.\$9,324.4 million worth of securities were traded on the Ecuadorian Stock Exchanges, representing an increase compared to the U.S.\$5,861.0 million of securities traded as of October 31, 2018. This increase was due to an increase in the amount of certificates of treasury, investment certificates, corporate bonds 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 November	
	2014	2015	2016	2017	2018	2019
Deposit interest rate.....	5.2	5.1	5.1	5.0	5.4	6.1
Lending interest rate.....	8.2	9.1	8.1	7.8	8.7	8.7
Corporate productive lending interest rate <sup>(1)</sup> .....	8.2	9.2	8.5	7.8	8.8	8.4
Maximum corporate productive interest rate.....	9.3	9.3	9.3	9.3	9.3	9.3
Business productive lending interest rate <sup>(2)</sup> .....	9.6	9.8	9.8	8.9	9.9	9.5
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 <sup>(3)</sup> .....	11.2	10.3	11.2	10.8	11.2	10.6
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 <sup>(4)</sup> .....	n/a	9.0	9.4	8.0	8.1	8.6
Maximum commercial interest rate.....	n/a	11.8	11.8	11.8	11.8	11.8
Corporate commercial priority lending interest rate <sup>(1)</sup> .....	n/a	9.1	8.1	7.8	8.7	8.7
Maximum corporate commercial interest rate.....	n/a	9.3	9.3	9.3	9.3	9.3
Business commercial priority lending interest rate <sup>(2)</sup> .....	n/a	9.9	9.9	9.9	9.8	9.9
Maximum business commercial interest rate.....	n/a	10.2	10.2	10.2	10.2	10.2
Medium and small business commercial priority lending interest rate <sup>(3)</sup> .....	n/a	11.1	11.0	10.6	10.8	10.9
Maximum medium and small business commercial interest rate.....	n/a	11.8	11.8	11.8	11.8	11.8
Consumer lending interest rate <sup>(5)</sup> .....	16.0	n/a	n/a	n/a	n/a	n/a
Maximum consumer interest rate.....	16.3	n/a	n/a	n/a	n/a	n/a
Ordinary consumer lending interest rate <sup>(5)</sup> .....	n/a	16.2	16.8	16.7	16.6	16.3
Maximum Ordinary consumer interest rate.....	n/a	17.3	17.3	17.3	17.3	17.3
Priority consumer lending interest rate <sup>(5)</sup> .....	n/a	16.0	16.7	16.5	16.6	16.8
Maximum priority consumer interest rate.....	n/a	17.3	17.3	17.3	17.3	17.3
Education lending interest rate <sup>(6)</sup> .....	n/a	7.1	9.5	9.5	9.5	9.5
Maximum education interest rate.....	n/a	9.5	9.5	9.5	9.5	9.5
Housing lending interest rate.....	10.7	10.9	10.9	10.5	10.0	10.2
Maximum housing interest rate.....	11.3	11.3	11.3	11.3	11.3	11.3
Microcredit increased accumulation lending interest rate <sup>(7)(8)</sup> .....	22.3	24.3	21.5	21.1	20.2	20.2
Maximum microcredit increased accumulation interest rate <sup>(8)</sup> .....	25.5	25.5	25.5	25.5	23.5	23.5
Microcredit increased accumulation lending interest rate <sup>(7)(9)</sup> .....	n/a	n/a	n/a	n/a	20.9	20.2
Maximum microcredit increased accumulation interest rate <sup>(9)</sup> .....	n/a	n/a	n/a	n/a	25.5	25.5
Microcredit simple accumulation lending interest rate <sup>(10)(8)</sup> .....	25.2	26.9	25.1	24.7	23.5	23.4
Maximum microcredit simple accumulation interest rate <sup>(8)</sup> .....	27.5	27.5	27.5	27.5	25.5	25.5
Microcredit simple accumulation lending interest rate <sup>(9)(10)</sup> .....	n/a	n/a	n/a	n/a	22.5	22.6
Maximum microcredit simple accumulation interest rate <sup>(9)</sup> .....	n/a	n/a	n/a	n/a	27.5	25.5
Microcredit subsistence accumulation lending interest rate <sup>(11)(8)</sup> .....	28.6	29.0	27.3	27.4	26.5	26.5
Maximum microcredit subsistence accumulation interest rate <sup>(8)</sup> .....	30.5	30.5	30.5	30.5	28.5	28.5
Microcredit subsistence accumulation lending interest rate <sup>(9)(11)</sup> .....	n/a	n/a	n/a	n/a	23.6	24.0
Maximum microcredit subsistence accumulation interest rate <sup>(9)</sup> .....	n/a	n/a	n/a	n/a	30.5	30.5

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

2019 deposit and lending interest rates based on Central Bank November Monthly Bulletin (Table 1.10.1). Other 2019 figures based on Central Bank November Monthly Bulletin (Table 1.10.2).

(1) "Corporate lending rate" is the rate provided to businesses whose annual sales exceed U.S.\$5,000,000.00.

(2) "Business lending rate" is the rate provided to businesses whose annual sales equal or exceed U.S.\$1,000,000 up to U.S.\$5,000,000.00.

(3) "Medium and small business lending rate" is the rate provided to businesses whose annual sales equal or exceed U.S.\$1,000,000 up to U.S.\$5,000,000.00.

(4) "Ordinary commercial lending rate" is the rate provided to businesses whose annual sales exceed U.S.\$100,000.00 that acquire or commercialize light fossil fuel vehicles.

- (5) In 2015 consumer credits were divided into "ordinary consumer credits," for the acquisition or commercialization of light fossil fuel vehicles and "priority consumer credits," dedicated to the purchase of goods or services or expenses not related to productive activity or ordinary commercial activity.
- (6) "Education lending rate" is the rate provided to individuals for development of human capital by accredited institutions.
- (7) "Microcredit increased accumulation lending rate" refers to credit transactions whose amount per trade and balance due to microcredit financial institutions exceed U.S.\$10,000. This is the rate granted to entrepreneurs who register annual sales of less than U.S.\$100,000.
- (8) Under the Monetary, Financial, Securities and Insurance Resolutions 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 8.4% in 2014 to 8.7% in 2018. During the same period, the average interest rates on deposits increased from 5.2% in 2014 to 5.4% in 2018.

With respect to the various sectors, most loan interest rates remained stable during the period from 2014 through 2018 with the corporate productive lending interest rate increasing to 8.8% from 8.2%, and priority consumer lending rates increasing from 16.0% in 2015 to 16.6% in 2018. 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%. For November 2019 the ordinary consumer lending interest rate was 16.3% and the priority consumer lending interest rate was 16.8%.

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%. For November 2019 the ordinary commercial lending interest rate was 8.6% and the corporate productive lending interest rate was 8.4%.

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

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

	At December 31,					At November 30,	
	2014	2015	2016	2017	2018	2018	2019
Currency in circulation.....	9,539.9	11,753.7	13,261.2	14,858.7	15,915.9	15,346.4	16,390.9
Demand deposits.....	9,068.8	7,201.0	9,281.4	9,577.6	9,260.5	9,112.7	8,894.4
Fractional Currency.....	86.6	86.3	88.2	85.3	83.6	83.5	78.7
M1.....	<b>18,695.3</b>	<b>19,041.7</b>	<b>22,634.9</b>	<b>24,530.5</b>	<b>25,259.9</b>	<b>24,542.6</b>	<b>25,364.0</b>
Savings.....	3,506.1	3,053.5	6,044.1	5,244.5	4,859.5	4,238.6	4,267.2
Term deposits.....	21,409.1	20,609.0	23,553.5	26,260.3	28,404.8	27,625.1	30,737.1
M2 (M1 plus term deposits) .....	<b>40,104.4</b>	<b>39,650.7</b>	<b>46,188.4</b>	<b>50,790.8</b>	<b>53,664.7</b>	<b>52,167.7</b>	<b>56,101.0</b>

*Source: Based on figures from the Central Bank December 2019 Monthly Bulletin (Table 1.1.1). Figures of 2015 based on the November 2018 Monthly Bulletin (Table 1.1.1). Figures of 2014 based on the March 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%. According to the Central Bank, inflation decreased from 0.35% for the 12-month period ended November 30, 2018 to 0.04% for the 12-month period ended November 30, 2019. This decrease was primarily due to a decrease in the prices of clothing and footwear, furniture and household items, hotels and restaurants, food and non-alcoholic beverages and communications. According to the Central Bank, inflation decreased from 0.27% for the 12-month period ended December 31, 2018 to -0.07% for the 12-month period ended December 31, 2019.

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

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

<b>Inflation</b>	
(% Change in CPI from Previous Year at Period End <sup>(1)</sup> )	
December 2014 .....	3.67
December 2015 .....	3.38
December 2016 .....	1.12
December 2017 .....	-0.20
December 2018 .....	0.27
December 2019 .....	-0.07

*Source: Based on figures from the Central Bank December 2019 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, unless the public debt reaches a level below the public debt ceiling of 40% of GDP, the public debt ceiling will not apply. The law also provides for the implementation of a fiscal stability plan by the Ministry of Economy and Finance for the period from 2018 to 2021. The law sets forth that in each subsequent fiscal year after 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 mandated that the Ministry of Economy and Finance issue within 90 days from August 21, 2018, a new regulation implementing a new accounting methodology, to 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 issued Decree 537 repealing Decree 1218 in its entirety which became effective on October 30, 2018, see "*Public Debt—Methodology for Calculating the Public Debt to GDP Ratio*."

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 New Methodology, which provides that the calculation of the public debt to GDP ratio is to 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. The New Methodology defines total public debt as the sum of the public debt incurred by the entities comprising the public sector and adds certain debt instruments to the calculation of public debt that were not previously included, including oil presales, see "*Public Debt—Methodology for Calculating the Public Debt to GDP Ratio*." The April 2019 Debt Bulletin was the

first report on public debt issued that followed the New Methodology. The Regulation Implementing the Public Debt to GDP Ratio Calculation Methodology provides that by November 14, 2019, the Ministry of Economy and Finance was required to publish public debt figures calculated using the New Methodology going back to October 2010. Such deadline has not been met due to unexpected delays in gathering and consolidating the data, with the release of these updated public debt figures expected within the weeks following this Offering Circular. Once these past public debt figures are published using the New Methodology, those numbers may vary from the public debt figures presented in this Offering Circular for the comparable period which were calculated based on the old methodology.

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 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 December 31, 2018, the Ministry of Economy and Finance had an outstanding balance of U.S.\$2,267.7 million in CETES. As of October 31, 2019, the Ministry of Economy and Finance had an outstanding balance of U.S.\$2,483.9 million 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*." 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 the net income of oil exports and the net payment of external public debt, 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 net cash withdrawals from the financial system by U.S.\$589 million. As of October 31, 2019, Ecuador's International Reserves totaled U.S.\$4,097.8 million, an increase from October 31, 2018 when International Reserves totaled U.S.\$2,730.4 million. This increase in International Reserves was principally due to an increase in the net income from crude oil exports and oil derivatives imports by U.S.\$2,066 million and an increase of the inflow of money from public external debt by U.S.\$1,615 million, which helped offset the U.S.\$1,105 million and U.S.\$933 million decreases in outflow of money from the public and private financial sectors, respectively, and to net cash withdrawals from the financial system totaling U.S.\$560.8 million. As of December 31, 2019, Ecuador's International Reserves totaled U.S.\$3,397.1 million, a 26.9% increase from December 31, 2018 when International Reserves totaled U.S.\$2,676.5 million, and a 6.9% increase from November 30, 2019, when International Reserves totaled U.S.\$3,178.7 million.

As of November 30, 2019, Ecuador's International Reserves totaled U.S.\$3,178.7 million, a 22.4% decrease from October 31, 2019. As of October 31, 2019, Ecuador's International Reserves totaled U.S.\$4,097.8 million, a 20.1% decrease from September 30, 2019. As of September 30, 2019, Ecuador's International Reserves totaled U.S.\$5,130.4 million, a 34.7% increase from August 31, 2019.

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. Under the Organic Law for Productive Development, this fiscal stabilization fund is not required to initiate until 2021 and as of the date of this Offering Circular, it has not yet been funded.

On October 18, 2019, President Moreno presented before the National Assembly the draft Law on Economic Development which, among other reforms, was aimed at reforming certain aspects of Ecuador's financial laws and regulations to, among other objectives, (i) enhance fiscal sustainability establishing stricter budget controls and (ii) strengthen dollarization by enhancing the Central Bank's autonomy, see "*The Republic of Ecuador—Recent Measures by President Moreno*." On November 17, 2019, the National Assembly voted to reject the draft Law on Economic Development. In response, on November 21, 2019, President Moreno presented the draft Organic Law on Tax Simplification, replacing the draft Law on Economic Development with respect to certain aspects of the intended tax reform. The Organic Law on Tax Simplification was first approved by the National Assembly on December 9, 2019, and after a Presidential partial veto, it was finally approved on December 30, 2019, and became effective on December 31, 2019, see "*The Republic of Ecuador—Recent Measures by President Moreno*."

The Government indicated in its Updated Memorandum of Economic and Financial Policies presented to the IMF on December 11, 2019, that it is currently studying a new draft law modifying certain aspects of the banking and monetary reforms intended under the draft Law on Economic Development. Presentation to the National Assembly of amendments to the Public Planning and Finance Code are expected by the end of February 2020, and presentation of amendments to the Organic Monetary and Financial Law, after consultation with various stakeholders and building consensus, are expected by April 2020, see "*Public Debt—IMF's Extended Fund Facility*."

## Non-Financial Public Sector Revenues and Expenditures

The following table sets forth actual revenues and expenditures for the consolidated non-financial public sector for the periods presented.

### Summary of Consolidated Non-financial Public Sector Revenues and Expenditures

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

	For the Year Ended December 31,								For the Ten Months Ended October 31,											
	2014		% of GDP		2015		% of GDP		2016		2017		% of GDP		2018		% of GDP		2018	
	Revenue																			
<b>Petroleum revenue</b>																				
Exports <sup>(1)</sup>	10,906	10.7	6,487	6.5	5,402	5.4	5,840	5.6	8,621	8.0	6,820	6,662								
Domestic sales	-	-	-	-	-	-	-	-	-	-	-	-								
<b>Total petroleum revenue (a)</b>	<b>10,906</b>	<b>10.7</b>	<b>6,487</b>	<b>6.5</b>	<b>5,402</b>	<b>5.4</b>	<b>5,840</b>	<b>5.6</b>	<b>8,621</b>	<b>8.0</b>	<b>6,820</b>	<b>6,662</b>								
<b>Non-petroleum revenue</b>																				
Income tax	4,161	4.1	4,734	4.8	3,640	3.6	3,764	3.6	4,803	4.4	3,596	3,731								
Value-added tax	6,376	6.3	6,352	6.4	5,400	5.4	5,979	5.7	6,384	5.9	5,266	5,295								
Selected excise taxes	803	0.8	840	0.9	790	0.8	937	0.9	978	0.9	826	757								
Taxes on international trade	1,357	1.3	2,026	2.0	1,633	1.6	1,468	1.4	1,561	1.4	1,295	1,202								
Social security contributions	4,718	4.6	5,057	5.1	4,741	4.7	5,415	5.2	5,553	5.1	4,627	4,920								
Other <sup>(2)</sup>	6,524	6.4	6,749	6.8	8,091	8.1	7,911	7.6	8,366	7.8	6,912	6,277								
<b>Total non-petroleum revenue (b)</b>	<b>23,939</b>	<b>23.5</b>	<b>25,758</b>	<b>25.9</b>	<b>24,294</b>	<b>24.3</b>	<b>25,473</b>	<b>24.4</b>	<b>27,644</b>	<b>25.5</b>	<b>22,521</b>	<b>22,183</b>								
<b>Operating income of public companies (c)</b>																				
<b>Total revenue (a+b+c)</b>	<b>39,032</b>	<b>38.4</b>	<b>33,322</b>	<b>33.6</b>	<b>30,314</b>	<b>30.3</b>	<b>33,426</b>	<b>32.0</b>	<b>38,865</b>	<b>35.9</b>	<b>31,835</b>	<b>30,951</b>								
<b>Expenses</b>																				
<b>Current expenditures</b>																				
Interest	1,024	1.0	1,421	1.4	1,561	1.6	2,209	2.1	2,678	2.5	2,173	2,339								
Foreign	829	0.8	1,143	1.1	1,335	1.3	1,850	1.8	2,306	2.1	1,858	2,126								
Domestic	195	0.2	278	0.3	226	0.2	359	0.3	371	0.3	315	212								
Wages and salaries	9,478	9.3	9,904	10.0	10,014	10.0	10,365	9.9	10,672	9.8	8,460	8,359								
Purchases of goods and services	5,328	5.2	5,112	5.2	4,684	4.7	5,056	4.9	6,183	5.7	4,764	4,124								
Social security	3,665	3.6	4,222	4.3	4,655	4.7	4,999	4.8	5,382	5.0	4,289	4,588								
Others	9,497	9.3	6,890	6.9	5,691	5.7	5,777	5.5	8,117	7.5	6,648	6,718								
<b>Total current expenditure</b>	<b>28,992</b>	<b>28.5</b>	<b>27,550</b>	<b>27.7</b>	<b>26,604</b>	<b>26.6</b>	<b>28,407</b>	<b>27.2</b>	<b>33,032</b>	<b>30.5</b>	<b>26,333</b>	<b>26,127</b>								
<b>Capital expenditure and net lending</b>																				
Gross capital formation	13,980	13.7	10,178	10.3	10,293	10.3	8,648	8.3	6,456	6.0	4,323	3,966								
General state budget	8,290	8.1	5,532	5.6	6,105	6.1	5,086	4.9	3,243	3.0	1,860	1,364								
Public companies	4,218	4.1	3,128	3.2	2,533	2.5	1,870	1.8	1,788	1.6	1,371	1,555								
Rest of general government	1,472	1.4	1,518	1.5	1,655	1.7	1,692	1.6	1,424	1.3	1,093	1,046								
Other capital expenditure	1,375	1.4	1,533	1.5	731	0.7	1,024	1.0	678	0.6	636	613								
<b>Total capital expenditure</b>	<b>15,354</b>	<b>15.1</b>	<b>11,712</b>	<b>11.8</b>	<b>11,024</b>	<b>11.0</b>	<b>9,672</b>	<b>9.3</b>	<b>7,133</b>	<b>6.6</b>	<b>4,959</b>	<b>4,579</b>								
<b>Total expenditure</b>	<b>44,346</b>	<b>43.6</b>	<b>39,262</b>	<b>39.5</b>	<b>37,628</b>	<b>37.7</b>	<b>38,079</b>	<b>36.5</b>	<b>40,166</b>	<b>37.1</b>	<b>31,292</b>	<b>30,707</b>								
<b>Surplus/Deficit</b>	<b>-5,314</b>	<b>-5.2</b>	<b>-5,940</b>	<b>-6.0</b>	<b>-7,314</b>	<b>-7.3</b>	<b>-4,653</b>	<b>-4.5</b>	<b>-1,300</b>	<b>-1.2</b>	<b>543</b>	<b>245</b>								

Source: Based on figures from the Central Bank December 2019 Monthly Bulletin (Table 2.1 and Table 2.2).

(1) This figure is different than the crude oil exports figure in the Exports FOB table in that it includes derivative revenues, as opposed to only crude oil, and measures revenues from petroleum exports for the non-financial public sector, only.

(2) Includes other taxes and revenue.

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.

In 2018, the non-financial public sector registered a deficit of U.S.\$1,300 million compared to a deficit of U.S.\$4,653 million in 2017. This decrease in the deficit was principally due to an increase in petroleum and tax revenues, as a result of an increase in the price per barrel of petroleum, and the reduction in capital expenditure, as well as a decrease in Central Government expenditures as a result of the optimization of investment projects. In 2018, total revenues for the non-financial public sector totaled U.S.\$38,865 million, an increase from U.S.\$33,426 million for 2017. This increase was primarily due to an increase in oil revenues. In 2018, total expenditures for the non-financial public sector totaled U.S.\$40,166 million, an increase compared to U.S.\$38,079 million in 2017. This increase was primarily due to an increase in current expenditure by approximately 5% of GDP.

For the first nine months of 2019, the non-financial public sector registered a surplus of U.S.\$242 million compared to a surplus of U.S.\$645 for the first nine months of 2018. This decrease in total surplus is primarily due to an increase in non-tax revenue and an increase in the operational surplus of public sector companies. For the first ten months of 2019, the non-financial public sector registered a surplus of U.S.\$245 million compared to a surplus of U.S.\$543 for the first ten months of 2018.

For the first nine months of 2019, total revenues for the non-financial public sector totaled U.S.\$27,972 million, a decrease from U.S.\$28,698 million for the first nine months of 2018. This decrease was primarily due to a lower increase in 2019 in non-tax revenue and in the operational surplus of public sector companies compared to 2018. For the first ten months of 2019, total revenues for the non-financial public sector totaled U.S.\$30,951 million, a decrease from U.S.\$31,835 million for the first ten months of 2018.

For the first nine months of 2019, total expenditures for the non-financial public sector totaled U.S.\$27,730 million, a decrease compared to U.S.\$28,053 million for the first nine months of 2018. This decrease was primarily due to the optimization of public investment under the general State budget initiated in 2019. For the first ten months of 2019, total expenditures for the non-financial public sector totaled U.S.\$30,707 million, a decrease compared to U.S.\$31,292 million for the first ten months of 2018.

## 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			
	2014	% of GDP	2015	% of GDP	2016	% of GDP	2017	% of GDP	2018	% of GDP	2018	2019
<b>Revenue<sup>(1)</sup></b>												
Petroleum revenue .....	3,765	3.7	2,264	2.3	2,003	2.0	1,676	1.6	2,109	1.9	1,831	1,864
Non-petroleum revenue .....	16,616	16.2	18,081	18.0	16,552	16.9	16,494	16.0	18,125	16.7	14,534	14,273
<b>Tax revenue</b>												
Taxes on goods and services												
Value-added tax .....	6,376	6.2	6,352	6.3	5,400	5.5	5,979	5.8	6,384	5.9	5,266	5,295
Selected excise taxes.....	803	0.8	840	0.8	790	0.8	937	0.9	978	0.9	826	757
Total taxes on goods and services .....	7,179	7.0	7,192	7.2	6,189	6.3	6,916	6.7	7,362	6.8	6,092	6,052
Income Tax .....	4,161	4.1	4,734	4.7	3,640	3.7	3,764	3.7	4,803	4.4	3,596	3,731
Taxes on International Trade												
Import duties .....	1,357	1.3	2,026	2.0	1,633	1.7	1,468	1.4	1,561	1.4	1,295	1,202
Export duties <sup>(3)</sup> .....	1,406	1.4	1,278	1.3	815	0.8	935	0.9	1,042	1.0	856	802
Total taxes on international trade .....	2,763	2.7	3,304	3.3	2,448	2.5	2,403	2.3	2,602	2.4	2,151	2,005
Vehicle tax .....	228	0.2	223	0.2	195	0.2	191	0.2	215	0.2	188	194
Other taxes .....	129	0.1	135	0.1	1,546	1.6	805	0.8	440	0.4	316	343
<b>Total tax revenue</b> .....	<b>14,460</b>	<b>14.1</b>	<b>15,588</b>	<b>15.6</b>	<b>14,017</b>	<b>14.3</b>	<b>14,078</b>	<b>13.7</b>	<b>15,422</b>	<b>14.2</b>	<b>12,342</b>	<b>12,325</b>
Non-tax revenue .....	2,061	2.0	2,021	2.0	2,152	2.2	2,098	2.0	2,245	2.1	1,820	1,693
Transfers.....	95	0.1	471	0.5	383	0.4	318	0.3	458	0.4	371	255
<b>Total revenues</b> .....	<b>20,381</b>	<b>19.9</b>	<b>20,344</b>	<b>20.3</b>	<b>18,556</b>	<b>19.0</b>	<b>18,170</b>	<b>17.6</b>	<b>20,233</b>	<b>18.7</b>	<b>16,365</b>	<b>16,137</b>
<b>Current expenditure</b>												
Interest accrual												
Foreign.....	715	0.7	971	1.0	1,148	1.2	1,614	1.6	2,074	1.9	1,669	1,985
Domestic.....	682	0.7	789	0.8	791	0.8	868	0.8	905	0.8	734	703
Total interest accrual .....	1,397	1.4	1,759	1.8	1,938	2.0	2,482	2.4	2,979	2.7	2,404	2,688
Wages and salaries .....	8,359	8.2	8,761	8.7	8,870	9.1	9,140	8.9	9,451	8.7	7,480	7,373
Purchase of goods and services .....	2,490	2.4	2,409	2.4	1,935	2.0	2,139	2.1	2,420	2.2	1,793	1,724
Other current expenditures .....	998	1.0	691	0.7	742	0.8	715	0.7	769	0.7	645	638
Transfers .....	1,737	1.7	863	0.9	1,028	1.1	1,155	1.1	1,651	1.5	1,261	2,412
<b>Total current expenditure</b> .....	<b>14,981</b>	<b>14.6</b>	<b>14,484</b>	<b>14.5</b>	<b>14,514</b>	<b>14.8</b>	<b>15,630</b>	<b>15.2</b>	<b>17,270</b>	<b>15.9</b>	<b>13,582</b>	<b>14,835</b>
<b>Capital expenditure</b>												
Fixed capital expenditure .....	8,290	8.1	5,532	5.6	6,105	6.2	5,087	4.9	3,243	3.0	1,860	1,364
Other .....	22	-	152	0.1	394	0.4	369	0.4	145	0.1	118	33
Capital Transfers .....	3,501	3.4	4,117	4.1	3,092	3.2	3,226	3.1	3,497	3.2	2,875	2,700
<b>Total capital expenditure</b> .....	<b>11,812</b>	<b>11.5</b>	<b>9,801</b>	<b>9.9</b>	<b>9,590</b>	<b>9.8</b>	<b>8,681</b>	<b>8.4</b>	<b>6,885</b>	<b>6.4</b>	<b>4,853</b>	<b>4,098</b>
<b>Total Expenditure<sup>(2)</sup></b> .....	<b>26,794</b>	<b>26.2</b>	<b>24,285</b>	<b>24.5</b>	<b>24,103</b>	<b>24.6</b>	<b>24,312</b>	<b>23.6</b>	<b>24,154</b>	<b>22.3</b>	<b>18,435</b>	<b>18,933</b>
Adjustment on treasury accounts .....	-	-	-	-	-	-	-	-	-	-	-2,070	-2,796
Overall surplus or deficit.....	-6,413	-6.3	-3,941	-4.0	-5,548	-5.7	-6,142	-6.0	-3,921	-3.6	-	-

Source: Based on figures from the Central Bank December 2019 Monthly Bulletin (Table 2.2.1).

(1) Revenues are cash, expenditures are accrued.

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

## **Taxation and Customs**

In 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 revenues, 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.

In 2018, Central Government revenues totaled U.S.\$20,233 million, while total expenditures were U.S.\$24,154 million. This resulted in a deficit of U.S.\$3,921 million in 2018, a decrease in the deficit compared to the U.S.\$6,142 million deficit in 2017. This decrease in the deficit was primarily due to an increase in non-oil revenue as well as an optimization of investment projects.

For the first nine months of 2019, Central Government revenues totaled U.S.\$14,506 million, while total expenditures were U.S.\$16,968 million. This resulted in a deficit of U.S.\$2,462 million for the first nine months of 2019, as compared to the U.S.\$1,667 million deficit for the first nine months of 2018. This increase in the deficit is primarily due to a decrease in revenue from transfers to the general State budget and an increase in expenditures compared to 2018 driven by the reinstatement of the Government's requirement to cover 40% of public pension plans under the social security law. For the first ten months of 2019, Central Government revenues totaled U.S.\$16,137 million, while total expenditures were U.S.\$18,933 million. This resulted in a deficit of U.S.\$2,796 million for the first ten months of 2019, as compared to the U.S.\$2,070 million deficit for the first ten months of 2018.

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. In the first eight months of 2019, the value-added tax generated U.S.\$4,258 million of total tax revenues, an increase from the U.S.\$4,202 million generated in

the first eight months of 2018. This increase was primarily due to an improvement in tax collection as a result of automation of some collection processes. In the first nine months of 2019, the value-added tax generated U.S.\$4,762 million of total tax revenues, an increase from the U.S.\$4,708 million generated in the first nine months of 2018. In the first ten months of 2019, the value-added tax generated U.S.\$5,295 million of total tax revenues, an increase from the U.S.\$5,266 million generated in the first ten months of 2018.

In 2018, the value-added tax generated U.S.\$6,384 million of total tax revenues, an increase from the U.S.\$5,979 million generated in 2017. This increase was mainly due to the amounts of value-added tax collected from the non-financial public sector. 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.\$3,817 million of tax revenues in the first ten months of 2019, an increase from U.S.\$3,740 million of tax revenues in the first ten months of 2018. In 2018, social security contributions accounted for U.S.\$5,553 million of tax revenues, an increase from U.S.\$5,415 million of tax revenues in 2017 and U.S.\$4,741 million of tax revenues in 2016.

The third largest component of tax revenues is income tax, which accounted for U.S.\$3,731 million of tax revenues in the first ten months of 2019, an increase from U.S.\$3,596 million of tax revenues in the first ten months of 2018. In 2018, income tax accounted for U.S.\$4,803 million of tax revenues, an increase from U.S.\$3,764 million of tax revenues in 2017 and 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 was 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 shares 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. In 2018, Central Government expenditures represented U.S.\$24,154 million compared to U.S.\$24,312 million in 2017. In 2018, while the current expenditure increased by 10.5% from 2017 to U.S.\$17,270 million, capital expenditure decreased by 20.7% from 2017 to U.S.\$6,885 million. This increase in capital expenditure is primarily due to the payment of salaries on the public sector, the purchase of goods and net transfers. The decrease in capital expenditure in 2018 compared to 2017 is primarily due to a decrease in gross fixed capital formation.

## 2019 and 2020 Budgets

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, 2018, 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 U.S.\$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 provided for a budget of approximately U.S.\$31,301 million. The 2019 Budget provided 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 Budget assumed 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%.

On October 31, 2019, President Moreno presented the 2020 Budget to the National Assembly for approval. On November 27, 2019, the National Assembly made 20 proposed changes, or recommendations, to the 2020 Budget recommending, among others, the rationalization of expenditure, further clarification of the proposed U.S.\$2,000 million plan for monetization, including a contingency plan to account for the volatility of oil prices. The Executive branch submitted its response and the revised 2020 Budget on December 5, 2019. On December 17, 2019, the National Assembly voted against the 2020 Budget, failing to meet the legal deadline established for its approval under the law. In such cases where a draft budget law is not approved by the National Assembly within the legal deadline, under Ecuadorian law, such laws may be approved by default. Consequently, the 2020 Budget became effective on December 27, 2019. For more information on the budget process, see "*Public Sector Finances—Overview—Budget Process*." The 2020 Budget provides for a budget of approximately U.S.\$35,498 million. The 2020 Budget assumes approximately U.S.\$22,516 million in total revenue, which includes expected income from monetization of certain public assets, and approximately U.S.\$25,900 million in total expenses, for an expected total deficit of approximately U.S.\$3,384 million. The 2020 Budget assumes an average crude oil price of U.S.\$51.3 per barrel, estimates a GDP rate growth of 0.57% and an average annual inflation rate of 0.84%. The 2020 Budget assumes approximately U.S.\$8,917 million in financing needs, of which U.S.\$4,696 million are expected from external financing sources, including multilateral institutions with approximately U.S.\$3,643 million, government loans with approximately U.S.\$380 million, international bonds with U.S.\$400 million and commercial loans with approximately U.S.\$273 million. Domestic financing is expected from local bonds with approximately U.S.\$1,955 million. The remaining financing needs are expected to be covered by the balance from the prior year's budget with approximately U.S.\$2,267 million. During the execution of the 2020 Budget, these financing needs estimates may change based upon changing market conditions and policy goals.

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.\$38,136.6 million as of December 31, 2016, compared to U.S.\$32,771.2 million as of December 31, 2015 and U.S.\$30,140.2 million as of December 31, 2014.

Between October 2016 and October 2018, pursuant to Decree 1218, the consolidated methodology was the legal methodology in Ecuador to calculate the 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.

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.\$36,440.0 million as of December 31, 2018, compared to U.S.\$32,639.5 million as of December 31, 2017 and U.S.\$26,810.6 million 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 the 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.\$49,463.4 million as of December 31, 2018, compared to U.S.\$46,535.6 million 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.

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.\$51,214.8 million as of March 31, 2019 (the period prior to the implementation of the New Methodology), compared to U.S.\$48,931.3 million as of March 31, 2018. This increase in public sector aggregated debt was primarily due to disbursements of existing loans with China Development Bank, the issuance of the 2028 Notes, the GSI Repo Transaction, the CS Repo Transaction, and the issuance of the 2029 Notes, see "*Public Debt—Debt Obligations*."

Beginning with its April 2019 Debt Bulletin, Ecuador began issuing its periodic report on public debt under the New Methodology for calculating the public debt to GDP ratio set forth in the Regulation Implementing the Public Debt to GDP Ratio Calculation Methodology, see "*Public Debt—Methodology for Calculating the Public Debt to GDP Ratio*" below. In this Offering Circular, public debt figures starting on April 30, 2019 have been calculated based on the New Methodology.

Under the New Methodology, 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.\$56,780.6 million as of November 30, 2019, compared to U.S.\$48,954.4 million as of November 30, 2018. This increase in public sector aggregated debt was primarily due to the disbursements of existing loans with the China Development Bank, the issuance of the 2029 Notes (see "*Public Debt—Debt Obligations—2029 Notes*") and the inclusion in the definition of public external debt under the New Methodology of oil presale contracts, liabilities under intangible contractual rights and the Central Bank's special drawing rights with the IMF.

The ratio of total public sector aggregate debt to GDP increased from 44.7% as of November 30, 2018, under the prior methodology to 52.0% as of November 30, 2019, under the New Methodology. As of November 30, 2019, interest payments on all debt obligations represented 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, unless the public debt reaches a level below the public debt ceiling of 40% of GDP, the public debt ceiling will not apply.

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 holders of the Notes*" 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.

During President Moreno's tenure, Ecuador has strengthened ties with Latin American-based multilateral entities, including IDB, CAF, and FLAR, while opening to other multilateral entities such as the IMF. Ecuador continues to collaborate with long-time partners such as China, Spain and Brazil.

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 to manage Ecuador's level of debt. 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.\$35,729.7 million as of December 31, 2018, compared to U.S.\$31,749.8 million as of December 31, 2017, U.S.\$25,679.3 million as of December 31, 2016, U.S.\$20,225.2 million as of December 31, 2015 and U.S.\$17,581.9 million as of December 31, 2014. The increase in public sector external debt between December 31, 2014 and December 31, 2018 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, the 2022 Notes, the 2026 Notes, the PAM 2019 Notes, the PAM Second Remarketing Notes, the 2023 Notes, the 2027 Notes, the Second 2027 Notes, the 2028 Notes, and the Republic's entrance into the GSI Loan Facility, the GSI Repo Transaction and CS Repo Transaction.

Under the New Methodology, public external debt as of November 30, 2019 was U.S.\$40,788.6 million, an increase from U.S.\$35,049.7 million as of November 30, 2018. This increase was primarily due to the inclusion in the definition of public external debt under the New Methodology of oil presale contracts, the inclusion of liabilities under intangible contractual rights, and inclusion of the Central Bank's special drawing rights with the IMF. As of November 30, 2019, total indebtedness owed to multilateral institutions was U.S.\$11,396.1 million. The Republic is current on all its obligations to multilateral institutions. As of November 30, 2019, total indebtedness owed to bilateral entities was U.S.\$6,332.6 million.

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

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

	As of December 31,					As of November 30,	
	2014 <sup>(1)</sup>	2015 <sup>(2)</sup>	2016 <sup>(3)</sup>	2017	2018 <sup>(4)</sup>	2018	2019 <sup>(5)(6)</sup>
Central Government.....	15,434	18,183	23,141	28,296	32,473	31,957.1	36,716.3
Public financial and non-financial entities .....	2,148	2,042	2,538	3,454	3,257	3,092.6	4,072.3
<b>Total</b> .....	<b>17,582</b>	<b>20,225</b>	<b>25,679</b>	<b>31,750</b>	<b>35,730</b>	<b>35,049.7</b>	<b>40,788.6</b>
External public debt as a percentage of nominal GDP <sup>(4)</sup>	17.3%	20.4%	25.7%	30.4%	32.6%	32.0%	37.4%

*Source: Figures as of November 30, 2019, from the Ministry of Economy and Finance November 2019 Bulletin. Figures as of November 30, 2018, are from the Ministry of Economy and Finance November 2018 Bulletin. Annual figures from the Ministry of Economy and Finance March 2019 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.
- (5) Includes the 2029 Notes.
- (6) November 30, 2019 figures have been calculated following the New Methodology. It includes oil presale contracts, the Central Bank's special drawing rights with the IMF and liabilities under intangible contractual rights.

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,					As of November 30,	
	2014	2015	2016	2017	2018	2018	2019 <sup>(1)</sup>
Multilateral .....	6,560	7,928	8,247	8,488	9,462	9,105	11,396
Bilateral .....	6,145	6,425	7,998	7,405	6,770	6,359	6,333
Commercial and Bonds.....	4,877	5,873	9,434	15,858	19,498	19,586	23,060
<b>Total Public Sector External Debt.....</b>	<b>17,582</b>	<b>20,225</b>	<b>25,679</b>	<b>31,750</b>	<b>35,730</b>	<b>35,050</b>	<b>40,789</b>

*Source: Figures as of November 30, 2019, from the Ministry of Economy and Finance November 2019 Bulletin. Figures as of November 30, 2018, are from the Ministry of Economy and Finance November 2018 Bulletin. Annual figures from the Ministry of Economy and Finance March 2019 Bulletin.*

(1) Debt calculation includes oil presale contracts, the Central Bank's special drawing rights with the IMF and liabilities under intangible contractual rights.

The increase in bilateral debt of the Republic and public financial and non-financial entities from December 31, 2014 to December 31, 2018 was due mainly to the disbursements of existing loans with China Development Bank, China Exim Bank and the AFD.

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 included 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 the 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 to be used 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 the 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 International, pursuant to which Petroecuador received 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 received an initial prepayment of U.S.\$300 million for fuel oil to be delivered to OTI during the 30-month term of the contract, which has been already fully amortized by Petroecuador. As of October 2019, no barrels of fuel oil remained pending delivery. 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.

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 (87.2% of the total bilateral debt), U.S.\$227.7 million (2.8% of the total bilateral debt) and U.S.\$133.4 million (1.7% of the total bilateral debt), respectively.

As of December 31, 2017, the top three bilateral lenders to Ecuador were China, United States of America, and Spain, with debt levels of U.S.\$6,338.9 million (85.6% of the total bilateral debt), U.S.\$537.5 million (7.3% of the total bilateral debt) and U.S.\$420.2 million (5.7% of the total bilateral debt), respectively.

As of December 31, 2018, the top three bilateral lenders to Ecuador were China, France and Spain, with debt levels of U.S.\$5,695.9 million (84.1% of the total bilateral debt), U.S.\$348.5 million (5.1% of the total bilateral debt) and U.S.\$226.3 million (3.3% of the total bilateral debt), respectively.

As of November 30, 2019, the three main bilateral lenders to Ecuador were China, France and Spain, with debt levels of U.S.\$5,197.3 million (82.1% of the total bilateral debt), U.S.\$438.5 million (6.9% of the debt total bilateral) and U.S.\$257.9 million (4.1% of total bilateral debt), respectively. As of November 30, 2019, total

indebtedness owed to bilateral entities was U.S.\$6,332.6 million. The Republic is current on all of its obligations to bilateral lenders.

Total indebtedness owed to multilateral institutions was U.S.\$11,396.1 million as of November 30, 2019, U.S.\$9,461.9 million as of December 31, 2018, U.S.\$8,487.6 million as of December 31, 2017, and U.S.\$8,247.2 million as of December 31, 2016. The Republic is current on all its obligations to multilateral institutions.

From 2010 to 2018, Ecuador entered into five separate loan agreements (denominated in U.S. dollars and Chinese Renminbi) with China Development Bank totaling approximately U.S.\$7,900 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, based on a formula consisting of WTI plus or minus a spread, plus a premium paid due to the term of the contracts. The spread is calculated using (i) a yield table setting forth the contemporary market price of the expected outputs of refining the crude oil delivered, (ii) a factor taking into account shipping costs based on market information, and (iii) 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 approximately 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 on December 20, 2012, totaling approximately U.S.\$2,000 million, has an eight-year term. The fourth loan agreement, signed on April 29, 2016, totaling approximately U.S.\$2,000 million, has an eight-year term. The fifth loan agreement denominated in U.S. dollars and Chinese Renminbi, signed on December 12, 2018, totaling approximately U.S.\$900 million, has a six-year term.

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 IESE 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. This credit agreement was fully repaid in December 2019.

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, of which only U.S.\$80 million were ultimately disbursed.

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 January 6, 2020, U.S.\$120 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 the 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 the 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 U.S.\$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 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 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 the 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 China Development Bank entered into a U.S.\$675 million and RMB1,530 million facility agreement where each loan made under the facility shall be repaid in 16 installments, each payable every three months. On December 28, 2018, an amount of U.S.\$450 million was disbursed to the Republic and on January 14, 2019 an additional amount of U.S.\$225 million was disbursed to the Republic.

On January 31, 2019, the Republic successfully issued the 2029 Notes. The Republic is current on its financial obligations under the 2029 Notes.

On March 12, 2019, the Republic entered into a U.S.\$50 million loan facility with the IDB, with a final amortization date of November 15, 2043, to finance a program aimed at improving the quality of public services for child development in Ecuador.

On March 13, 2019, the Republic received from the IMF an initial disbursement of U.S.\$652 million under the IMF's arrangement under the IMF's Extended Fund Facility for Ecuador.

On April 1, 2019, Ecuador entered into a U.S.\$192 million loan facility with the CAF, with a term of 18 years and grace period of 66 months, to partially finance projects relating to the maintenance of 1,183.9 kilometers of roads in Ecuador.

On April 10, 2019, the Republic entered into a U.S.\$50 million loan facility with the IDB, with a final amortization date of November 15, 2043, to finance a program aimed at increasing private participation in public investments in infrastructure and public services in Ecuador.

On May 24, 2019, the Republic and the CAF entered into a U.S.\$300 million loan agreement, with a term of 15 years and a 42-month grace period for the payment of the principal, to finance programs and projects in the logistics sector.

On May 24, 2019, the Republic entered into a U.S.\$500 million loan agreement with the IDB with a final amortization date of May 24, 2026 in order to support macroeconomic and fiscal stability, strengthen the institutional framework of the Central Bank, and provide funds for social expenditure for the most vulnerable segments of the population.

On May 28, 2019, the Republic and the CAF entered into a U.S.\$100 million loan agreement, with a term of 16 years and a 66-month grace period for the payment of the principal, to partially finance the Environmental Sanitation for Community Development Program.

On May 29, 2019, the Republic reopened its 2023 Notes, issuing an additional U.S.\$688,268,000 of notes at a price of 106.597%, also due 2023, for the purpose of a substitution under the Amended August 2018 GSI-Ecuador Repurchase Agreement. See "*GSI Repo Transaction*" below.

On June 17, 2019, the Republic reopened its 2029 Notes and successfully issued an additional U.S.\$1,125,000,000 million of notes due 2029 at a price of 110.746%. The Republic applied the proceeds of the reopened 2029 Notes towards the repurchase of U.S.\$1,175,370,000 principal amount of its 2020 Notes by means of a tender offer that settled on June 18, 2019.

On June 17, 2019, the Republic and the IBRD entered into a U.S.\$500 million loan agreement maturing June 1, 2049, with proceeds used to promote government efficiency, remove barriers to private sector development and provide funds for social expenditure for the most vulnerable segments of the population.

On July 2, 2019, the Republic received from the IMF a second disbursement of U.S.\$251 million under the IMF's Extended Fund Facility.

On July 3, 2019, the Republic and the IDB entered into a U.S.\$150 million loan agreement maturing November 15, 2042, with the goal of providing support to the Republic's plan to diversify its energy assets.

On July 12, 2019, the Republic and the IDB entered into a U.S.\$93.9 million loan agreement maturing June 15, 2044, with the goal of promoting housing to poor and vulnerable communities under the Housing for All Program.

On July 22, 2019, the Republic and the IBRD entered into a U.S.\$350 million loan agreement maturing March 15, 2049, with the goal of improving equity, integration and sustainability of social programs and providing technical assistance for capacity building, monitoring and evaluating social programs.

On July 23, 2019, the Republic and the IDB entered into a U.S.\$300 million loan agreement maturing April 15, 2039, with the goal of supporting the Government's plan for fiscal stability to facilitate sustainable growth and key contributions to social development.

On July 23, 2019, the EPMAPS EP and the IDB entered into a U.S.\$87.1 million loan agreement with disbursements spread over six years with a final principal amortization date of July 23, 2043, with the goal of providing financial support for the maintenance of Quito's sewage and potable water systems. This loan agreement is guaranteed by Ecuador acting through the Ministry of Economy and Finance.

On August 6, 2019, the Republic reopened its 2023 Notes and 2026 Notes, issuing an additional U.S.\$610,359,000 of its 2023 Notes at a price of 107.291%, and U.S.\$611,870,000 of its 2026 Notes at a price of

107.026%, for the purpose of a substitution under the October 2018 CS-Ecuador Repurchase Agreement, see "CS Repo Transaction" below.

On August 13, 2019, the CFN and the CAF entered into a U.S.\$50 million loan agreement to be repaid in 15 years, with the goal of supporting the *Progresar* program of the CFN which seeks to incentivize the diversification of Ecuador's economy. This loan agreement is guaranteed by Ecuador acting through the Ministry of Economy and Finance.

On August 28, 2019, the Republic and the IDB entered into a U.S.\$12 million loan agreement maturing May 15, 2044, to support further investment in Ecuador.

On August 29, 2019, the EMAPAG EP and the CAF entered into a U.S.\$84 million credit facility agreement maturing July 31, 2039, to support the improvement of sanitation in Guayaquil. This facility agreement is guaranteed by Ecuador acting through the Ministry of Economy and Finance.

On September 4, 2019, the Republic and the IDB entered into a U.S.\$100 million loan agreement maturing October 15, 2043, with the goal of supporting the modernization and renovation of the Ecuadorian electric system.

On September 9, 2019, the Republic and the IDB entered into a U.S.\$40.08 million loan agreement maturing December 15, 2043, with the goal of supporting people with disabilities.

On September 27, 2019, the Republic successfully issued U.S.\$600 million of its 2025 Notes with a coupon of 7.875% at 100.000% of the purchase price and U.S.\$1,400 million of its 2030 Note with a coupon of 9.500% at 100.000% of the purchase price.

In the fourth quarter of 2019, the Republic has signed the following facility agreements with export credit agencies, official development agencies, and multilateral financial institutions: (1) on October 4, 2019, the Republic and the IDB entered into a U.S.\$43 million loan agreement maturing July 15, 2044, with the goal of supporting the Financial Management Modernization Program; (2) on November 4, 2019, the Republic and The Export-Import Bank of China entered into a RMB 390 million concessional loan agreement and a RMB 734 million concessional loan agreement, each with a term of twenty years; (3) on November 18, 2019, the Republic and the IDB entered into a U.S.\$75 million loan agreement maturing September 15, 2044, with the goal of supporting the State-owned Enterprise Reform Support Program; (4) on November 18, 2019, the Republic and CAF entered into a U.S.\$203 million loan agreement, as amended on November 27, 2019, maturing in 15 years with a 66-month grace period with the goal of supporting Ecuador's Urban Plan and Habitat Policy Program; (5) on November 22, 2019, the Republic and the AFD entered into an U.S.\$80 million credit facility agreement maturing on July 31, 2039, with the goal of supporting fully-subsidized social housing and other components of the Housing for All Program which are different to those components of the project that will be financed with the proceeds of the Notes; and (6) on December 10, 2019, the Republic and the AFD entered into a U.S.\$150 million credit facility agreement maturing on January 31, 2040, with the goal of supporting policies targeting climate change.

Moreover, in the fourth quarter of 2019, the Republic through its Ministry of Economy and Finance has entered into guarantee agreements for the following loan agreements: (1) the U.S.\$40 million loan agreement dated November 29, 2019, between BanEcuador B.P. and CAF, to be repaid in 15 years, to finance small and medium-sized producers of cocoa and palm and the institutional strengthening of BanEcuador; (2) the U.S.\$34.12 million loan agreement dated December 20, 2019, between the *Empresa Pública Municipal de Telecomunicaciones, Agua Potable, Alcantarillado y Saneamiento de Cuenca Etapa EP* and CAF, to be repaid in 18 years, to partially finance the Construction Project of the Guangarcucho Wastewater Treatment Plant; (3) the EUR19.0 million loan agreement dated December 23, 2019, between the *Honorable Gobierno Provincial de Tungurahua (HGPT)*, Tunguragua, Ecuador and KfW, Frankfurt am Main, to be repaid by December 30, 2049, to finance the investments in the strengthening of irrigation systems as well as other measures for the protection of water resources of the Province of Tungurahua, Ecuador, as well as certain consulting services.

On December 19, 2019, the Republic received from the IMF a disbursement of about U.S.\$498 million under the IMF's Extended Fund Facility.

Certain of the finance documents that the Republic had previously expected to sign during the fourth quarter of 2019 were not executed at that time, and accordingly the total amount of finance documents executed during the fourth quarter of 2019 was less than the U.S.\$864 million originally expected.

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 November 30, 2019
<b>Multilateral</b>					
IDB .....	Variable	U.S.\$	1971- 2019	2019-2049	5,502.6
CAF .....	Variable	U.S.\$	2006- 2018	2019-2038	3,424.5
IMF .....	Variable	DEG	2019	2031	892.7
FLAR .....	Variable	U.S.\$	2018	2021	286.9
Others <sup>(1)</sup> .....	Fixed, Variable	DEG, U.S.\$	1970-2018	2019-2053	1,289.4
<b>Total Multilateral Debt</b>					<b>11,396.1</b>
<b>Bilateral</b>					
China .....	Fixed, Variable	RMB, U.S.\$	2010-2018	2020-2038	5,197.3
Brazil .....	Variable	U.S.\$	2012-2013	2022-2023	97.6
Spain .....	Fixed	U.S.\$	1990-2016	2020-2042	257.9
France .....	Fixed, Variable	Euro, U.S.\$	1988-2017	2018-2037	438.5
Italy .....	Fixed	Euro	1995-2016	2025-2048	10.5
Japan .....	Fixed, Variable	Yen, U.S.\$	1996-2017	2024-2028	85.5
Others <sup>(2) (3)</sup> .....	Fixed, Variable	DEG, Won, Libra, Chf	1986-2013	2022-2053	245.3
<b>Total Bilateral Debt</b> .....					<b>6,332.6</b>
<b>Other Debt<sup>(4)</sup></b> .....					<b>23,059.9</b>
<b>Total External Debt</b> .....					<b>40,788.6</b>

*Source: Ministry of Economy and Finance as of November 30, 2019. Calculation of material public sector external debt does not include oil presale contracts, the Central Bank's special drawing rights with the IMF and liabilities under intangible contractual rights.*

- (1) Other multilateral loans include loans with the International Bank for Reconstruction and Development and the International Fund for Agriculture Development.
- (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 2029 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 and CS 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, 2017		As of December 31, 2018		As of November 30, 2019 <sup>(3)</sup>	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
(in millions of U.S. dollars, except percentages)						
<b>Fixed Rate</b>						
0-3%.....	1,662.1	5.23%	1,106.7	3.1%	2,448.9	6.0%
3-5%.....	580.7	1.83%	662.6	1.9%	788.6	1.9%
5-8% <sup>(1)</sup> .....	8,192.1	25.80%	7,859.4	22.0%	7,079.3	17.4%
More than 8% <sup>(2)</sup> .....	10,439.1	32.88%	13,454.1	37.7%	16,118.7	39.5%
<b>Floating Rate</b> .....	10,875.8	34.25%	12,612.7	35.3%	14,353.1	35.2%
<b>Total</b> .....	<b>31,749.8</b>	<b>100%</b>	<b>35,695.5</b>	<b>100%</b>	<b>40,788.6</b>	<b>100%</b>

Source: 2017 figures from Ministry of Economy and Finance December 2017 Bulletin, 2018 figures from Ministry of Economy and Finance December 2018 Bulletin, and November 30, 2019 figures from Ministry of Economy and Finance November 2019 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 the 2029 Notes.

(3) Public sector external debt calculation includes oil presale contracts, the Central Bank's special drawing rights with the IMF and liabilities under intangible contractual rights.

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 2019-2029**  
(in millions of dollars)  
For the Year Ending December 31,

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
<b>Central Government</b>	<b>5,478</b>	<b>5,340</b>	<b>4,314</b>	<b>6,003</b>	<b>5,105</b>	<b>5,204</b>	<b>3,434</b>	<b>4,133</b>	<b>5,868</b>	<b>4,714</b>	<b>3,222</b>
Principal.....	3,098	<b>2,547</b>	1,952	3,857	3,226	3,558	1,967	2,752	4,752	4,042	2,823
Interest.....	2,380	<b>2,792</b>	2,361	2,146	1,880	1,646	1,467	1,381	1,116	673	399
<b>Rest of Public Sector</b>	<b>1,004</b>	<b>893</b>	<b>297</b>	<b>230</b>	<b>212</b>	<b>191</b>	<b>162</b>	<b>114</b>	<b>98</b>	<b>90</b>	<b>134</b>
Principal.....	846	<b>723</b>	223	171	163	150	128	84	70	64	111
Interest.....	158	<b>170</b>	74	59	49	42	34	30	28	26	23
<b>Total Debt Service</b>	<b>6,482</b>	<b>6,233</b>	<b>4,611</b>	<b>6,232</b>	<b>5,318</b>	<b>5,395</b>	<b>3,597</b>	<b>4,246</b>	<b>5,966</b>	<b>4,804</b>	<b>3,356</b>

Source: Ministry of Economy and Finance as of November 2019.

**Debt with the Inter-American Development Bank**

As of November 30, 2019, the Republic's indebtedness with the IDB amounts to U.S.\$5,502.6 million, which represents 9.7% of the Republic's total indebtedness. As of November 30, 2019, the total amount of indebtedness of public companies such as EPMAPS EP with the IDB, guaranteed by the Republic, amounts to U.S.\$403.1 million.

**Internal Debt**

The Government's internal debt consists of obligations to both public sector and private entities. Public sector aggregate internal debt decreased from U.S.\$12,558.3 million as of December 31, 2014 to U.S.\$12,546.0 million as of December 31, 2015. 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. This decrease was primarily due to the repayment of certain notes upon maturity. As of November 30, 2019, public sector aggregate internal debt was U.S.\$15,992.0 million, a 15.0% increase from U.S.\$13,905 million as of November 30, 2018. This increase was primarily due to outstanding obligations of the Government (accrued but unpaid) to the public and private sectors that were already recorded in the closed budgets of the General State Budget for previous years and debt instruments entered into by entities of the non-financial public sector with the Ecuadorian Development Bank.

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,					As of November 30,	
	2014	2015	2016	2017	2018	2018	2019
Central Government Notes .....	11,779	11,779	11,695	14,021	12,935	13,106	13,125
Governmental Entities <sup>(1)</sup> .....	780	766	762	765	799	799	2,867
<b>Total<sup>(3)</sup></b>	<b>12,558</b>	<b>12,546</b>	<b>12,457</b>	<b>14,786</b>	<b>13,734</b>	<b>13,905</b>	<b>15,992</b>
Internal public debt as a percentage of nominal GDP <sup>(4)</sup> .....	12.3%	12.6%	12.5%	14.2%	12.5%	12.7%	14.7%

*Source: Ministry of Economy and Finance March 2019 Bulletin. Figures as of November 30, 2019 and November 30, 2018, from the Ministry of Economy and Finance November 2019 and November 2018 Bulletins, respectively.*

(1) Debt of the Government with the IESS and the Ecuadorian Development Bank.

(2) Calculated under the New Methodology and includes, in addition to the debt of the Government with the IESS and the Ecuadorian Development Bank, outstanding obligations of the Government (accrued but unpaid) to the public and private sectors that were already recorded in the closed budgets of the General State Budget for previous years and debt instruments entered into by entities of the non-financial public sector with the Ecuadorian Development Bank.

(3) Total public sector internal debt under the aggregation methodology.

(4) Calculated using Central Bank GDP data.

As of November 30, 2019, approximately 82.1% 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 November 30, 2019, approximately 64.6% of Ecuador's internal public indebtedness consists of debts of the Government with the IESS and the Ecuadorian Development Bank, outstanding obligations of the Government (accrued but unpaid) to the public and private sectors that were already recorded in the closed budgets of the General State Budget for previous years and debt instruments entered into by entities of the non-financial public sector with the Ecuadorian Development Bank.

As of November 30, 2019, the Ministry of Economy and Finance's obligations with the Central Bank with respect to financial investments through long-term Government bonds amount to U.S.\$3,613.3 million.

The last of the Ministry of Economy and Finance's short-term obligations with the Central Bank was only a CETES for an amount of U.S.\$11.97 million with maturity on March 23, 2019. As of the date of this Offering Circular, the Republic has no outstanding debts with the Central Bank through CETES.

On May 18, 2017, the Ministry of Economy and Finance transferred assets consisting in shares of financial institutions controlled by the Republic worth U.S.\$2,136.55 million in payment of debt incurred with the Central Bank for U.S.\$2,121.78 million plus accrued interest for U.S.\$14.77 million. As a result, public internal debt decreased by U.S.\$2,121.78 million.

On April 24, 2017, the Ministry of Economy and Finance transferred Central Bank Certificates to Petroamazonas' primary vendors and service providers, in exchange for U.S.\$150 million of accounts payable with such entities, satisfying Petroamazonas' obligations. Furthermore, on September 4, 2017, the Ministry of Economy and Finance transferred additional Central Bank Certificates to Petroamazonas' primary vendors and service providers, in exchange for U.S.\$100 million of accounts payable with such entities, satisfying Petroamazonas' obligations.

The Ministry of Economy and Finance and COSEDE, acting as trustees, temporarily assumed the debts and assets of AGD. They were then permanently transferred to CFN. For further information on these transfers, see "*Monetary System—The Financial Safety Net-Deposit Insurance*." Notes issued by the AGD matured and were fully paid off by the Government in December 2014.

### Public Sector Aggregate Internal Debt

(in millions of U.S.\$, except percentages)

	As of December 31,										As of November 30,			
	2014		2015		2016		2017		2018		2018		2019	
	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%
Short-term notes.....	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Long-term notes <sup>(1)</sup> .....	11,779	93.8	11,780	93.9	11,695	93.9	14,021	94.8	12,935	94.2	13,106	94.3	13,125	82.1
AGD notes <sup>(2)</sup> .....	—	—	—	—	—	—	—	—	—	—	—	—	—	—
CFN notes <sup>(3)</sup> .....	—	—	—	—	—	—	—	—	—	—	—	—	—	—
<b>Total notes</b> .....	<b>11,779</b>	<b>93.8</b>	<b>11,780</b>	<b>93.9</b>	<b>11,695</b>	<b>93.9</b>	<b>14,021</b>	<b>94.8</b>	<b>12,935</b>	<b>94.2</b>	<b>13,106</b>	<b>94.3</b>	<b>13,125</b>	<b>82.1</b>
<b>Governmental Entities<sup>(4)</sup></b> .....	<b>780</b>	<b>6.2</b>	<b>767</b>	<b>6.1</b>	<b>762</b>	<b>6.1</b>	<b>765</b>	<b>5.2</b>	<b>799</b>	<b>5.8</b>	<b>799</b>	<b>5.7</b>	<b>2,867<sup>(5)</sup></b>	<b>17.9</b>
<b>Total internal debt<sup>(6)</sup></b> .....	<b>12,558</b>	<b>100</b>	<b>12,546</b>	<b>100</b>	<b>12,457</b>	<b>100</b>	<b>14,786</b>	<b>100</b>	<b>13,734</b>	<b>100</b>	<b>13,905</b>	<b>100</b>	<b>15,992</b>	<b>100</b>

Source: Figures as of December 31 from the Ministry of Economy and Finance March 2019 Bulletin. Figures as of November 30, 2018 and as of November 30, 2019, from the Ministry of Economy and Finance November 2018 and November 2019 Bulletins, respectively.

- (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) Debt of the Government with the IESS and the Ecuadorian Development Bank.
- (5) Calculated under the New Methodology and includes, in addition to the debt of the Government with the IESS and the Ecuadorian Development Bank, outstanding obligations of the Government (accrued but unpaid) to the public and private sectors that were already recorded in the closed budgets of the General State Budget for previous years and debt instruments entered into by entities of the non-financial public sector with the Ecuadorian Development Bank.
- (6) Total public sector internal debt under the aggregation methodology.

As of November 30, 2019, 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.

### Methodology for Calculating the Public Debt to GDP Ratio

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 used 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. 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. 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 and prior to the publication of the April 2019 Debt Bulletin, the Ministry of Economy and Finance had 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, unless the public debt reaches a level below the public debt ceiling of 40% of GDP, the public debt ceiling will not apply. The law also provides for the implementation of a fiscal stability plan by the Ministry of Economy and Finance for the period from 2018 to 2021. The law sets forth that in each subsequent fiscal year after 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 mandated that the Ministry of Economy and Finance issue within 90 days from August 21, 2018, a new regulation implementing a new accounting methodology, to 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 New Methodology. The New Methodology provides that the calculation of the public debt to GDP ratio is to 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. The New Methodology defines total public debt as the sum of the public debt incurred by the entities comprising the public sector and adds certain debt instruments to the calculation of public debt that were not previously included, including oil presales. In contrast with the prior methodology for calculating the public debt to GDP ratio, under the New Methodology, (i) the calculation of public external debt also includes oil presales, the Central Bank's special drawing rights with the IMF, and liabilities under intangible contractual rights; and (ii) the calculation of public internal debt also includes outstanding obligations of the Government (accrued but unpaid) to the public and private sectors that were already recorded in the closed budgets of the General State Budget for previous years and debt instruments entered into by entities of the non-financial public sector with the Ecuadorian Development Bank. The April 2019 Debt Bulletin was the first report on public debt issued that followed the New Methodology. The Regulation Implementing the Public Debt to GDP Ratio Calculation Methodology provides that by November 14, 2019, the Ministry of Economy and Finance was required to publish public debt figures calculated using the New Methodology going back to October 2010. Such deadline has not been met due to unexpected delays in gathering and consolidating the data, with the release of these updated public debt figures expected within the weeks following this Offering Circular. Once these past public debt figures are published using the New Methodology, those numbers may vary from the public debt figures presented in this Offering Circular for the comparable period which were calculated based on the old methodology.

On October 15, 2018, President Moreno issued 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 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."

Following a transition period set forth in the Regulation Implementing the Public Debt to GDP Ratio Calculation Methodology, which ended on May 31, 2019, the Ministry of Economy and Finance published its April 2019 Debt Bulletin following the New Methodology. Under the New Methodology, the aggregate public debt to GDP ratio as of November 30, 2019 was 52.0%, which is 7.3% higher than 44.7% aggregate public debt to GDP ratio as of November 30, 2018 under the prior methodology. In the November 2019 Debt Bulletin, the Ministry of Economy and Finance disclosed public aggregate and consolidated debt figures as of November 30, 2019. In the same bulletin, the Ministry of Economy and Finance also disclosed public aggregate and consolidated debt figures under the New Methodology for the ten months prior to November 2019. Under the New Methodology, the aggregate public debt to GDP ratio as of January 31, 2019, February 28, 2019, March 31, 2019, April 30, 2019, May 31, 2019, June 30, 2019, July 31, 2019, August 31, 2019, September 30, 2019, and October 31, 2019, was, respectively, 51.14%, 50.72%, 51.34%, 51.13%, 51.05%, 51.23%, 51.14%, 51.04%, 52.14% and 52.13%. The respective difference between the aggregate public debt to GDP ratio under the new methodology and the prior methodology for these periods are 4.61%, 4.28%, 4.41%, 4.35%, 4.08%, 4.08%, 3.97%, 3.83%, 3.36% and 3.39%.

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,					As of November 30,	
	2014	2015	2016	2017	2018	2018	2019 <sup>(1)</sup>
Aggregate Total Debt.....	30,140	32,771	38,137	46,536	49,463	48,954	56,781
Aggregate Debt to GDP Ratio.....	29.6	33.0	38.2	44.6	45.2	44.7	52.0 <sup>(1)</sup>

Source: For figures as of November 30, 2019, from the Ministry of Economy and Finance November 2019 Bulletin. For figures as of November 30, 2018, from the Ministry of Economy and Finance November 2018 Bulletin. For figures as of December 31, from the Ministry of Economy and Finance March 2019 Bulletin.

(1) Under the New Methodology.

(2) Based on the Central Bank's estimate of projected GDP.

Total aggregate public sector internal debt of Ecuador as of November 30, 2019, was U.S.\$15,992 million, compared to U.S.\$13,905 million as of November 30, 2018. This increase was primarily due to outstanding obligations of the Government (accrued but unpaid) to the public and private sectors that were already recorded in the closed budgets of the General State Budget for previous years and debt instruments entered into by entities of the non-financial public sector with the Ecuadorian Development Bank.

The U.S.\$16,090.5 million under the aggregation methodology figure for October 31, 2019, 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.

#### **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 to 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 interinstitutional 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, unless the public debt reaches a level below the public debt ceiling of 40% of GDP, the public debt ceiling will not apply. The law also provides for the implementation of a fiscal stability plan by the Ministry of Economy and Finance for the period from 2018 to 2021. The law sets forth that in each subsequent fiscal year after 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 mandated that the Ministry of Economy and Finance issue within 90 days from August 21, 2018, a new regulation implementing a new accounting methodology, to 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 issued Decree 537 repealing Decree 1218 in its entirety, which became effective on October 30, 2018, see *"Public Debt—Methodology for Calculating the Public Debt to GDP Ratio."*

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 New Methodology, which provides that the calculation of the public debt to GDP ratio is to 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. The New Methodology defines total public debt as the sum of the public debt incurred by the entities comprising the public sector and adds certain debt instruments to the calculation of public debt that were not previously included, including oil presales, see *"Public Debt—Methodology for Calculating the Public Debt to GDP Ratio."* The April 2019 Debt Bulletin was the first report on public debt issued that followed the New Methodology. The Regulation Implementing the Public Debt

to GDP Ratio Calculation Methodology provides that by November 14, 2019, the Ministry of Economy and Finance was required to publish public debt figures calculated using the New Methodology going back to October 2010. Such deadline has not been met due to unexpected delays in gathering and consolidating the data, with the release of these updated public debt figures expected within the weeks following this Offering Circular. Once these past public debt figures are published using the New Methodology, those numbers may vary from the public debt figures presented in this Offering Circular for the comparable period which were calculated based on the old methodology.

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 short-term treasury notes with a term of up to 360 days (the "CETES") by the Republic; an examination finalized in April 2019, regarding the contracts with service providers (including lawyers, banks, financial agents and other firms) involved in public debt transactions, covering the period between January 1, 2012 and December 31, 2017; an examination finalized in April 2019, regarding the Republic's use of shares of public banks to pay the Central Bank of Ecuador, covering the period between January 1, 2016 and December 31, 2017; an examination finalized in May 2019, regarding the entry, registration and use of funds from oil presale contracts, covering the period between January 1, 2012 and December 31, 2017; and a follow-up examination finalized in May 2019, regarding the application of the recommendations under the CGR Audit Report, covering the period between April 6, 2018 and October 31, 2018; and (ii) an ongoing examination regarding the GSI Loan Facility, the Gold Derivative Transaction and the Bond Derivative Transaction, see *"Public Debt—GSI Loan Facility"*.

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 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 total public debt, instead of short-term securities with a term of "up to 360 days" as it was set forth in Decree 1218. Decree 537 repealed Decree 1218 on October 30, 2018, see *"Public Debt—Methodology for Calculating the Public Debt to GDP Ratio."* 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 an indictment, the court would hold a pre-trial hearing. The alleged offenders would not be considered criminally liable unless determined through a trial process.

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.

### **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, unless the public debt reaches a level below the public debt ceiling of 40% of GDP, the public debt ceiling will not apply. The law also provides for the implementation of a fiscal stability plan by the Ministry of Economy and Finance for the period from 2018 to 2021. The law sets forth that in each subsequent fiscal year after 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 mandated that the Ministry of Economy and Finance issue within 90 days from August 21, 2018, a new regulation implementing a new accounting methodology, to 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 issued Decree 537 repealing Decree 1218 in its entirety, which became effective on October 30, 2018, see "*Public Debt—Methodology for Calculating the Public Debt to GDP Ratio*."

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 New Methodology, which provides that the calculation of the public debt to GDP ratio is to 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. The New Methodology defines total public debt as the sum of the public debt incurred by the entities comprising the public sector and adds certain debt instruments to the calculation of public debt that were not previously included, including oil presales, see "*Public Debt—Methodology for Calculating the Public Debt to GDP Ratio.*" The April 2019 Debt Bulletin was the first report on public debt issued that followed the New Methodology. The Regulation Implementing the Public Debt to GDP Ratio Calculation Methodology provides that by November 14, 2019, the Ministry of Economy and Finance was required to publish public debt figures calculated using the New Methodology going back to October 2010. Such deadline has not been met due to unexpected delays in gathering and consolidating the data, with the release of these updated public debt figures expected within the weeks following this Offering Circular. Once these past public debt figures are published using the New Methodology, those numbers may vary from the public debt figures presented in this Offering Circular for the comparable period which were calculated based on the old methodology.

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 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 holders of the Notes*" 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.

### **IMF's Extended Fund Facility**

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; topics included 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 economic and financial information collected by the IMF mission and on the discussions with Ecuadorian officials on the country's economic developments and policies, the IMF staff prepared an Article IV report which was presented for the IMF executive board's consideration on March 11, 2019.

In a press release issued on July 5, 2018, the IMF mission team stated: "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 "the 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, the then 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 praised Ecuador's recent achievements in reducing its fiscal deficit.

On February 21, 2019, Ecuador and the IMF staff announced an agreement on a set of policies to underpin a U.S.\$4,200 million arrangement under the IMF's Extended Fund Facility, subject to IMF Executive Board approval. This arrangement is part of a broader effort of the international community that includes financial support of approximately U.S.\$6,000 million over the subsequent three years from six other multilateral agencies and development banks. As noted in the IMF's press release dated February 21, 2019, "the government's plan is aimed at creating a more dynamic, sustainable, and inclusive economy and is based on four key tenets; to boost competitiveness and job creation; to protect the poor and most vulnerable; to strengthen fiscal sustainability and the institutional foundations of Ecuador's dollarization; and to improve transparency and strengthen the fight against corruption."

The Ministry of Economy and Finance announced on February 21, 2019 that the staff-level agreements reached with the IMF and other multilateral agencies and development banks project availability of up to U.S.\$10,279 million in financing over the subsequent three years, with approximate amounts distributed as follows: U.S.\$4,200 million from the IMF; U.S.\$1,800 million from the Development Bank of Latin America; U.S.\$1,744 million from the World Bank; U.S.\$1,717 million from the IDB; U.S.\$380 million from the European Investment Bank; U.S.\$280 million from the Latin American Reserve Fund; and, U.S.\$150 million from the AFD. The Ministry of Economy and Finance also announced that it is expected that, of the entire amount, U.S.\$4,600 million will be disbursed in 2019, U.S.\$3,100 million in 2020, and U.S.\$2,500 million in 2021; and that disbursements of about U.S.\$3,500 will be tied to specific projects.

On March 1, 2019, Ecuador's Minister of Economy and Finance and the General Manager of the Central Bank of Ecuador presented the IMF with the Letter of Intent, including a Memorandum of Economic and Financial Policies and a Technical Memorandum of Understanding, outlining Ecuador's economic outlook and economic goals in connection with the request for a three-year extended arrangement under the IMF's Extended Fund Facility to support the Plan of Prosperity. In the Letter of Intent, the Minister and the General Manager highlighted the four pillars of the country's current social and macroeconomic plan: (1) reconstruction and strengthening of the institutional foundations of dollarization, (2) employment and growth generation through increased competitiveness,

(3) increasing equality of opportunities and protection of the poor and most vulnerable segments of the population, and (4) guaranteeing a climate of transparency and good governance.

The Memorandum of Economic and Financial Policies attached to the Letter of Intent outlines the Government's policy plans for the coming three years. Among other measures, the Government intends to:

- continue reducing the public debt to GDP ratio to, over time, bring it below 40%, with a fiscal plan designed to minimize the impact on the real economy and the quality of life of the population;
- continue reducing the non-petroleum deficit for the public non-financial sector including fuel subsidies by 5% of GDP for the next three years;
- strengthen the conduct of the fiscal policies framework by, among others, complementing the expenditure growth rule with binding annual targets for the non-oil primary balance, and reviewing the applicable laws and corresponding regulations to ensure that public debt is comprehensively defined and, for statistical purposes, is measured on a consolidated basis in line with international standards;
- strengthen the Ecuadorian system of data disclosure by the provision and monitoring at all stages of the budget cycle as well as instituting clear and automatic enforcement mechanisms and effective sanctions for non-adherence to the law;
- reform the Public Planning and Finance Code in order to strengthen the role of the Ministry of Economy and Finance as the authority charged with fiscal supervision, ensure that annual budgets follow international best practice standards in their preparation and include binding limitations on spending;
- not enter into new government international borrowing arrangements that are based on repurchase agreements or the pledging of Central Bank assets;
- perform a full review of the Central Bank's legal framework to ensure more operational autonomy for the Central Bank, to implement the changes recently introduced by the regulation of the Monetary Board of the Central Bank that forbid all quasi-fiscal activities by the Central Bank as well as direct or indirect lending by the Central Bank to the Government or the public sector;
- gradually increase the country's international reserves to back all private and public financial institutions kept in the Central Bank and all notes and coins in circulation;
- foster the international competitiveness of the economy by (i) implementing a reform of the current tax system to simplify it, increase its tax base, eliminate unjustified tax exemptions and special tax regimes, refocus it towards more indirect taxes over direct ones, and gradually eliminate taxes based on business volumes and capital outflows, (ii) submitting to the National Assembly an Entrepreneurial Bill eliminating obstacles to business formation and operation and providing a strong legal framework for new businesses, (iii) submitting a labor reform to the National Assembly creating the institutional framework to promote public-private partnerships, (iv) reviewing the legal framework of the country's capital markets, and (v) expanding Ecuador's efforts to enter into trade agreements with new regional and non-regional key players;
- significantly increase social expenditure by expanding coverage and benefits provided by the Human Development Bond through new international partnerships; increasing expenditure for people with disabilities; increasing coverage of the country's pension plans; and updating and improving the social registry system;
- take other measures that will help improve the business climate, lower the cost of public financing, and support private investment and job creation including, among others, the submission to the National Assembly of an anti-corruption law that will enhance the independence and power of law enforcement

agencies and the judiciary and strengthen national and international coordination to fight corruption; and

- present the Central Bank's financial statements for 2019 by following IFRS and commit to making this the standard starting in 2021.

On March 11, 2019, the executive board of the IMF approved the U.S.\$4,200 million arrangement under the IMF's Extended Fund Facility for Ecuador, enabling the disbursement of U.S.\$652 million. The arrangement provides for an approximate 3% interest rate and a ten-year repayment plan (with a four-year grace period). According to the IMF's press release of March 11, 2019, "the Ecuadorian authorities are implementing a comprehensive reform program aimed at modernizing the economy and paving the way for strong, sustained, and equitable growth. The authorities' measures are geared towards strengthening the fiscal position and improving competitiveness and by so doing help lessen vulnerabilities, put dollarization on a stronger footing, and, over time, encourage growth and job creation."

On March 11, 2019, the executive board of the IMF also concluded its Article IV consultation with Ecuador, and the IMF published its Article IV staff report.

On April 30, 2019, in line with the Letter of Intent, the Ministry of Economy and Finance published the Action Plan for the Strengthening of Public Finances with 17 proposals aimed at strengthening fiscal and budgetary rules and planning, and improving sustainability in the operations of the National Treasury. Among the proposals, the Ministry of Economy and Finance will send the President a draft bill modifying certain provisions of the Public Planning and Finance Code to further limit the Executive's discretion to outspend the national budget from 15% to 5% in order to increase credibility over each year's set fiscal goals; to substitute the CETES with a new short-term instrument that guarantees its use within the budgetary year of issuance and placement; and to include a chapter in the Public Planning and Finance Code with a functional outline of the fiscal rules to increase transparency.

The initial disbursement of U.S.\$652 million under the IMF's arrangement was made on March 13, 2019. Under the terms of the IMF's Extended Fund Facility program, further disbursements to the Republic are conditioned on the Government's implementation of its policy plans as outlined in the Letter of Intent, the implementation of which the IMF will monitor and review every three months on the basis of certain performance criteria, targets and benchmarks, including fiscal and monetary targets.

On May 30, 2019, the IMF announced it had reached a staff-level agreement with the Republic on the completion of the first review under the Extended Fund Facility arrangement. In their announcement, the IMF mission concluded that "Ecuador has made considerable progress in implementing its program aligned with the Prosperity Plan." Based on their preliminary findings, the IMF mission prepared and presented a report to the IMF's Executive Board. On June 28, 2019, the IMF's Executive Board completed their first review of Ecuador's economic performance under Ecuador's arrangement with the IMF under the Extended Fund Facility, which allowed Ecuador to draw U.S.\$251 million from the facility on July 2, 2019.

On October 1, 2019, President Moreno issued Decree 883 expanding the scope of the liberalization of prices for hydrocarbons by eliminating the subsidy on certain types of gasoline and diesel and thereby increasing the prices for these fuels. Following the elimination of the subsidies, prices for gasoline type "extra" and diesel for the automotive sector began to be set on a monthly basis by Petroecuador based on average prices and costs. On October 3, 2019, various groups organized protests relating to the elimination of the subsidies and increase in prices. The protests lasted for almost two weeks and President Moreno relocated the government to Guayaquil on a temporary basis. The Government reached an agreement with protest leaders and on October 14, 2019, President Moreno issued Decree 894 terminating Decree 883, reversing the elimination of the subsidies and ordering the creation of a new policy on subsidies for hydrocarbons.

On October 18, 2019, President Moreno presented before the National Assembly the draft Law on Economic Development, aimed at reforming several of the Republic's tax and financial laws. On November 17, 2019, the National Assembly voted to reject the draft Law on Economic Development. In response, on November 21, 2019, President Moreno presented the draft Organic Law on Tax Simplification, replacing the draft Law on

Economic Development with respect to certain aspects of the intended tax reform. The Organic Law on Tax Simplification was first approved by the National Assembly on December 9, 2019, and after a Presidential partial veto, it was finally approved on December 30, 2019, and became effective on December 31, 2019 (for more information on the rejection of the draft Law on Economic Development and the subsequent approval of the Organic Law on Tax Simplification, see “*The Republic of Ecuador—Recent Measures by President Moreno*”).

On December 11, 2019, Ecuador's Minister of Economy and Finance and the General Manager of the Central Bank of Ecuador presented the IMF with a letter of intent, including the Updated Memorandum of Economic and Financial Policies, requesting (i) completion of the second and third review of the arrangement under the IMF's Extended Fund Facility and the disbursement of the associated amount of about U.S.\$498.0 million for budget support, and (ii) a waiver of nonobservance of the performance criteria on net international reserves given that the macroeconomic impact of the breach was minor, as well as certain modifications to program requirements reflected therein.

The Updated Memorandum of Economic and Financial Policies outlines the Government's policy plans for the coming two years. Failure to implement the economic and financial policies agreed with the IMF could delay or prevent future disbursements. The Updated Memorandum of Economic and Financial Policies is an updated version of the Memorandum attached to the Letter of Intent dated March 1, 2019, and outlines the same policy plans with certain updates. Among such updates, the Updated Memorandum of Economic and Financial Policies provides that:

- The Government commits to reducing the non-financial public sector non-oil primary deficit including fuel subsidies, by about 3.9% of GDP during 2019-2021.
- In light of the rejection of the draft Law on Economic Development, the Government intends to submit to the National Assembly by the end of February 2020, the revised amendments to the Public Planning and Finance Code. The amendments intend to ensure that the role of the Minister of Economy and Finance as the fiscal oversight authority is strengthened; that annual budgets are prepared in line with best international practices; that the fiscal rules framework is further strengthened, including escape clauses, automatic correction mechanisms, and in-year fiscal reporting; that government discretion to amend approved budgets is limited and a robust framework for contingency allocation is introduced; that budget execution is kept in check by comprehensive, timely, and proper government accounting and reporting, including a comprehensive definition of public debt, as well as the adoption of better cash management practices and commitment controls.
- In light of the rejection of the draft Law on Economic Development, the Government intends to resubmit to the National Assembly by April 2020 after consultation with various stakeholders and building consensus, a revised version of the amendments to the Organic Monetary and Financial Law that were incorporated as part of the draft Law on Economic Development and which aimed to ensure that the Central Bank had clear objectives and limited functions, designed to fully support the dollarization regime, and encompassed measures to strengthen the Central Bank's autonomy including in terms of its budget, improve the Central Bank's governance by establishing a board with fiduciary responsibilities to the Central Bank, and build a strong internal and external audit function; such amendments prohibited all direct and indirect lending by the Central Bank to the government or the public sector, while remaining able to provide temporary liquidity support to public banks, if needed for prudential purposes.
- The Government is preparing a new law for state-owned enterprises, which seeks to improve efficiency, increase transparency, and strengthen governance of the state-owned enterprises.

Resubmit to the National Assembly by April 2020 after consultation with various stakeholders and building consensus, a revised version of the amendments to the Organic Monetary and Financial Law that were incorporated as part of the draft Law on Economic Development and which aimed to ensure that the Central Bank had clear objectives and limited functions, designed to fully support the dollarization regime, and encompassed measures to strengthen the Central Bank's autonomy including in terms of its budget, improve the Central Bank's governance by establishing a board with fiduciary responsibilities to the Central Bank, and build a strong internal and external audit

function; such amendments prohibited all direct and indirect lending by the Central Bank to the government or the public sector, while remaining able to provide temporary liquidity support to public banks, if needed for prudential purposes.

On December 19, 2019, the IMF's Executive Board concluded its combined second and third reviews of the Government's economic program supported under the Extended Fund Facility. In these reviews, the IMF reported that the end-September benchmark under the arrangement with the IMF concerning the submission by the Republic of amendments to the Organic Monetary and Financial Law fell short of being fully implemented since the draft law submitted did not incorporate the double veto procedure for the appointment and dismissal of members of the Central Bank board, though it contained other important provisions that would strengthen the institutional foundations of the Central Bank. Other structural benchmarks for the second and third reviews were either met or implemented with a slight delay. Given the rejection of the draft Law on Economic Development, new program conditionalities were accepted by the IMF to allow the authorities more time to reach consensus and complete these structural reforms. In particular, the submission of certain amendments to the Public Planning and Finance Code consistent with program commitments were accepted as a structural benchmark for the fourth review and that of the revised Organic Monetary and Financial Law amendments as a structural benchmark for the fifth review. The IMF granted the Republic's request to modify the end-December 2019 targets on the non-oil primary balance including fuel subsidies to partially accommodate the shortfall due to the delay in asset monetization, on net international reserves due to a higher deficit and financing shortfalls, and on social assistance spending due to the postponement of one of the programs to 2020. After the IMF staff's recommendations to the IMF's Executive Board for completion of the second and third reviews, and support for the Republic's requests of waivers for nonobservance of certain targets, on December 19, 2019, the IMF's Executive Board approved the disbursement to the Republic of approximately U.S.\$498 million.

Disbursements under the other staff-level agreements with multilateral agencies and development banks are also subject to the approval of each organization's executive board. Under these agreements, in May 2019, the Republic entered into two loans with the CAF for U.S.\$300 million and U.S.\$100 million, respectively; on May 24, 2019, July 3, 2019, July 12, 2019 and July 23, 2019, the Republic entered into four loans with the IDB for U.S.\$500 million, U.S.\$150 million, U.S.\$93.9 million and U.S.\$300 million, respectively; and on June 17, 2019 and July 22, 2019, the Republic entered into two loans with the IBRD for U.S.\$500 million and U.S.\$350 million, respectively. In the next few months, the Republic expects to enter into several loan agreements with private and bilateral lenders totaling approximately U.S.\$270 million.

## **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.\$2,000 million of notes due June 2024, with a coupon of 7.95% at 100% of the purchase price (the "2024 Notes"). The Republic is current on its financial obligations under the 2024 Notes. 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 "2020 Notes"). 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 Republic is current on its financial obligations under the 2020 Notes. 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. On May 29, 2019, the Republic canceled an amount of U.S.\$701,616,000 2020 Notes that it received from GSI in the context of a substitution under the Amended August 2018 GSI-Ecuador Repurchase Agreement. See "*GSI Repo Transaction*" below. On June 18, 2019, the Republic repurchased an amount of U.S.\$1,175,370,000 2020 Notes pursuant to a tender offer, which were subsequently canceled. Upon consummation of the tender offer, an aggregate amount of U.S.\$324,630,000 remained outstanding.

### *2022 Notes*

On July 28, 2016, the Republic successfully issued U.S.\$1,000 million of notes due 2022 with a coupon of 10.75% (the "Original 2022 Issuance"), at 100% of the purchase price (the "2022 Notes"). The Republic reopened the Original 2022 Issuance on September 30, 2016 and successfully issued an additional U.S.\$1,000 million 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 (the "Substituted October 2018 Additional Notes"), within the context of a repo transaction with CS, see "*CS Repo Transaction*" below. On August 6, 2019, the Republic cancelled the Substituted October 2018 Additional Notes pursuant to the terms of the 2022 Notes indenture, 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% (the "Original 2026 Issuance"), 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.\$1,000 million of notes at a price of 103.364% also due 2026 and intends to make all payments as they become due and payable. The Republic is current on its financial obligations under the 2026 Notes. 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. On August 6, 2019, the Republic reopened the Original 2026 Issuance, issuing an additional U.S.\$611,870,000 of notes at a price of 107.026%, also due 2026, for the purpose of a substitution under the October 2018 CS-Ecuador Repurchase Agreement, see "*CS Repo Transaction*" 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.\$1,000 million of 2023 Notes with a coupon of 8.750% (the "Original 2023 Issuance"), at 100% of the purchase price (the "2023 Notes"). Under the second tranche, the Republic issued U.S.\$1,000 million

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 in 2023, within the context of a loan with GSI. See "*GSI Loan Facility*" below. On May 29, 2019, the Republic reopened the Original 2023 Issuance, issuing an additional U.S.\$688,268,000 of notes at a price of 106.597%, also due 2023, (the "May 2019 Additional 2023 Notes"), for the purpose of a substitution under the Amended August 2018 GSI-Ecuador Repurchase Agreement. See "*GSI Repo Transaction*" below. On August 6, 2019, the Republic reopened the Original 2023 Issuance, issuing an additional U.S.\$610,359,000 of notes at a price of 107.291%, also due 2023, for the purpose of a substitution under the October 2018 CS-Ecuador Repurchase Agreement, see "*CS Repo Transaction*" below.

#### *Second 2027 Notes*

On October 23, 2017, the Republic successfully issued U.S.\$2,500 million 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.\$3,000 million 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.

#### *2029 Notes*

On January 31, 2019, the Republic successfully issued the 2029 Notes. The Republic is current on its financial obligations under the 2029 Notes. The Republic used the proceeds of the 2029 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. The Republic reopened the 2029 Issuance on June 17, 2019 and successfully issued an additional U.S.\$1,125,000,000 million of notes at a price of 110.746%, also due 2029. The Republic used the proceeds of the reopened 2029 Notes to repurchase U.S.\$1,175,370,000 principal amount of its 2020 Notes by means of a tender offer that settled on June 18, 2019.

#### *2025 Notes and 2030 Notes*

On September 27, 2019, the Republic successfully issued the 2025 Notes and the 2030 Notes. The Republic used the proceeds of the 2025 Notes and the 2030 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 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—Methodology for Calculating the Public Debt to GDP Ratio*." 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 executive 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, unless the public debt reaches a level below the public debt ceiling of 40% of GDP, the public debt ceiling will not apply. According to the Ministry of Economy and Finance, as of the close of March 2019, it is estimated that the Republic's total public debt to GDP ratio under the aggregation methodology will be approximately 45.3%. 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 holders of the Notes" 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 additional notes (the "August 2018 Additional Notes") (with a market value at the date of the transaction of U.S.\$1,250,000,000) and in return received from GSI a purchase price of U.S.\$500,000,000 (the "Purchase Price"), the value of the Republic's residual interest in the August 2018 GSI-Ecuador Repurchase Transaction and the interest amounts three business days prior to the date on which they are paid by the Republic on the August 2018 Additional Notes. The Republic is also required to pay to GSI, on a quarterly basis, a price differential on the purchase price based upon Libor plus a spread. Either GSI or the Republic may request that any of the August 2018 Additional Notes be substituted for other identified securities issued by the Republic (a "Repo Substitution"), subject to certain conditions (including the consent of both GSI and the Republic) as described in more detail below. The August 2018 Additional 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 August 2018 Additional Notes and the execution of the 2018 GSI-Ecuador Repurchase Agreement were authorized by the Republic's Debt and Finance Committee under *Acta Resolutiva* No. 003 dated August 25, 2018. The August 2018 Additional Notes were issued on August 31, 2018 in consideration for the transfer to the Republic of the Purchase Price, the ongoing payment to the Republic of the interest amounts on the August 2018 Additional Notes and the value of the Republic's residual interest in the August 2018 GSI-Ecuador Repurchase Transaction, subject to the terms of the August 2018 GSI-Ecuador Repurchase Agreement. The two series of August 2018 Additional Notes are fully fungible with the 2020 Notes and the 2022 Notes, respectively, and constitute general, direct, unsecured, unsubordinated and unconditional obligations of the Republic backed by the full faith and credit of the Republic and, based on an opinion of the Ministry of Economy and Finance of the Republic, have been legally and validly issued.

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 EUR based upon the EUR/USD exchange rate as of the date of the October 2018 Amendment, although the Purchase Price was disbursed in USD. Although the Purchase Price is to be repaid in EUR post amendment, the price differential is to continue to be paid in USD and the price differential spread is not necessarily the same had the Purchase Price been initially disbursed in EUR. 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 EUR has appreciated to the USD 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.

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 EUR to GSI which in aggregate equal the EUR 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 USD 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 both (a) the May 2019 Additional 2023 Notes and (b) the remaining August 2018 Additional Notes (the "Remaining August 2018 Additional Notes") that were not substituted out in accordance with the October 2018 Amendment (together, 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 Equivalent Property 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 May 2019 Additional 2023 Notes and/or the Remaining August 2018 Additional Notes 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 EUR or USD (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 May 2019 Additional 2023 Notes and/or the Remaining August 2018 Additional Notes declines, even where no event of default or termination event has occurred. In addition, under certain circumstances and at certain times, the Republic may request that GSI return to the Republic an amount of the May 2019 Additional 2023 Notes and/or the Remaining August 2018 Additional Notes, either in cash or by transfer of the corresponding excess securities, if the value of the May 2019 Additional 2023 Notes and/or the Remaining August 2018 Additional Notes increases above certain thresholds or following certain scheduled amortization dates. Any Additional Amounts paid by the Republic to GSI will reduce the Repurchase Price, and any cash amounts returned by GSI to the Republic will increase the Repurchase Price.

Under the Amended August 2018 GSI-Ecuador Repurchase Agreement, GSI is required to transfer to the Republic an amount equivalent to all interest amounts to be paid by the Republic on the May 2019 Additional 2023 Notes and the Remaining August 2018 Additional Notes three business days prior to the date on which such interest amounts are to be paid by the Republic. GSI is also required to transfer to the Republic the 2018 Equivalent Property upon payment of the Repurchase Price in full. If an event of default occurs under the Amended August 2018 GSI-Ecuador Repurchase Agreement, the rights of the Republic to receive an amount equivalent to all interest amounts that are to be paid by the Republic on the May 2019 Additional 2023 Notes and the Remaining August 2018 Additional Notes may terminate, but the Republic will continue to be required to make all payments of principal and

interest in respect of the May 2019 Additional 2023 Notes and the Remaining August 2018 Additional Notes to the applicable holders thereof.

As was the case with the August 2018 GSI-Ecuador Repurchase Transaction, at any time during the term of the Amended August 2018 GSI-Ecuador Repurchase Transaction, either GSI or the Republic may request that any 2018 Equivalent Property 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 Equivalent Property 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.

In accordance with the substitution provisions set out in the amended and restated August 2018 GSI-Ecuador Repurchase Agreement (as amended and restated, the "Amended August 2018 GSI-Ecuador Repurchase Agreement") and pursuant to a notice of substitution dated May 23, 2019, on May 29, 2019: (a) U.S.\$701,616,000 nominal amount of the August 2018 Additional Notes (comprised solely of 2020 Notes), which had a market value at the date of the notice of substitution of approximately U.S.\$733.67 million (the "Substituted August 2018 Additional Notes") were returned to the Republic by GSI; and (b) U.S.\$688,268,000 nominal amount of May 2019 Additional Notes (with a market value at the date of the notice of substitution of approximately U.S.\$733.67 million) were transferred to GSI by the Republic. On May 29, 2019, the Republic cancelled the Substituted August 2018 Additional Notes pursuant to the terms of the indenture dated March 24, 2015, with respect to the 2020 Notes.

The execution of the documentation for the October 2018 Amendment and the issue of the May 2019 Additional 2023 Notes were authorized by the Republic's Debt and Finance Committee under *Acta Resolutiva* No. 010 dated October 10, 2018, and *Acta Resolutiva* No. 010-2019, dated May 21, 2019. The May 2019 Additional 2023 Notes were issued on May 31, 2019 in consideration for the transfer to the Republic of the Substituted August 2018 Additional Notes and the ongoing payment to the Republic of the interest amounts on the May 2019 Additional 2023 Notes, subject to the terms of the Amended August 2018 GSI-Ecuador Repurchase Agreement. The May 2019 Additional 2023 Notes are fully fungible with the 2023 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.

Pursuant to the amendment of Article 123 of the Public Planning and Finance Code by the Organic Law for Productive Development, 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 May 2019 Additional 2023 Notes or the Remaining August 2018 Additional 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 May 2019 Additional 2023 Notes and the Remaining August 2018 Additional Notes no longer considered to be contingent, such as upon the occurrence of an event of default, the entire outstanding face amount of the May 2019 Additional 2023 Notes and the Remaining August 2018 Additional Notes may be considered in the calculation of the total public debt to GDP ceiling. If the entire face amount of the May 2019 Additional 2023 Notes and the Remaining August 2018 Additional Notes at issuance is taken into account in calculating the debt to GDP ratio, the aggregate debt to GDP ratio would be approximately 53.12%, under the New Methodology using the debt to GDP ratio information as of November 30, 2019 (which does not consider the Purchase Price, as defined above).

On May 31, 2019, the Republic, GSI and ICBC Standard Bank Plc entered into an agreement pursuant to which a portion of GSI's interest in the Amended August 2018 GSI-Ecuador Repurchase Agreement was transferred to ICBC Standard Bank Plc.

As a result of a decline in the valuation of the 2022 Notes and the 2023 Notes, GSI made four requests under the Amended August 2018 GSI-Ecuador Repurchase Agreement from November 19 through November 22,

2019, for the Republic to transfer additional payment amounts totaling U.S.\$167,814,563.08, which payments were made from November 21 through November 26, 2019. After the recovery of the value of the 2022 Notes and the 2023 Notes, upon the Republic's request, these additional payment amounts were returned in full to the Republic.

With respect to the portion of GSI's interest in the Amended August 2018 GSI-Ecuador Repurchase Agreement that was transferred to ICBC Standard Bank Plc, ICBC Standard Bank Plc made three requests for additional payments from November 19 through November 22, 2019, for the Republic to transfer additional payment amounts totaling U.S.\$36,369,031.10, which payments were made from November 21 through November 26, 2019. After the recovery of the value of the 2023 Notes and 2023 Notes, upon the Republic's request, these additional payment amounts were returned to the Republic in full.

### **CS Repo Transaction**

On October 29, 2018 the Republic and CS entered into a master repurchase agreement governed by English law which is based upon the standard GMRA published by the International Securities Market Association and also includes a negotiated 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. The August 2019 Additional Notes (as defined below) were issued for the purpose of a substitution with CS Reopened Notes in accordance with the provision of the October 2018 CS-Ecuador Repurchase Agreement described in this paragraph.

In accordance with the substitution provisions set out in the October 2018 CS-Ecuador Repurchase Agreement, on August 6, 2019: (a) U.S.\$1,187,028,000 nominal amount of the CS Reopened Notes (comprised solely of 2022 Notes), which had a market value at the date of the notice of substitution of approximately U.S.\$1,309.7 million (the "Substituted October 2018 Additional Notes") were returned to the Republic by CS; and (b) U.S.\$610,359,000 nominal amount of newly issued 2023 Notes (with a market value at the date of the notice of substitution of approximately U.S.\$654.9 million) (the "2019 Additional 2023 Notes") and U.S.\$611,870,000 nominal amount of newly issued 2026 Notes (with a market value at the date of the notice of substitution of approximately U.S.\$654.9 million) (the "2019 Additional 2026 Notes") and, together with the August 2019 Additional Notes were transferred to CS by the Republic. On August 6, 2019, the Republic cancelled the Substituted October 2018 Additional Notes.

The issue of the August 2019 Additional Notes was authorized by the Republic's Debt and Finance Committee under *Acta Resolutiva* No. 021-2019 dated July 10, 2019. The August 2019 Additional Notes were issued on August 6, 2019 in consideration for the transfer to the Republic of the Substituted October 2018 Additional Notes and the ongoing payment to the Republic of the interest amounts on the August 2019 Additional Notes, subject to the terms of the October 2018 CS-Ecuador Repurchase Agreement. The 2019 Additional 2023 Notes are fully fungible with the 2023 Notes and the 2019 Additional 2026 Notes are fully fungible with the 2026

Notes, and each of the August 2019 Additional Notes 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.

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 aggregate debt to GDP ratio would be approximately 53.12%, under the New Methodology using the debt to GDP ratio information as of November 30, 2019.

As a result of a decline in the valuation of the August 2019 Additional Notes, CS made two requests on November 18, 2019, and November 19, 2019, respectively, for the Republic to transfer additional payment amounts totaling U.S.\$225,339,699.48, which payments were made on November 20 and 21, 2019, respectively. After recovery of the August 2019 Additional Notes, upon the Republic's request, additional payment amounts totaling U.S.\$177,492,564.32 have been returned to the Republic. The Republic is expected to request the return of the remaining additional amounts totaling U.S.\$47,847,135.16.

## THE INTER-AMERICAN DEVELOPMENT BANK

*This Offering Circular incorporates by reference the IDB's information statement dated March 1, 2019 (the "2018 Information Statement") (which includes IDB's audited annual financial statements as of and for the period ended December 31, 2018), the IDB's information statement dated March 2, 2018, (the "2017 Information Statement") (which includes the IDB's audited annual financial statements as of and for the period ended December 31, 2017), and any Management's Discussion and Analysis and Condensed Quarterly Financial Statements (unaudited) filed by the IDB with the U.S. Securities Exchange Commission subsequent to the date of the 2018 Information Statement. See "Documents Incorporated by Reference" below. The IDB undertakes no obligation to update any forward looking statements.*

### Overview

The purpose of the IDB is to improve lives in Latin America and the Caribbean by contributing to the acceleration of the process of economic and social development of the regional member countries, individually and collectively. The IDB's objective is to achieve economic and social development in a sustainable climate-friendly way. The IDB's current focus areas include three development challenges: social inclusion and inequality, productivity and innovation, and economic integration; and three cross-cutting issues: gender equality and diversity, climate change and environmental sustainability, and institutional capacity and the rule of law. The IDB is an international institution established in 1959, pursuant to the Agreement Establishing the Inter-American Development Bank, and is owned by its member countries. These members include 26 borrowing member countries and 22 non-borrowing member countries. The five largest members by shareholdings (with their share of total voting power) are the United States (30.0%), Argentina (11.4%), Brazil (11.4%), Mexico (7.3%) and Japan (5.0%). Its headquarters are in Washington, D.C.

The primary activities of the IDB are conducted through ordinary capital (which consists of the paid-in capital, callable capital, reserves and funds borrowed in the international capital markets; together, the "Ordinary Capital"), the Fund for Special Operations (the "FSO," inactive), the Intermediate Financing Facility Account (the "IFF") and the IDB Grant Facility (the "GRF"). The FSO was established to make loans on highly concessional terms in less developed members countries of the IDB. The IFF's purpose is to subsidize part of the interest payments for which certain borrowers are liable on loans approved from the Ordinary Capital up to December 31, 2006. The GRF's purpose is to make grants appropriate for dealing with special circumstances arising in specific countries (currently only Haiti) or with respect to specific projects. Unless otherwise stated, all information provided in this Offering Circular refers to the Ordinary Capital.

For information on the IDB's rating, see "General Information" below.

### Governance

All the powers of the IDB are vested in the Board of Governors, which consists of one governor and one alternate governor appointed by each member country. The Board of Executive Directors consists of 14 directors: one appointed by the governor of the United States, one appointed by the governor of Canada, three appointed by the governors for the non-regional member countries, and the remaining nine appointed by the governors for the borrowing member countries.

The Board of Governors has delegated to the Board of Executive Directors all its powers except certain powers reserved to the governors under the IDB Agreement. All matters before the Board of Governors and the Board of Executive Directors are decided by a majority of the total voting power of the IDB, except in certain cases provided in the IDB Agreement that require a higher percentage.

### Operating Income

Income before net fair value adjustments on non-trading portfolios and foreign currency transactions and Board of Governors approved transfers, which is defined as “Operating Income” in the Information Statement, totaled U.S.\$752 million in 2018.

## **Equity and Borrowings**

### *Equity*

The equity of the IDB includes the subscribed capital stock and retained earnings. The subscribed capital stock is divided into: (i) paid-in capital stock of \$6,033 million, net of subscriptions receivable of U.S.\$6 million, (ii) the additional paid-in capital of U.S.\$5,812 million transferred from the FSO, and (iii) callable capital stock of U.S.\$164,901 million. The callable capital stock is available as needed for debt service payments and thus provides the ultimate backing for borrowings and guarantees. It cannot be called to make loans. Retained earnings and Accumulated other comprehensive income totaled U.S.\$21,906 million at the end of 2018.

The IDB’s Capital Adequacy Policy (“CAP”) consists of a Capital Adequacy Policy Mandate (the “Mandate”). The Mandate, approved by the Board of Governors, requires the IDB to maintain its Triple-A with all foreign currency long-term issuer rating agencies and includes the establishment of capital buffers (the capital buffer zone in the CAP equals the amount of capital required in excess of the minimum capital required to meet the Mandate), specifically to assume financial risks in times of stress, while preserving the IDB’s lending capacity. The CAP regulations determine capital requirements for credit and market risk, in both its lending and treasury operations and also include capital requirements for pension and operational risks.

Specific risk limits in terms of capital requirements for investments and derivatives are also included that enable Management to design more efficient funding and investment strategies following the risk appetite established by the Board of Executive Directors.

As of December 31, 2018, the IDB’s capital adequacy position is within the parameters established by its CAP.

### *Borrowings*

The IDB issues debt securities in various currencies, maturities, formats and structures to meet investor demand and achieve diversification of funding sources. Outstanding borrowings of U.S.\$89,923 million, before swaps, were denominated in 17 currencies and included U.S.\$1,142 million of short-term borrowings. Since 2017, the IDB implemented a non-risk based leverage limit based on the Debt-to-Equity Ratio, which complements the current risk-based capital constraint. As of December 31, 2018, the Debt-to-Equity ratio equaled 2.9. During 2018 and as of the date of the Information Statement, the IDB continues to be rated Triple-A by the major credit agencies.

## **Loan Portfolio**

The IDB’s principal earning asset is its loan portfolio which amounted to U.S.\$93,377 million as of December 31, 2018.

The IDB makes loans to its developing member countries, agencies or political subdivisions of such members and to private enterprises carrying out projects in their territories. In the case of sovereign guaranteed (“SG”) loans to borrowers other than national governments or central banks, the IDB follows the policy of requiring a joint and several guarantee engaging the full faith and credit of the national government. Non-sovereign-guaranteed loans (“NSG”) and guarantees may finance projects in borrowing member countries in all sectors, subject to an exclusion list, and are capped to an amount such that risk capital requirements for such loans and guarantees do not exceed 20% of Total Equity. On January 1, 2016, the transfer of operational and administrative functions and non-financial resources associated with NSG activities from the IDB to the Inter-American Investment Corporation (“IIC”) became effective. During the seven-year period ending in 2022, the OC’s NSG activities are

originated by the IIC and co-financed by IDB and the IIC. At December 31, 2018, approximately 94% of the loan portfolio consisted of sovereign guaranteed loans.

With respect to sovereign-guaranteed loans, as a matter of policy the IDB does not reschedule or restructure its lending agreements. The treatment of sovereign-guaranteed loans in arrears and/or in non-accrual status is regulated by Bank procedures. Payment arrears in excess of 30 days result in the suspension of loan disbursements, prevents the IDB from approving new loans to borrowers in the same member country, causes the loan to be declared due and payable and will result in the loan portfolio to such country being placed in non-accrual status if the payment arrears persist for more than 180 days. The IDB has not written off, and has no expectation of writing off, any sovereign-guaranteed loans.

As of December 31, 2018, debt service due on sovereign guaranteed loans made to the Republic of Venezuela amounting to U.S.\$227 million have been in arrears for over 180 days; the entire loan outstanding balance of U.S.\$2,011 million has been placed in nonaccrual status and has been classified as impaired. Placing these loans in non-accrual status has resulted in a reversal and non-recognition of loan interest income of U.S.\$108 million, and an increase in the specific allowance of loan losses of U.S.\$17 million, as of December 31, 2018.

The allowance for loan and guarantee losses are made for incurred probable losses related to SG and NSG loans and guarantees totaled U.S.\$434 million as of December 31, 2018, or approximately 0.5% of total outstanding loans and guarantees.

### **Liquidity Investments**

Under the current policy, the IDB's liquidity floor covers, at a minimum, 12 months of projected net cash requirements, after accounting for liquidity haircuts, while the liquidity ceiling is set to allow the entire yearly borrowing program to be executed in the first quarter of the year. The IDB has remained compliant with the required liquidity levels.

Liquidity for this purpose is defined as non-borrowing countries' convertible currency cash and investments, excluding assets with limited or restricted availability. At December 31, 2018, liquidity, as defined, was U.S.\$31,715 million, within the policy limits. During the year, liquidity averaged U.S.\$36,259 million compared to U.S.\$33,219 million in 2017.

Net cash and investments totaled U.S.\$32,704 million at the end of 2018, or 35.4% of total debt (after swaps), compared to U.S.\$33,600 million and 37.5%, respectively, in 2017.

### **Operational and income transfers to the Inter-American Investment Corporation**

In 2016, the transfer of operational and administrative functions and non-financial resources associated with NSG activities from the IDB to the IIC became effective. During the seven-year period ending in 2022, NSG activities will be originated by the IIC and co-financed by the IDB and the IIC. For co-financed NSG loans, the IDB and the IIC maintain separate legal and economic interests in their respective share of the loan principal balance, interest, and other elements of the lending arrangement. The IIC also executes and monitors the IDB's NSG portfolio.

IIC's capitalization plan includes additional capital to be contributed by the IIC shareholders. Further, the IIC receives additional capital from its shareholders through approved transfers of a portion of Ordinary Capital's income in lieu of distributing this income to the shareholders of both the IDB and IIC beginning in 2018. These transfers are accounted for as dividends to the IDB's shareholders. These income transfers are intended to be achieved during the period 2018-2025 and for an amount not exceeding U.S.\$725 million. These transfers are conditional upon annual Board of Governors' approval, which shall take into account the continued maintenance of the IDB's Triple-A long-term foreign currency credit rating, the CAP, the preservation of the sovereign-guaranteed lending envelope consistent with IDB-9, and the construction of the buffers in accordance with the CAP, as well as

other applicable financial policies of the IDB. In March 2018, the Board of Governors approved a U.S.\$50 million distribution to the shareholders of the IDB for a concurrent capital contribution to the IIC on their behalf.

## **Risk Management**

The IDB conducts its operations within a framework of prudent financial and risk management policies and follows a well-defined risk management decision-making process, directed to limit its risk exposure. The asset/liability management policy minimizes exchange rate risk by matching the IDB's liabilities in various currencies with assets in those same currencies while hedging open positions. The IDB also limits the interest rate risk in its debt funded loan and liquidity portfolios by hedging the interest rate exposure or passing through the cost of borrowings that fund the loans. For equity funded assets, the policy mandates managing interest rate exposure through an equity duration strategy.

Commercial credit risk in the liquid asset investment portfolio and derivatives portfolio is managed through conservative risk policies that require exposures to be limited to high quality issuers and counterparties. Credit exposures to swap counterparties are further mitigated through netting and collateralization arrangements.

## **Development Operations**

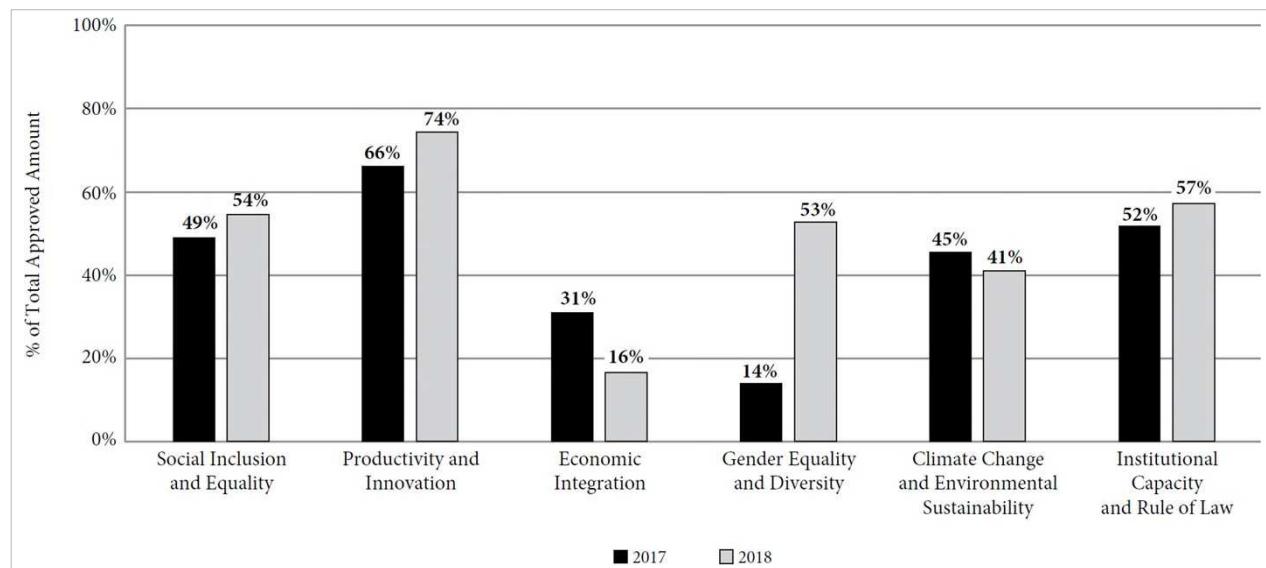
### *General*

The IDB makes loans and guarantees to the governments, as well as governmental entities, enterprises, and development institutions of its borrowing member countries to help meet their development needs. In the case of loans and guarantees to borrowers, other than national governments or central banks, the IDB follows the policy of requiring a joint and several guarantee engaging the full faith and credit of the national government. Loans and guarantees may also be made directly to other eligible entities carrying out projects in the territories of borrowing member countries, including private sector entities or sub-sovereign entities, without a sovereign guarantee and in all sectors (subject to an exclusion list), provided they meet the IDB's lending criteria. The IDB also provides financing to borrowing member countries for non-reimbursable and contingent recovery assistance that is aligned with its overall strategy for the region.

### *Development Objective*

The IDB works to improve lives in Latin America and the Caribbean. Its mission is to contribute to the acceleration of the process of economic and social development of the regional developing member countries, individually and collectively, with the overarching objectives of fostering sustainable growth and reducing poverty and inequality. To deliver on its objectives, the 2016-2019 Update to the Institutional Strategy includes six strategic priorities for the IDB to continue to support development progress in the region. These include the three development challenges of social inclusion and equality, productivity and innovation, and economic integration; and three cross-cutting issues of gender equality and diversity, climate change and environmental sustainability, and institutional capacity and the rule of law. Figure 1 presents the percentage of SG loan approval volume for 2018 and 2017 aligned with each strategic priority.

Figure 1: Loan approvals by sector priorities for the years ended December 31, 2018 and 2017<sup>(1)</sup>



(1) Loans may be categorized in more than one sector priority; therefore, percentages may not necessarily add to 100%.

Through its institutional strategy and mandates, the IDB is committed to expanding the focus on environmental and social sustainability, gender equality and diversity, response to climate change, promotion of sustainable energy, and ensuring food security.

### ***Lending Cycle***

The process of identifying and assessing a project and approving and disbursing a loan often extends over several years, depending on the nature, objective and purpose of the individual project. However, on numerous occasions, the IDB has shortened the preparation and approval cycle in response to emergency situations such as natural disasters or economic crises. Generally, the IDB's operational staff, which includes economists, engineers, financial analysts and other sector and country specialists, assesses the projects. With certain exceptions, where this authority has been delegated to Management, the IDB's Board approves each loan.

Loan disbursements are subject to the fulfillment of conditions precedent set forth in the loan agreement. During the implementation of the IDB-supported operations, experienced IDB staff review progress, monitor compliance with the IDB policies and assist in resolving any problems that may arise. The Office of Evaluation and Oversight, an independent IDB unit, evaluates loan operations pursuant to an annual work plan approved by the Board to determine the extent to which major objectives have been met. The results of these evaluations are reported directly to the Board and are publicly available.

The IDB's lending operations conform to certain principles that, when combined, seek to ensure that loans made to member countries are for financially and economically sound purposes to which these countries have assigned high priority, and that funds lent are utilized as intended. These principles are detailed next:

- (i) The IDB makes SG loans and guarantees primarily to central governments, as well as subnational governments, governmental entities, public enterprises, and development institutions of its borrowing members. In addition, the IDB makes NSG loans and guarantees to eligible entities and other development institutions.
- (ii) Loan applicants must submit a detailed proposal to the IDB specifying the technical, economic and financial merits of the project. The proposal must include an evaluation of the project's expected environmental risks or impact and proposed mitigation measures as well as its impact on gender and indigenous groups, as applicable.

- (iii) The IDB neither renegotiates nor takes part in debt rescheduling agreements with respect to its sovereign guaranteed loans.
- (iv) In making loans, the IDB evaluates the capacity of the borrower to carry out its financial obligations under the loan agreement, the prevailing macroeconomic climate and debt burden of the country, the ability of the executing agencies to execute IDB financed projects, and other policy and institutional issues relevant to the loan.
- (v) The IDB considers the ability of the borrower to obtain private financing under reasonable terms and conditions. The IDB serves as a catalyst to promote private investment, not to compete with it.
- (vi) The use of loan proceeds is supervised. IDB staff monitor and supervise the on-going progress with respect to the development objectives of each operation through the IDB's Country Offices in each of its 26 borrowing member countries, and fiduciary arrangements are in place to ensure proper use of IDB resources to achieve the operation's objectives.

### **Legal Status, Immunities and Privileges**

The following is a summary of the principal provisions of the IDB Agreement relating to the legal status, immunities and privileges of the IDB in the territories of its members.

The IDB possesses juridical personality and has full capacity to contract, to acquire and dispose of immovable and movable property, and to institute legal proceedings. Actions may be brought against the IDB only in a court of competent jurisdiction in the territories of a member in which the IDB has an office, has appointed an agent for the purpose of accepting service or notice of process, or has issued or guaranteed debt securities. No action shall be brought against the IDB by members or persons acting for or deriving claims from members.

The property and assets of the IDB are immune from all forms of seizure, attachment or execution before the delivery of final judgment against the IDB. Such property and assets are also immune from search, requisition, confiscation, expropriation or any other form of taking or foreclosure by executive or legislative action. The archives of the IDB are inviolable. The Governors, Executive Directors, their Alternates, officers and employees of the IDB are immune from legal process with respect to acts performed by them in their official capacity, except when the IDB waives this immunity.

The IDB, its property, other assets, income and the operations and transactions it carries out pursuant to the IDB Agreement are immune from all taxation and from all customs duties in its member countries. The IDB is also immune from any other obligation relating to the payment, withholding or collection of any tax or duty.

Under the IDB Agreement, securities guaranteed by the IDB and the interest thereon are not subject to any tax by a member (a) which discriminates against such debt securities solely because they are guaranteed by the IDB, or (b) if the sole jurisdictional basis for such taxation is the location of any office or place of business maintained by the IDB.

### **Documents Incorporated by Reference**

The IDB's information statement dated March 1, 2019 (the "2018 Information Statement") (which includes the IDB's audited annual financial statements as of and for the period ended December 31, 2018), the IDB's information statement dated March 2, 2018, (the "2017 Information Statement") (which includes the IDB's audited annual financial statements as of and for the period ended December 31, 2017), and any Management's Discussion and Analysis and Condensed Quarterly Financial Statements (unaudited) filed by the IDB with the U.S. Securities Exchange Commission subsequent to the date of the 2018 Information Statement, shall be deemed to be incorporated in, and to form part of, this Offering Circular.

As such, any information contained herein is qualified by the detailed information and financial statements appearing in any document so incorporated as of the date of such document. In addition, the 2018 Information Statement contains forward-looking information, which may be identified by such terms as “believes”, “expects”, “intends” or words of similar meaning. Such statements involve a number of assumptions and estimates that are based on current expectations, which are subject to risks and uncertainties beyond the IDB’s control. Consequently, actual future results could differ materially from those currently anticipated. The IDB undertakes no obligation to update any forward-looking statements.

## 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 the 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. 034-2019 dated December 5, 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 the 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.\$400,000,000 of 7.25% Social Housing Notes due 2035;
- have a final maturity date of January 30, 2035 (the "Maturity Date"), and unless previously redeemed, or purchased and cancelled, the Notes will be redeemed in semi-annual installments, commencing in July 30, 2020 in accordance with the amortization schedule as set out below:

<u>Scheduled Payment/Amortization Date</u>	<u>Scheduled Principal Payment/ Amortization Amount</u>	<u>Outstanding Principal Amount of the Notes</u>
30-Jul-20	0.00	400,000,000.00
30-Jan-21	0.00	400,000,000.00
30-Jul-21	25,000,000.00	375,000,000.00
30-Jan-22	25,000,000.00	350,000,000.00
30-Jul-22	29,000,000.00	321,000,000.00
30-Jan-23	29,000,000.00	292,000,000.00
30-Jul-23	35,000,000.00	257,000,000.00
30-Jan-24	35,000,000.00	222,000,000.00
30-Jul-24	9,000,000.00	213,000,000.00
30-Jan-25	9,000,000.00	204,000,000.00
30-Jul-25	2,000,000.00	202,000,000.00
30-Jan-26	2,000,000.00	200,000,000.00
30-Jul-26	2,000,000.00	198,000,000.00
30-Jan-27	2,000,000.00	196,000,000.00
30-Jul-27	2,000,000.00	194,000,000.00
30-Jan-28	2,000,000.00	192,000,000.00
30-Jul-28	3,500,000.00	188,500,000.00
30-Jan-29	3,500,000.00	185,000,000.00
30-Jul-29	5,500,000.00	179,500,000.00

30-Jan-30	5,500,000.00	174,000,000.00
30-Jul-30	9,000,000.00	165,000,000.00
30-Jan-31	9,000,000.00	156,000,000.00
30-Jul-31	10,000,000.00	146,000,000.00
30-Jan-32	10,000,000.00	136,000,000.00
30-Jul-32	25,000,000.00	111,000,000.00
30-Jan-33	25,000,000.00	86,000,000.00
30-Jul-33	25,000,000.00	61,000,000.00
30-Jan-34	25,000,000.00	36,000,000.00
30-Jul-34	18,000,000.00	18,000,000.00
30-Jan-35	18,000,000.00	0.00

On each principal payment date, the record holders of the Notes will be entitled to receive in the aggregate a principal payment equal to the principal payment amount corresponding to such payment date set forth in the preceding table (for each payment date, as such amount may be decreased as a result of the cancellation of Notes, including as a result of a redemption as described under "*— Optional Redemption*");

- be issued in denominations of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof;
- be initially 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. In certain circumstances (including if requested at any time by any holder of the Notes or by a party authorized or instructed to act on its behalf (along with providing evidence satisfactory to the Trustee of its authority or instruction)), some or all of a holder's interest in the Notes in global form may be converted into Notes in definitive form. For such purposes, the Republic will pre-execute 25 Definitive Notes (the "Pre-Executed Definitive Notes") on the issue date and deposit those Pre-Executed Definitive Notes with the Trustee. Whenever Notes in definitive form are required to be issued and delivered in accordance with the terms of the Indenture, the Trustee may authenticate one or more Pre-Executed Definitive Notes for such purpose (or, if the Trustee is not holding any Pre-Executed Definitive Notes at the relevant time, the Republic will be required to execute such Notes in definitive form as required in accordance with the terms of the Indenture). The Notes in definitive form will not (except in limited circumstances) benefit from the Guarantee; and
- be redeemable at the option of Ecuador (see "*—Optional Redemption*"), subject to the terms of the Guarantee Agreement, see "*Annex A—The Guarantee Agreement*."

#### *Interest on the Notes*

Interest on the Notes will:

- accrue at the rate of 7.25% per annum;
- accrue from and including the date of issuance or the most recent payment date;
- be payable semi-annually in arrear on January 30 and July 30 of each year, commencing on July 30, 2020;
- 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 Paying Agent on the Business Day prior to each scheduled payment date. The 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 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 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 or the Paying Agent 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 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 deposited with or paid to the Trustee or to any 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 (or the Guarantor if such monies were received from the Guarantor). Ecuador will hold the money in trust for the relevant holders until four (4) 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 or the Guarantor (as applicable) 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 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, 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- when 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 which 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 or any other document or instrument referred to therein. 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 resulting from, or required to be paid by any of them in any jurisdiction in connection with, the enforcement of Ecuador's obligations under the Notes or any other document or instrument referred to therein 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 (and not in part only), at any time or from time to time prior to their maturity, at a redemption price (the "Optional Redemption Amount") 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 (without double counting of any interest accrued and paid 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"). If the Republic requires the Trustee to send notice of any Optional Redemption to the Holders, then the Republic shall be required to give the Trustee not less than 35 days' notice (rather than 30 days' notice) of such Optional Redemption.

On and after the redemption date, to the extent that the Optional Redemption Amount is paid by Ecuador, interest will cease to accrue on the Notes.

In the event that Ecuador fails to make payment of any amount due in connection with an Optional Redemption: (i) such failure to make payment shall constitute an Event of Default; (ii) a majority of Holders of the Notes may (at their option) direct the Trustee to reinstate the original schedule of payments of principal and interest on the Notes as if such Optional Redemption had not been elected by the Republic, in which case such original Schedule of payments shall be reinstated and such Optional Redemption (and any amounts payable by the Republic in connection therewith) shall be disregarded; and (iii) if the original schedule of payments on the Notes is not reinstated in accordance with subparagraph (ii) above then the Guarantee shall continue to only cover any payments of Scheduled Payment Amounts on their original payment dates up to the Maximum Guaranteed Amount (and so will not cover any amounts due and payable from the Republic on any earlier date due to the occurrence of an Optional Redemption).

"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 equal to the actual or interpolated remaining weighted average life of the Notes to be redeemed (from the redemption date of such Notes) 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 equal to the actual or interpolated remaining weighted average life of such Notes (from the redemption 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 above) calculated by the Independent Investment Banker, 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. ensure that the proceeds of the Notes are initially received in the *cuenta única* (the sole Treasury account of the Republic at the Central Bank) and it is expected that such proceeds will be transferred immediately to a trust account established for the purposes of financing construction of social housing by MIDUVI following the guidelines of the ROP;
2. 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 for Ecuador to be able to make all payments to be made by it under the Notes and the Indenture;
3. 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 the 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;
4. use its reasonable best efforts to list and thereafter to maintain the listing of the Notes on the Luxembourg Stock Exchange; and
5. 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.

Ecuador may, however, create or permit to subsist the following Liens ("Permitted Liens"):

- any Lien on property to secure External Indebtedness arising in the ordinary course of business to finance export, import or other trade transactions, which matures (after giving effect to renewals and refinancings) no more than one year after it was originally incurred;
- any Lien upon property to secure the purchase price of such property or to secure any External Indebtedness incurred solely for the purpose of financing the acquisition of such property;
- any Lien on property arising by operation of law (or pursuant to any agreement establishing a Lien equivalent to one which would otherwise exist under relevant local law), including without limitation any right of set-off with respect to demand or time deposits with financial institutions and bankers' liens with respect to property held by financial institutions (in each case deposited with or delivered to such financial institutions in the ordinary course of the depositor's activities);
- any Lien existing on such property at the time of its acquisition;
- any Lien in existence as of the date of issuance of the Notes;
- any Lien securing External Indebtedness issued upon surrender or cancellation of the principal amount of any of the Excluded Indebtedness, as defined under "*—Certain Defined Terms*" below, to the extent the Lien is created to secure the External Indebtedness;

- any Lien created in connection with any Project Financing, as defined under "—*Certain Defined Terms*" below, *provided* that the properties to which any such Lien applies are solely with respect to (A) properties which are the subject of such Project Financing or (B) revenues or claims which arise from the operation, failure to meet specifications, failure to complete, exploitation, sale or loss of, or damage to, such properties;
- additional Liens created in any calendar year upon assets, revenues or receivables of Ecuador having, when encumbered, a fair market value not exceeding an aggregate amount equal to U.S.\$50,000,000 (or its equivalent in any other currency or currencies) to collateralize, or to purchase collateral, guarantees or other credit support in respect of, new borrowings by Ecuador, *provided* that to the extent U.S.\$50,000,000 (or its equivalent in any other currency or currencies) exceeds such aggregate fair market value of such assets, revenues or receivables so encumbered in such calendar year, the aggregate fair market value of such assets, revenues and receivables permitted to be encumbered by the Indenture in subsequent calendar years shall be increased by such excess amount; *provided*, however, that in no event shall the fair market value of such assets, revenues or receivables so encumbered in any calendar year exceed an aggregate amount equal to U.S.\$150,000,000 (or its equivalent in any other currency or 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 (an "Issuer Event of Default"):

1. *Non-Payment*: the Republic fails, on the applicable payment date, to make any payment on the Notes (unless such non-payment is due to an administrative or technical error and is remedied within five (5) Business Days of the date when such payment is due), *provided* that, any Event of Default that occurs under this sub-paragraph as a result of the non-payment of any amount by the Republic shall be deemed to be cured if, following such non-payment by the Republic, the Guarantor pays an amount to the Trustee under the Guarantee (in accordance with the terms of the Guarantee Agreement) which is equal to the amount that was not paid by the Republic (and, as a result of such payment under the Guarantee, no further amounts are immediately due, and payable by the Republic on the Notes);
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 Notes then outstanding regarding that default;
3. *Cross Default*:
  - Ecuador fails to make any payment in respect of any External Indebtedness (other than the 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); or
  - The holders of at least 25% of the aggregate outstanding principal amount of any External Indebtedness (other than the 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 any default by

Ecuador under 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 formal and official suspension of payments or a moratorium with respect to the payment of principal of, or interest on, Ecuador's External Indebtedness (other than the Excluded Indebtedness);
5. *Validity*: Ecuador denies, repudiates or contests any of its 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 the resources of the IMF;
7. *CAF, FLAR, and IDB Membership*: The Republic fails to maintain its membership in, or its eligibility to use the general resources or equivalent of, any of CAF, FLAR and IDB;
8. *Judgment*: There shall have been entered against Ecuador or the Central Bank in a matter related to External Indebtedness (other than the 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 the judgment;
9. *Arbitral award*: There shall be made against the Republic or the Central Bank in a matter related to External Indebtedness (other than the 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;
10. *Guarantee Non-Payment*: for so long as the Guarantee remains in effect and has not otherwise terminated in accordance with the terms of the Guarantee Agreement, the Guarantor fails to pay any amount when due and payable thereunder in accordance with the terms of the Guarantee Agreement and such failure is not cured within three (3) Business Days from the date such amount was due;
11. *Validity of the Guarantee*: the validity of the Guarantee is contested by the Guarantor and/or the Guarantor denies any of its obligations thereunder (whether by a general suspension of payments or otherwise); or
12. *Termination of the Guarantee*: the Guarantor terminates (or seeks to terminate) the Guarantee other than in accordance with section 2.10 (*Termination Events*) of the Guarantee Agreement.

If any of the above Events of Default occurs and is continuing, the Trustee may, and, at the written direction of (i) holders of at least 25% of the aggregate principal amount of the then-outstanding Notes or (ii) if such Event of Default is continuing for a period of 90 days or more, holders of at least 10% of the aggregate principal amount of the then-outstanding Notes, shall, declare the principal amount of all the Notes to be immediately due and payable by notifying the Republic and the Guarantor in writing. The Notes will become due and payable on the date such written notice is received by or on behalf of the Republic, unless prior to such date all events of default in respect of all of the Notes have been cured or waived by the holders of not less than a majority of the principal amount of the then-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 the Republic and the Guarantor, 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 75% of the principal amount of the outstanding Notes or remedied; and
- the Trustee shall have been reimbursed or otherwise compensated by the Republic for all documented costs, expenses and liabilities reasonably incurred by the Trustee as a result of any such Event of Default.

If any of the Guarantor 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 held by Guaranteed Holders shall, declare that all amounts payable under the Guarantee (up to the Maximum Guaranteed Amount on the relevant date) to be immediately due and payable by the Guarantor, by notifying the Republic and the Guarantor in writing in accordance with the terms of the Guarantee Agreement. All amounts payable under the Guarantee will become due and payable on the date such written notice is received by or on behalf of the Guarantor, unless prior to such date all Guarantor Events of Default have been cured or waived by the holders of not less than a majority of the principal amount of the then-outstanding Notes as provided in the Notes or in the Indenture. On the date on which the Guarantee is accelerated (which shall be the date on which the Trustee gives notice thereof to the Guarantor in accordance with the terms of the Guarantee Agreement), an amount equal to the Maximum Guaranteed Amount shall become immediately due and payable by the Guarantor to the Trustee (on behalf of the Guaranteed Holders) under the Guarantee Agreement.

#### ***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:

No amendment, modification or waiver of any provision of the Indenture or the Terms that adversely affect the obligations of the Guarantor thereunder may be made without the prior written consent of the Guarantor. Such consent will not be unreasonably withheld by the Guarantor and will be subject to deemed consent after ten (10) Business Days of such written consent being sought. In connection with any amendment, modification or waiver of any provision of the Indenture or the Terms, the Republic will seek the relevant consent of the Guarantor under and in accordance with the terms of the Guarantee Agreement. Any amendment, modification or waiver of any provision of the Guarantee Agreement will require prior written consent of the Guarantor pursuant to the terms of the Guarantee Agreement.

In the case of any Modification of the terms and conditions of the Notes or of the Guarantee 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. The customary definition of "Reserved Matters" in the Notes will be expanded to include specific references to changes to the Guarantee.

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 66 $\frac{2}{3}$ % of the aggregate principal amount of the outstanding debt securities of all series that would be affected by that reserved matter modification (taken in aggregate); and (y) 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.

Unless the Guarantee has been terminated and there are no amounts in the Guarantee Escrow Account, no Reserved Matter Modification to the Notes (other than a Reserved Matter Modification that does not impact the Guarantee) may be made unless all other series of debt securities that would be affected by that Reserved Matter Modification benefit from a guarantee (including a partial credit guarantee) from either the Guarantor or another multilateral institution with at least the same credit rating as the Guarantor.

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 Republic, 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 Notes 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 a Responsible Officer (as defined in the Indenture) of the Trustee knows to be so owned shall be so disregarded. Upon request of the Trustee, 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 (but with the consent of the Guarantor to the extent it is required), 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;
- 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 "*Book-Entry Settlement and Clearance*" for a description of the procedures applicable to book-entry securities.

#### ***Definitive Notes***

Any holder of the Notes or a party authorized or instructed to act on its behalf (along with providing evidence satisfactory to the Trustee of its authority or instruction) at any time may request that some or all of their interest in the Notes in global form be converted into Notes in definitive form. Any Notes in definitive form will not (except in limited circumstances) benefit from the Guarantee. Accordingly, the Republic will pre-execute 25 Definitive Notes on the issue date and deposit the Pre-Executed Definitive Notes with the Trustee. Whenever Notes in definitive form are required to be issued and delivered in accordance with the terms of the Indenture, the Trustee may authenticate one or more Pre-Executed Definitive Notes for such purpose (or, if the Trustee is not holding any Pre-Executed Definitive Notes at the relevant time, the Republic will be required to execute such Notes in definitive form as are required in accordance with the terms of the Indenture).

Except for the circumstance described above in relation to Pre-Executed Definitive Notes, Ecuador will issue all (and not some only) of the Notes in definitive form (i.e. not in book-entry but physical form) if, among other:

- 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;
- 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; 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, Paying Agent and Account Bank, Listing Agent; Transfer Agents; Registrar***

The Trustee will serve as the registrar, The Bank of New York Mellon, London Branch will serve as the Paying Agent and account bank. 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. Any resignation or removal of the Trustee and any appointment of a successor trustee shall become effective upon acceptance of appointment by the successor trustee, appointed with prior written consent of the IDB, such consent not to be unreasonably withheld. 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, an office or agency where notices and demands in respect of the Notes or the Indenture may be served. If the Notes are listed on the Luxembourg Stock Exchange (and, if applicable, traded on the Euro MTF market of the Luxembourg Stock Exchange) and the Luxembourg Stock Exchange so requires, the Trustee shall also maintain a paying agent in Luxembourg for the Notes. 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, to the extent that the rules of such exchange so require, a paying agent and a transfer agent will be maintained in Luxembourg. Ecuador will provide prompt notice of the termination, appointment or change in the office of any paying agent, transfer agent or registrar acting in connection with the Notes.

#### ***Notices***

All notices to the holders of Notes will be published in the Wall Street Journal of New York, New York, the Financial Times of London, England and the Luxemburger Wort of Luxembourg, or, 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), published in accordance with the rules of the Luxembourg Stock Exchange or on the website of the Luxembourg Stock Exchange at [www.bourse.lu](http://www.bourse.lu). 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 or, in the opinion of the

Trustee upon consultation with Ecuador, impracticable or, in the opinion of the Trustee upon consultation with Ecuador, impracticable to make any publication of any notice in the manner provided above, any other publication or other notice in lieu thereof which is made with the approval of the Trustee shall constitute a sufficient publication of such notice. 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. Notices to holders of Notes shall be sent in accordance with the Depositary's standard 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.

#### ***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 for any reason 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 between the Trustee and any Holders or Holders only, and where neither the Republic nor the Guarantor is 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.

The Indenture contains also a provision which provides that in relation to any Dispute under the Indenture involving the IDB, the provisions of Sections 3.02(b), (c), (d) & (e), 3.04, 3.05 and 3.06 of the Guarantee Agreement will apply, *mutatis mutandis*, as if set out therein. See "*Annex A—The Guarantee Agreement*".

#### ***Sovereign Immunity***

The execution and delivery of the Indenture and the Notes 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 are the sole currency of account and payment for all sums due and payable by each of Ecuador and the IDB under the Indenture, the Guarantee and the Notes. If, for the purpose of obtaining judgment in any court or arbitral proceeding, it is necessary to convert a sum due hereunder in U.S. dollars into another currency, each of Ecuador and the Guarantor 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 each of Ecuador and the Guarantor in respect of any sum due to any holder of the Notes, agent 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 holder of the Notes, agent 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, each of Ecuador and the Guarantor 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.

### ***Benefit of the Guarantee***

The benefit of the Guarantee is held by the Trustee, on behalf of the Guaranteed Holders. The initial Guaranteed Holders shall be all Holders that hold a beneficial interest in the Notes in global form (*pro rata* in proportion to their holdings, up to the Maximum Guaranteed Amount). As such, Holders of Definitive Notes shall not benefit from the Guarantee, unless, in accordance with section 3.09 of the Guarantee Agreement, all of the Notes (and not some only) are to be represented by Definitive Notes due to the occurrence of any event in section 2.6(e) of the Indenture (such that no Notes will continue to be represented by the Global Notes). In such case: (i) the Trustee shall give notice to each Holder of the Notes that was a Guaranteed Holder immediately prior to the occurrence of the relevant event in section 2.6(e) of the Indenture, confirming that such Holder's Notes shall be represented by Definitive Notes and that the Trustee shall update the Register to reflect which Definitive Notes shall benefit from the Guarantee (the "Guaranteed Definitive Notes"); (ii) from the date on which all Notes are represented by Definitive Notes due to the occurrence of the relevant event in section 2.6(e) of the Indenture (the "Definitive Notes Event Date"), the Holders of the Guaranteed Definitive Notes from time to time shall be Guaranteed Holders for the purposes of such definition in both the Indenture and the Guarantee; and (iii) the Trustee shall promptly inform the Guarantor: (a) that all of the Notes are represented by Definitive Notes due to the occurrence of an event in section 2.6(e); (b) of the names of the initial Holders of the Guaranteed Definitive Notes (with such Holders being the Guaranteed Holders as of such date); and (c) that the Guaranteed Holders shall, from the Definitive Notes Event Date, be the Holders of Guaranteed Definitive Notes from time to time. If the Republic fails to make payment of a Scheduled Payment Amount on its originally scheduled payment date, leading to an event of default under paragraph 8(a) of the Terms (including the expiration of any grace period applicable to such non-payment), then the Trustee may deliver a Demand Notice under and in accordance with the terms of the Guarantee at the direction of the Guaranteed Holders. Following receipt of a valid Demand Notice, the Guarantor shall deposit the Guarantee Payment requested in such Demand Notice into the Collection Account, with payment of such amount being to the Trustee (on behalf of the Guaranteed Holders), within 14 Business Days of the date on which it received such Demand Notice.

The Guarantee is issued by the Guarantor and will not be the obligation of any government or nation state that is a member of the IDB. No such government or nation state will be responsible for payments under the Guarantee or liable to the Trustee or to any Person in case of a Guarantor Event of Default.

***Purchase of Notes by the Guarantor***

- (a) Pursuant to section 2.11 of the Guarantee Agreement, if an Event of Default occurs and is continuing, at any time between the date on which such Event of Default occurs and the date that is six (6) months therefrom (the "RTP Period"), the Guarantor shall have the right to purchase (and RTP Subject Notes Holders (as defined below) shall have the obligation to sell) the RTP Subject Notes (as defined below and as determined in accordance with paragraph (c) below) to the Guarantor for a price equal to par plus any interest accrued on such RTP Subject Notes, in an amount equal to the Maximum Guaranteed Amount (the "IDB Right to Purchase").
- (b) In the event the Guarantor elects to exercise the IDB Right to Purchase, it shall provide the Trustee with an irrevocable written notice of exercise no later than the last Business Day of the RTP Period (an "RTP Exercise Notice"). The RTP Exercise Notice shall include the following information:
  - (i) the Event of Default pursuant to which the Guarantor is exercising the IDB Right to Purchase;
  - (ii) the date of occurrence of such Event of Default;
  - (iii) the Maximum Guaranteed Amount as of the date of the RTP Exercise Notice;
  - (iv) a calculation setting forth the total principal amount of the Notes to be purchased at par (the "RTP Subject Notes"), and the total amount of interest accrued in respect of such RTP Subject Notes, the sum of which shall be equal to the Maximum Guaranteed Amount; and
  - (v) the date on which, pursuant to the IDB Right to Purchase, the RTP Subject Notes Holders shall deliver their RTP Subject Notes (the "RTP Settlement Date"), provided that the RTP Settlement Date shall be no earlier than ten (10) Business Days and no later than thirty (30) days from the date of delivery of the RTP Exercise Notice.
- (c) Upon receipt of an RTP Exercise Notice, the Trustee shall promptly give the Holders written notice thereof, including the principal amount of the RTP Subject Notes (the "RTP Principal Amount") to be transferred to the Guarantor, as set out in the RTP Exercise Notice. In terms of the Trustee determining which Notes shall comprise the RTP Subject Notes, if the principal amount of Notes held by Guaranteed Holders is:
  - (i) equal to the RTP Principal Amount, then all of the Notes held by Guaranteed Holders shall comprise the RTP Subject Notes;
  - (ii) greater than the RTP Principal Amount, then the RTP Subject Notes shall be selected in accordance with the applicable Depository's procedures and if the Notes are all held in physical form, the Trustee shall select a pro rata proportion of the Notes (across all such Notes) held by Guaranteed Holders to comprise the RTP Subject Notes so that the principal amount of such selected RTP Subject Notes is equal to the RTP Principal Amount; and
  - (iii) less than the RTP Principal Amount, then:
    - (A) all of the Notes held by Guaranteed Holders shall comprise the RTP Subject Notes (the "Guaranteed Holders RTP Subject Notes"); and

(B) the Trustee shall select a pro rata proportion of the remaining Notes (that are not held by Guaranteed Holders) across all such Notes to also comprise the RTP Subject Notes (such selected Notes, the "Other Holders RTP Subject Notes") so that the sum of the principal amounts of the Guaranteed Holders RTP Subject Notes and the Other Holders RTP Subject Notes is equal to the RTP Principal Amount,

and the Trustee shall promptly notify all Holders as to which Notes have been selected to comprise the RTP Subject Notes in accordance with this paragraph (c) (with the Holders of the RTP Subject Notes so selected in accordance with this paragraph (c) being the "RTP Subject Notes Holders").

- (d) No later than 2:00 p.m., New York time on the RTP Settlement Date, (i) the RTP Subject Notes Holders (as defined below) (or, in the case of any RTP Subject Notes which are Definitive Notes, the Trustee as custodian of such RTP Subject Notes on behalf of, and at the request of, the relevant RTP Subject Notes Holders) shall transfer to the Guarantor the RTP Subject Notes determined in accordance with paragraph (c) above, and (ii) the Guarantor shall transfer to the Collection Account, for the benefit of the RTP Subject Notes Holders holding RTP Subject Notes, an amount equal to the Maximum Guaranteed Amount. To the extent required, any holder of RTP Subject Notes shall be required to deliver the proportion of their Notes that are RTP Subject Notes to the Trustee not later than 2:00 p.m., New York time on the Business Day prior to the RTP Settlement Date. Following the deposit of an amount equal to the Maximum Guaranteed Amount in the Collection Account, the Paying Agent will promptly pay such amount to the RTP Subject Notes Holders relative to the proportion of their RTP Subject Notes (in accordance with any direction from the IDB).
- (e) Upon transfer of the Maximum Guaranteed Amount to the Collection Account on the RTP Settlement Date, the Maximum Guaranteed Amount will be automatically reduced to U.S.\$0.

#### ***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 (or in the city where the relevant paying or transfer agent is located) are required or authorized by law to be closed.
- "Collection Account" shall have the meaning set forth in the Guarantee Agreement.
- "Early Disbursement Event" means any of the following events occurring: (i) the Republic does not pay (directly or indirectly) any amounts owed by the Republic to the Guarantor under the Counter-Guarantee Agreement, provided that any such delay has not been cured within sixty (60) days; (ii) the Guarantor determines in its sole discretion in accordance with its sanctions procedures that any employee, agent or representative of the Republic has, in connection with the implementation of the Program engaged in fraudulent, corrupt, coercive or collusive practices; (iii) the Guarantor determines in its sole discretion that (x) any employee, agent or representative of the Republic has breached the Guarantor's environmental and social policies, as such policies are reflected in the ROP, and (y) corrective action plans in relation to such breaches have not been implemented in a reasonable time; or to the satisfaction of the Guarantor; (iv) the Guarantor determines in its sole discretion that the Republic has breached one or more obligations set forth in the Counter-Guarantee Agreement or the ROP; or (v) withdrawal or suspension of the Republic from membership in the Guarantor, provided this circumstance continues for more than sixty (60) days.
- "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.
- "Guarantee Escrow Account" means the escrow account in New York created in the name of the Escrow Agent, for the benefit of the Guaranteed Holders, pursuant to the Escrow Agreement.
- "Guarantee Termination Event" means:
  - (i) the Holders or the Trustee (at the direction of the Holders under the Indenture) make any amendment, modification or waiver of the Guarantee, the provisions of the Notes and/or the Indenture which adversely affects the rights and the obligations of the Guarantor, or give any written waiver or consent with respect thereto, without the Guarantor's prior written consent (with such written consent not to be unreasonably withheld and to be deemed given by the Guarantor after ten (10) Business Days of such written consent being sought);
  - (ii) an Early Disbursement Event occurs and the Guarantor has deposited the Maximum Guaranteed Amount into the Guarantee Escrow Account in accordance with the terms of the Partial Credit Guarantee; or
  - (iii) the Trustee assigns any of its rights and obligations under the Indenture or the Guarantee, which affect the rights and obligations of the Guarantor under the Guarantee or the provisions of the Notes, without the prior written consent of the Guarantor (with such written consent not to be unreasonably withheld and to be deemed given by the Guarantor after ten (10) Business Days of such written consent being sought), *provided* that no consent of the Guarantor shall be required (and no Guarantee Termination Event shall occur) in connection with any assignment to an Approved Assignee (as defined in the Guarantee Agreement, see "Annex A"), the appointment of a successor Trustee pursuant to the Indenture or any assignment in accordance with section 3.09 of the Partial Credit Guarantee.
- "Guaranteed Holders" means, from time to time but subject to section 2.9 (*Change of Guaranteed Holders under Partial Credit Guarantee*) of the Indenture (which provides for limited circumstances where the Trustee shall direct otherwise), Holders that hold a beneficial interest in the Notes in the form of Global Notes.
- "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%.

- "Maximum Guaranteed Amount" means, as of any date of determination, an amount equal to the lower of (a) U.S.\$300,000,000, minus the aggregate of all Guarantee Payments paid as of such date of determination; and (b) the Maximum Guaranteed Notes Amount, *provided* that following the Guarantor's exercise of the IDB Right to Purchase pursuant to (and in accordance with the terms of) section 2.11 of the Guarantee Agreement, the Maximum Guaranteed Amount shall equal U.S.\$0.
- "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 scope of immunity provision, the scope of the Republic's indemnity in paragraph 25 (*Indemnity*) of the Terms, 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 or the Guarantee;
- I. authorize and/or instruct the Trustee, on behalf of all holders, to exchange or substitute all their Notes for, or convert all their Notes into, other obligations or securities of the Republic or any other person;
- J. amend the terms of the Guarantee Agreement, including (but not limited to) the level of coverage that it provides, or release or extinguish the rights and/or obligations under the Guarantee Agreement (except in accordance with the Indenture); or
- K. change the definition of "Uniformly Applicable" or "Reserved Matter."

- "Scheduled Payment Amounts" means the amount of principal and/or interest on the Notes originally payable on each payment date (without regard for any acceleration of the Notes).

#### ***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.

## **THE GUARANTEE AGREEMENT**

*The Notes will be partially guaranteed by the Guarantee. The form of Guarantee is reproduced in its entirety on Annex A hereto. You should read the Guarantee before making your investment decision.*

## **SUMMARY OF THE GUARANTEE ESCROW AGREEMENT**

### **Terms of the Guarantee Escrow Agreement**

The Trustee will enter into an escrow agreement (the "Guarantee Escrow Agreement") with the IDB as depositor and The Bank of New York Mellon as escrow agent (the "Escrow Agent"). Under the Guarantee Escrow Agreement, IDB will deposit the Maximum Guaranteed Amount into the Guarantee Escrow Account upon the occurrence of an Early Disbursement Event.

### **Distribution of Escrow Property**

Following the occurrence of an Early Disbursement Event which results in IDB depositing the Maximum Guaranteed Amount into the Guarantee Escrow Account, the Trustee shall submit notices in writing (any such notice, an "Escrow Account Demand Notice"), to the Escrow Agent, at the same times and in accordance with the same terms as when a Demand Notice could be submitted under the Guarantee Agreement. The amount validly demanded in an Escrow Account Demand Notice is an "Escrow Payment". In respect of any Escrow Account Demand Notice, the Escrow Agent shall make the requested Escrow Payment by depositing an amount in U.S. Dollars equal to such Escrow Payment in the Collection Account no later than thirty (30) days from the receipt of such Escrow Account Demand Notice. Any payments of Escrow Payments to the Trustee shall be applied by the Trustee in the same manner as it would apply Guarantee Payments in accordance with the terms of the Indenture.

### **Investment and Reinvestment of Escrow Property**

The Escrow Property will be invested and reinvested by the Escrow Agent in Permitted Investments.

### **Applicable Law and Arbitration**

The Guarantee Escrow Agreement will be governed by the laws of the State of New York of the United States of America and will contain arbitration provisions that are substantially the same as those in the Indenture.

## **SUMMARY OF THE COUNTER-GUARANTEE AGREEMENT**

### **Terms of the Counter-Guarantee Agreement**

Ecuador has entered into a separate counter-guarantee agreement (the "Counter-Guarantee Agreement") with the IDB. Under the Counter-Guarantee Agreement, Ecuador, as counter-guarantor, undertakes to reimburse, indemnify and hold harmless the IDB (as described below) for any payment made by the IDB under the Guarantee Agreement.

### **Ecuador's Representations, Warranties and Covenants under the Counter-Guarantee Agreement**

The Counter-Guarantee Agreement contains usual and customary representations, warranties and covenants for transactions of this type, including that Ecuador has not engaged in and is not engaging in fraudulent, corrupt, coercive or collusive practices in connection with this transaction and that the Republic will implement the social housing program in accordance with the Counter-Guarantee Agreement, including reporting obligations, the ROP and all applicable IDB policies, including social and environmental safeguards.

If at any time between the Effective Date and the Termination Date of the Guarantee, the IDB determines that an Early Disbursement Event has occurred, then the IDB will be entitled to deposit the Maximum Guaranteed Amount into the Guarantee Escrow Account and terminate the Guarantee. Such deposit of the Maximum Guaranteed Amount by the IDB will constitute a payment by the IDB under the Guarantee Agreement for purposes of IDB's reimbursement rights against Ecuador under the Counter-Guarantee Agreement.

### **Repayment Terms**

Any payment made by the IDB under the terms of the Guarantee Agreement will be deemed a loan to Ecuador (a "Deemed IDB Loan"), which will accrue interest subject to a prevailing IDB sovereign lending rate. Ecuador will be required to repay any payment made by the IDB under the Guarantee within 180 days from the date of such payment (or as otherwise agreed by the Republic and IDB).

In the event that Ecuador fails to make any payment to or to reimburse and/or indemnify the IDB under the Counter-Guarantee Agreement or otherwise defaults on its obligations under the Counter-Guarantee Agreement, the IDB will be entitled, in addition to any other rights and remedies it may have, to suspend in whole or in part Ecuador's right to make withdrawals under any loan or guarantee between the IDB and Ecuador and to cancel and declare the outstanding principal and interest of any such loan due and payable immediately if such failure to make any payment is not cured within 60 days.

### **Applicable Law and Arbitration**

The Counter-Guarantee Agreement contains provisions which are customary in agreements between member countries and the IDB, including being subject to principles of international law and submission to international ad hoc arbitration in Washington, D.C.

## PLACEMENT

Goldman Sachs & Co. LLC will act as the sole global coordinator, bookrunner and social bond structuring agent with respect to this offering. Subject to the terms and conditions in the note placement and purchase agreement dated the date of this Offering Circular (the "Purchase Agreement"), the Sole Global Coordinator, Bookrunner and Social Bond Structuring Agent will use its reasonable best efforts to place the Notes.

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 placed 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 Sole Global Coordinator, Bookrunner and Social Bond Structuring Agent has agreed that, except as permitted by the Purchase Agreement and set forth in "*Transfer Restrictions*," it will not offer or place the Notes within the United States or to, or for the account or benefit of, U.S. persons as part of the distribution of the Notes.

In addition, until 40 days after the commencement of this offering, an offer or sale of Notes within the United States by a dealer that is not participating in this offering may violate the registration requirements of the Securities Act if that offer or sale is made otherwise than in accordance with Rule 144A, or pursuant to another exemption from registration under the Securities Act.

In addition, with respect to Notes initially sold pursuant to Regulation S, until 40 days after the later of the commencement of this offering or the date the Notes are originally issued, an offer or sale of Notes within the United States by a dealer that is not participating in the offering may violate the registration requirements of 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 Sole Global Coordinator, Bookrunner and Social Bond Structuring Agent does not intend to make a secondary market for the Notes. No assurance can be given as to how liquid the trading market for the Notes will be.

- Short sales involve secondary market sales by the Sole Global Coordinator, Bookrunner and Social Bond Structuring Agent of a greater number of Notes than it is required to purchase in the offering.
- Covering transactions involve purchases of Notes in the open market after the distribution has been completed in order to cover short positions.

Purchases to cover short positions and stabilizing purchases, as well as other purchases by the Sole Global Coordinator, Bookrunner and Social Bond Structuring Agent for its own account, may have the effect of preventing or retarding a decline in the market price of the Notes. They may also cause the price of the Notes to be higher than the price that would otherwise exist in the open market in the absence of these transactions. The Sole Global Coordinator, Bookrunner and Social Bond Structuring Agent may conduct these transactions in the over-the-counter market or otherwise. If the Sole Global Coordinator, Bookrunner and Social Bond Structuring Agent commences any of these transactions, it may discontinue them at any time.

The Republic has agreed to indemnify the Sole Global Coordinator, Bookrunner and Social Bond Structuring Agent against certain liabilities, including liabilities under the Securities Act, or to contribute to payments that the Sole Global Coordinator, Bookrunner and Social Bond Structuring Agent may be required to make because of any of those liabilities.

It is expected that delivery of the Notes will be made to Ecuador Social Bond S.à.r.l. on or about January 30, 2020, which it is expected will be the ninth business day following the date of this Offering Circular (such

settlement being referred to as "T+9"). 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.

## **Selling Restrictions**

### **United States of America**

#### ***No registration under the Securities Act***

The Notes and the Guarantee have not been and will not be registered under the Securities Act and the Notes have not been offered or placed 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 and the Guarantee 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 SPV, 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. In addition, with respect to Notes initially sold pursuant to Regulation S, until 40 days after the later of the commencement of this offering or the date the Notes are originally issued, an offer or sale of Notes within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

### **Prohibition of Sales to EEA Retail Investors**

The Notes and the Guarantee 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 EEA. 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 MiFID II; or
  - (ii) a customer within the meaning of the Insurance Distribution 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 the Prospectus Regulation;

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 for the Notes.

Consequently, no key information document required by the PRIIPs Regulation for offering or selling the notes or otherwise making them available to retail investors in the EEA or the United Kingdom has been prepared and therefore offering or selling the notes or otherwise making them available to any retail investor in the EEA or the United Kingdom may be unlawful under the PRIIPs Regulation.

This Offering Circular has been prepared on the basis that any offer of notes in any Member State of the EEA or the United Kingdom will be made pursuant to an exemption under the Prospectus Regulation from the requirement to publish a prospectus for offers of notes. This Offering Circular is not a prospectus for the purposes of the Prospectus Regulation.

### **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 or Guarantee 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.

This Offering Circular is for distribution only to persons who (i) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 as amended (the "Order") (ii) are persons falling within Article 49(2)(a) to (d) ("high net worth companies, unincorporated associations etc.") of the Order, or (iii) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the FMSA) in connection with the offer or sale of the notes may otherwise be lawfully communicated or cause to be communicated (all such persons, together being "Relevant Persons"). This Offering Circular is directed only at Relevant Persons and must not be acted on or relied on by persons who are not Relevant Persons. Any investment or investment activity to which this Offering Circular relates is permitted only by Relevant Persons and will be engaged in only with Relevant Persons.

### **The Netherlands**

The Notes and the Guarantee 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:

(a) a prospectus has been duly approved by the Commission de Surveillance du Secteur Financier (the "CSSF") pursuant to part II of the Luxembourg law dated 16 July 2019 on prospectuses for securities, which applies Prospectus Regulation (the "Luxembourg Prospectus Law"), if Luxembourg is the home Member State as defined under the Prospectus Regulation; or

(b) if Luxembourg is not the home Member State as defined under the Prospectus Regulation, 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 Notes has been duly approved in accordance with the Prospectus Regulation and with a copy of that prospectus; or

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

### **Notice to Prospective Investors in the Republic of Chile**

This private offering will begin on January 16, 2020 and is governed under the provisions of General Rule No. 336 (*Norma de Carácter General N° 336*) of the Chilean Financial Market Commission (*Comisión para el Mercado de Valores*, or "CMV"). This offering relates to notes that have not been registered with the Registry of Securities (*Registro de Valores*) or the Registry of Foreign Securities (*Registro de Valores Extranjeros*) of the SVS and as such are not subject to the supervision of the SVS. Because the Notes are not registered with the Registry of Foreign Securities, there is no obligation of the Issuer to deliver public information in Chile in connection with the Notes related to this offering. The Notes may not be sold in a public offering in Chile as long as such Notes are not registered in the Registry of Foreign Securities.

*Esta oferta privada se inicia el día 16 de enero de 2020 y se acoge a las disposiciones de la Norma de Carácter General N° 336 de la Comisión para el Mercado de Valores. Esta oferta versa sobre valores no inscritos en el Registro de Valores o en el Registro de Valores Extranjeros que lleva la Comisión para el Mercado de Valores, por lo que tales valores no están sujetos a la fiscalización de ésta. Por tratar de valores no inscritos no existe la obligación por parte del emisor de entregar en chile información pública respecto de los valores sobre los que versa esta oferta. Estos valores no podrán ser objeto de oferta pública mientras no sean inscritos en el registro de valores correspondiente.*

### **Notice to Prospective Investors in the Republic of Colombia**

The Notes may not be offered, sold or negotiated in Colombia, except in circumstances which do not constitute a public offering of securities under applicable Colombian Securities laws and regulations. Furthermore, foreign financial entities must abide by the terms of Decree 2555 of 2010 to offer the Notes privately to Colombian clients.

### **Notice to Prospective Investors in Peru**

The Notes, this Offering Memorandum and other offering materials related to the offer of the Notes are not being publicly marketed or offered in Peru and will not be distributed or caused to be distributed to the general public in Peru, and therefore will be supplied to those Peruvian investors who have expressly requested them. Such materials may not be redistributed to any person or entity other than the intended recipients. Peruvian securities laws and regulations on public offerings will not be applicable to the issuer or the sellers of the Notes before or after their acquisition by prospective investors. The Notes and the information contained in this Offering Memorandum have not been and will not be reviewed, confirmed, approved or in any way submitted to the Peruvian Securities Market Superintendency (*Superintendencia del Mercado de Valores*) (the "SMV") nor have they been registered with the SMV's Securities Market Public Registry (*Registro Público del Mercado de Valores*). Accordingly, the Notes cannot be offered or sold within Peruvian territory except to the extent any such offering or sale qualifies as a private offering under Peruvian law and regulations and complies with the provisions on private offerings set forth therein.

The Notes may not be offered or sold in the Republic of Peru except in compliance with the securities laws thereof.

### **General**

No action has been taken by the Republic or the Sole Global Coordinator, Bookrunner and Social Bond Structuring Agent that would, or is intended to, permit a public offer of the Notes and the Guarantee in any country or jurisdiction where any such action for that purpose is required.

Accordingly, the Sole Global Coordinator, Bookrunner and Social Bond Structuring Agent 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.

## **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 Sole Global Coordinator, Bookrunner and Social Bond Structuring Agent:

(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 transferor is selling the Notes to it in reliance on Rule 144A; or
- it is not a U.S. person (as defined in Regulation S under the Securities Act) or purchasing for the account or benefit of a U.S. person, other than a distributor, and it is purchasing Notes in an offshore transaction in accordance with Regulation S.

(3) Each prospective investor acknowledges that neither the Republic nor the Sole Global Coordinator, Bookrunner and Social Bond Structuring Agent nor any person representing the Republic or the Sole Global Coordinator, Bookrunner and Social Bond Structuring Agent 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 Sole Global Coordinator, Bookrunner and Social Bond Structuring Agent 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 Sole Global Coordinator, Bookrunner and Social Bond Structuring Agent. 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.

## **Book-Entry Settlement and Clearance**

### **Global Notes**

The Notes will initially be issued in the form of two registered Notes in global form (which the Republic 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 the Republic 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 the Republic 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 the Republic refers to in this Offering Circular as the "Euroclear participants") or persons who have accounts with Clearstream (which the Republic 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 participant designated by the Sole Global Coordinator, Bookrunner and Social Bond Structuring Agent; 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 definitive 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 Republic 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 Sole Global Coordinator, Bookrunner and Social Bond Structuring Agent, the Trustee, or any agent 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; 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 definitive 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.

#### **Definitive Notes**

Notes in definitive 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 or on behalf of the registered holder of the Global Note requesting exchange of a specified amount for individual definitive note certificates.

The Republic has pre-executed 25 blank Notes in definitive form ("Pre-Executed Definitive Notes") and delivered these to the Trustee on the Issue Date. Whenever Notes in definitive form are required to be issued and delivered in accordance with the terms of the Indenture, the Trustee may authenticate one or more Pre-Executed Definitive Notes for such purpose (or, if the Trustee is not holding any Pre-Executed Definitive Notes at the relevant time, the Republic will be required to execute such Notes in definitive form as are required in accordance with the terms of the Indenture).

## TAXATION

### Ecuador Taxation

The following is a general discussion of Ecuadorian tax considerations. The discussion is based upon the tax laws of the Republic 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, the Republic.

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 generally 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 applicability of the foreign tax credit and source of income rules to interest (and any Additional Amounts) paid with respect to the Notes.**

##### **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 Sole Global Coordinator, Bookrunner and Social Bond Structuring Agent by Clifford Chance US LLP, U.S. counsel to the Sole Global Coordinator, Bookrunner and Social Bond Structuring Agent and by Fabara & Compañía Abogados C.L., Ecuadorian counsel to the Sole Global Coordinator, Bookrunner and Social Bond Structuring Agent. The validity of the Guarantor will be passed upon on behalf of the IDB by Latham & Watkins LLP, counsel to the Guarantor.

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 Fabara & Compañía Abogados C.L.

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 Sole Global Coordinator, Bookrunner and Social Bond Structuring Agent 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 International Securities Identification Numbers for the Regulation S Global Notes and the Restricted Global Notes are XS2107382157 and XS2107382405, respectively.

2. The Republic's legal entity identifier is 5299003Y2U5XK0A35H71.

3. The Republic has obtained all necessary consents, approvals and authorizations of the Republic 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. 034-2019 dated December 5, 2019.

4. The IDB has obtained all necessary consents, approvals and authorizations in connection with the Guarantee. The Guarantee was authorized by Resolution of the IDB Board of Directors DE-111/18 dated December 6, 2018.

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

6. On November 28, 2017, Moody's Investors Service ("Moody's") affirmed the Republic's long-term Government bond ratings at "B3" with a "stable outlook." On September 30, 2017, Standard & Poor's Ratings Services ("S&P") affirmed the Republic's foreign long-term issuer rating at "B" with a "stable outlook." On June 29, 2017, S&P 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 ("Fitch") was affirmed at "B," but the rating outlook was revised from "stable" to "negative." On September 13, 2017, Fitch affirmed the Republic's long-term foreign currency issuer default rating at "B" with a "negative" rating outlook. On August 17, 2018, Fitch 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 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." On August 21, 2019, Fitch changed the Republic's rating outlook to "stable" from "negative."

7. The IDB is rated Aaa by Moody's and AAA by Standard&Poor's.

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.

8. 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.

9. 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, 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) the Guarantee;

- (d) the Escrow Agreement;
- (e) the 2008 Constitution, and the Legislative Decrees of the Republic referred to in paragraph 2 above (in Spanish);
- (f) the Republic's consolidated public sector fiscal accounts for the last calendar year (as and when available in English);
- (g) IDB's 2018 Information Statement (which includes IDB's audited annual financial statements as of and for the period ended December 31, 2018), the IDB's 2017 Information Statement (which includes the IDB's audited annual financial statements as of and for the period ended December 31, 2017) as of and for the period ended December 31, 2017, and any IDB's Management's Discussion and Analysis and Condensed Quarterly Financial Statements (unaudited), as of and for the years ended December 31, 2018, and December 31, 2017, filed by the IDB with the U.S. Securities Exchange Commission subsequent to the date of the 2018 Information Statement.

10. Other than as disclosed herein, including information that has been updated as of January 16, 2020, 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.

11. 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.

## Glossary of Defined Terms

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**ANNEX A**

**The Guarantee Agreement**

**PARTIAL CREDIT GUARANTEE**

**among**

**INTER-AMERICAN DEVELOPMENT BANK,**

as Guarantor,

**THE BANK OF NEW YORK MELLON,**

as Trustee and Registrar, and

**THE BANK OF NEW YORK MELLON, LONDON BRANCH,**

as Paying Agent

**Dated as of [January 30, 2020]**

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This PARTIAL CREDIT GUARANTEE (this “**Guarantee**”), dated as of [January 30, 2020], is entered into by the INTER-AMERICAN DEVELOPMENT BANK, an international organization established by the Agreement Establishing the Inter-American Development Bank among its member countries (the “**Guarantor**”); THE BANK OF NEW YORK MELLON, not in its individual capacity but solely as Trustee and Registrar under the Indenture (as defined below); and THE BANK OF NEW YORK MELLON, LONDON BRANCH, as Paying Agent under the Indenture.

**WHEREAS**

(A) The Guarantor aims to enhance financing of sovereign loans and bonds through partial credit guarantees counter-guaranteed by the borrowing sovereign;

(B) The Republic of Ecuador (the “**Republic**”) has asked for the assistance of the Guarantor in financing the Program to Finance Social Housing in Ecuador (EC-U0001) (the “**Program**”);

(C) Pursuant to the Trust Indenture, dated as of [January 30, 2020], between, inter alia, the Republic, the Guarantor, the Trustee, the Registrar and the Paying Agent (the “**Indenture**”), the Republic will issue four hundred million U.S. Dollars (US\$400,000,000) in aggregate principal amount of its 7.25% Fixed Rate Senior Partially Guaranteed Notes due 2035 (the “**Notes**”). The Notes will initially be issued in global form (such Notes while in global form being “**Global Notes**”), as specified in the Indenture and the Terms. Subsequently, any holder of an interest in Global Notes may exchange some or all of its interest in Global Notes for Notes in definitive form, in which case the principal amount of the Global Notes shall be written down by the Trustee and Notes in definitive form shall be issued (such Notes in definitive form being “**Definitive Notes**”);

(D) The Guarantor has agreed to guarantee to the Trustee (for the benefit of the Guaranteed Holders), on the conditions set forth in this Guarantee, each payment of scheduled interest and scheduled principal on the Notes, up to the Maximum Guaranteed Amount (as defined below);

(E) The Guarantor and the Republic have entered into a Contract for Contingent Reimbursement (*Contrato de Reembolso por Contingencia*), dated as of December 12, 2019 (the “**Counter-Guarantee Agreement**”), which provides, among other matters, for the Republic to reimburse the Guarantor for any amounts paid by the Guarantor under this Guarantee;

(F) The Guarantor has entered into an Escrow Agreement, dated as of [•], 2020, with, inter alia, the Escrow Agent (the “**Escrow Agreement**”), which provides for, among other things, the establishment of escrow arrangements relating to amounts paid by the Guarantor following the occurrence of an Early Disbursement Event (as defined below); and

(G) The Guarantor is authorized to issue partial credit enhancements, and is willing, pursuant to the terms and conditions of the Counter-Guarantee Agreement, and in consideration of the payment and reimbursement obligations of the Republic contained in the Counter-Guarantee Agreement, to issue this Guarantee with respect to the Notes.

NOW, THEREFORE, for good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the acceptance hereof by the Trustee (acting pursuant to the authority granted in the Indenture) constitutes evidence of such agreement.

## ARTICLE I DEFINITIONS AND INTERPRETATION

### Section 1.01 Definitions

Capitalized terms used but not defined in this Guarantee shall have the meanings set forth in the Indenture. The following capitalized terms used in this Guarantee shall have the following meanings:

**“Applicable Law”** means any statute, law, treaty, convention, regulation, ordinance, rule, judgment, order, decree, grant, franchise, concession, agreement, directive, permit, authorization, license, requirement or any form of decision of or determination by, or any interpretation or administration of any of the foregoing that has the effect of law with respect to any Person by, any Authority, whether now or hereafter in effect, including any of the foregoing relating to money laundering or terrorism.

**“Approved Assignee”** means The Goldman Sachs Group, Inc., any affiliate of Goldman Sachs or any trust, funding facility or vehicle or another bank, insurance company or financial institution which is regularly engaged in or established for the purpose of making, purchasing or investing in securities or other financial assets or acting as a trustee or fiduciary in relation thereto, and in each case such entity:

(a) is not a party sanctioned pursuant to a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and

(b) is not a firm, individual, parent company, subsidiary, or previous form of organization constituted by or with any of the same individual(s) as principal(s) declared ineligible by the Guarantor; in accordance with its sanctions procedure, or declared ineligible by another international financial institution and subject to agreements that the Guarantor may have for the mutual enforcement of sanctions, and listed in the website <https://www.iadb.org/en/transparency/sanctioned-firms-and-individuals>.

**“Authority”** means any nation or any supranational, national, regional or local government or any other political subdivision thereof, any governmental, administrative, arbitral, regulatory, fiscal, judicial or government-owned body, department, commission, authority, tribunal, agency, central bank (or any Person, whether or not government-owned and howsoever constituted or called, that exercises the functions of a central bank) or other entity of any kind exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government.

**“Bail-in Legislation”** means in relation to a Member State of the European Economic Area which has implemented, or which at any time implements, the BRRD, the relevant implementing law, regulation, rule or requirement as described in the EU Bail-in Legislation Schedule from time to time.

**“Bail-in Powers”** means any Write-down and Conversion Powers as defined in relation to the relevant Bail-in Legislation.

**“BRRD”** means Directive 2014/59/EU, establishing a framework for the recovery and resolution of credit institutions and investment firms.

**“BRRD Liability”** has the same meaning as in such laws, regulations, rules or requirements implementing the BRRD under the applicable Bail-in Legislation.

**“BRRD Party”** means The Bank of New York Mellon, London Branch or any substitute Paying Agent, as it is subject to Bail-in Powers.

**“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.

**“Collection Account”** means the Initial Collection Account, or such other replacement Collection Account as may be notified by the Trustee to the Guarantor, *provided* that the Collection Account shall be an Eligible Account and, if any Collection Account (whether the Initial Collection Account or a replacement Collection Account) ceases to be an Eligible Account, the Trustee shall promptly notify the Guarantor of a replacement Collection Account.

**“Counter-Guarantee Agreement”** has the meaning set forth in the recitals.

**“Demand Notice”** means a notice in writing from the Trustee to the Guarantor (a) notifying the Guarantor of any principal and/or interest which was due and payable on a Payment Date but remains unpaid and (b) constituting a demand by the Trustee on the Guarantor for payment pursuant to this Guarantee, in the form set forth in Exhibit A hereto.

**“Early Disbursement Event”** means any of the following:

- (a) the Republic does not pay (directly or indirectly) any amounts owed by the Republic to the Guarantor under the Counter-Guarantee, *provided* that any such delay has not been cured within sixty (60) days;
- (b) the Guarantor determines in its sole discretion in accordance with its sanctions procedures that any employee, agent or representative of the Republic has, in connection with the implementation of the Program engaged in fraudulent, corrupt, coercive or collusive practices;
- (c) the Guarantor determines in its sole discretion that (x) any employee, agent or representative of the Republic has breached the Guarantor’s environmental and social policies, as such policies are reflected in the ROP, and (y) corrective action plans in relation to such breaches have not been implemented in a reasonable time; or to the satisfaction of the Guarantor;
- (d) the Guarantor determines in its sole discretion that the Republic has breached one or more obligations set forth in the Counter-Guarantee Agreement or the ROP; or

(e) withdrawal or suspension of the Republic from membership in the Guarantor, provided this circumstance continues for more than sixty (60) days.

**“Effective Date”** means the date on which all the conditions set forth in Sections 2.02 below have been satisfied.

**“Eligible Account”** means a bank account held with an institution of the United States’ financial system, so long as such institution has a credit rating in its capacity as a financial institution equal to A-1 or better by Standard & Poor’s Ratings Services, Inc., P-1 or better by Moody’s Investors Service, Inc., or F-1 or better by Fitch Ratings Inc. or an equivalent rating by an equivalent rating agency in New York, New York.

**“Escrow Agent”** means The Bank of New York Mellon, in its capacity as escrow agent under the Escrow Agreement.

**“Escrow Agreement”** has the meaning set forth in the recitals.

**“EU Bail-in Legislation Schedule”** means the document described as such, then in effect, and published by the Loan Market Association (or any successor person) from time to time at <http://www.lma.eu.com/>.

**“Event of Default”** has the meaning set forth under the Indenture.

**“Guarantee”** has the meaning set forth in the preamble.

**“Guarantee Acceleration”** has the meaning set forth in Section 2.09.

**“Guarantee Escrow Account”** means the escrow account in New York created in the name of the Escrow Agent, for the benefit of the Guaranteed Holders, pursuant to the Escrow Agreement.

**“Guarantee Payment”** means any payment made by the Guarantor under this Guarantee, including payments made in accordance with Section 2.03(a) and 2.10(a)(ii) and (b) hereof. Any Guarantee Payment made by IDB shall be made in accordance with New York law. The Guarantee Payments will be made from a bank account of the Guarantor that is, as of the date of this Guarantee, located in New York, or in any other location as the Guarantor may subsequently determine in its sole discretion.

**“Guarantee Payment Event”** means the Republic’s failure to pay, or cause to be paid, a Scheduled Payment Amount (or portion thereof) on the applicable Payment Date, provided that such event will only constitute a Guarantee Payment Event on the date on which the five (5) Business Day grace period applicable to such non-payment (to the extent applicable) has expired.

**“Guaranteed Holders”** means, from time to time and subject to Section 3.09, Holders that hold a beneficial interest in the Notes in the form of Global Notes, it being understood that the initial Guaranteed Holder will be Ecuador Social Bond S.à r.l..

**“Guarantor”** has the meaning set forth in the preamble.

**“Guarantor Event of Default”** means the occurrence of any of the following events: (i) the Guarantor fails to pay, or cause to be paid, any Guarantee Payment when due under this Guarantee pursuant to Section 2.03 and such failure is not cured within three (3) Business Days from the date such Guarantee Payment was due; (ii) the Guarantor contests the validity of the Guarantee; (iii) the Guarantor denies any of its obligations under this Guarantee (whether by a general suspension of payments or otherwise); or (iv) the Guarantor terminates (or seeks to terminate) this Guarantee other than in accordance with Section 2.10.

**“Holders”** means the Persons or entities that appear as owners of the Notes in the Register.

**“IDB Right to Purchase”** has the meaning set forth in Section 2.10.

**“Indebtedness”** means (a) all indebtedness of or guaranteed by the Guarantor for or in connection with borrowed money, and (b) all obligations of or guaranteed by the Guarantor, evidenced by debt securities, debentures, notes or other similar instruments, *provided* that this definition shall not include obligations arising from commercial agreements not having the commercial effect of a borrowing.

**“Indenture”** has the meaning set forth in the recitals.

**“Initial Collection Account”** means the Issuer Guarantee Escrow Account (account no. 153568400).

**“Maturity Date”** means January 30, 2035, the maturity date of the Notes.

**“Maximum Guaranteed Amount”** means, as of any date of determination, an amount equal to the lower of (a) US\$300,000,000, *minus* the aggregate of all Guarantee Payments heretofore paid as of such date of determination; and (b) the Maximum Guaranteed Notes Amount, *provided* that following the Guarantor’s exercise of the IDB Right to Purchase pursuant to (and in accordance with the terms of) Section 2.11, the Maximum Guaranteed Amount shall equal US\$0.

**“Maximum Guaranteed Notes Amount”** means, on any given date of calculation, the amount set forth in the column titled “Maximum Guaranteed Notes Amount” in Schedule I to this Guarantee determined by reference to the period ending on (but excluding) the Payment Date occurring on or immediately preceding the date of calculation.

**“Notes”** has the meaning set forth in the recitals.

**“Offering Circular”** means the final Offering Circular relating to the offering of the Notes dated as of [January 16, 2020], and any additional and related materials which shall establish the specific terms and conditions of the offering of the Notes.

**“Paying Agent”** means The Bank of New York Mellon, London Branch or any substitute Paying Agent appointed pursuant to Section 3.8(c) of the Indenture.

**“Payment Date”** means each of the dates on which principal and interest, if any, on the Notes are originally scheduled to be paid, including the Maturity Date.

**“Person”** means an individual, a corporation, a limited liability company, a partnership, an association, a trust or any other entity or organization, including a government or political subdivision or an agency or instrumentality thereof.

**“Process Agent”** has the meaning set forth in Section 3.03(d).

**“Program”** has the meaning set forth in the recitals.

**“Purchase Agreement”** means the Purchase Agreement dated [January 16, 2020] between the Republic, the Guarantor, Goldman Sachs & Co. LLC as global coordinator, bookrunner and placement agent, and Ecuador Social Bond S.à r.l. as initial purchaser of the Notes.

**“Register”** has the meaning set forth in the Indenture.

**“Registrar”** means the Person at such time acting as Trustee with respect to such Notes.

**“Relevant Resolution Authority”** means the resolution authority with the ability to exercise any Bail-in Powers in relation to the relevant BRRD Party.

**“Responsible Officer”** means, when used with respect to the Trustee, the Paying Agent or the Guarantor, any officer thereof having direct responsibility for the administration of the Indenture or this Guarantee, and also, with respect to a particular matter, any other officer to whom such matter is referred because of such officer’s knowledge and familiarity with the particular subject.

**“ROP”** means the Operating Manual of the Program, which details, *inter alia*: (a) the applicable social and environmental safeguards; (b) minimum requirements for eligible housing; (c) the financial intermediary institutions that can intermediate the proceeds of the Notes to provide mortgages to Program beneficiaries; (d) the characteristics of the mortgages to be provided from the resources of the Program; (e) the functions and responsibilities of the unit for the implementation of the Program; (f) the functions and responsibilities of the trust for the management of the proceeds; and (g) the financial, economic and social reporting and auditing of the Program.

**“RTP Period”** has the meaning set forth in Section 2.11.

**“Scheduled Payment Amount”** means, for any Payment Date, the amount of principal and/or interest on the Notes originally payable on such Payment Date (without regard for any acceleration of the Notes), as provided for in the Indenture.

**“Termination Date”** means the earlier of: (a) the date on which all amounts have been paid by the Republic under the Notes, such that no further amounts are (or may become) payable thereunder; (b) the date on which the Maximum Guaranteed Amount equals zero; and (c) the

date on which this Guarantee is terminated or cancelled pursuant to (and in accordance with the terms of) Section 2.10.

“**Termination Event**” has the meaning set forth in Section 2.10.

“**Transaction Documents**” means the following documents or agreements:

- (a) the Indenture;
- (b) the Counter-Guarantee Agreement;
- (c) this Guarantee;
- (d) the Offering Circular;
- (e) the Escrow Agreement; and
- (f) any other documents so designated by the Republic.

“**Trustee**” means The Bank of New York Mellon or any substitute Trustee appointed pursuant to Section 6.9 of the Indenture.

“**Trustee Process Agent**” has the meaning set forth in Section 3.03(d).

“**U.S. Dollars**” or “**US\$**” means the lawful currency of the United States of America.

## **Section 1.02 Interpretation**

In this Guarantee, unless the context otherwise requires:

- (a) headings and the table of contents herein are for convenience only and do not affect the interpretation of this Guarantee;
- (b) any terms defined herein include the plural as well as the singular;
- (c) the words “herein,” “hereof” and “hereunder” and other words of similar import refer to this Guarantee as a whole and not to any particular Article, Section or other subdivision of this Guarantee;
- (d) a reference to an Article, a Section, a paragraph, a recital, the preamble, an Exhibit or a Schedule is a reference to an Article, a Section, a paragraph, a recital, the preamble, an Exhibit or a Schedule of or to this Guarantee, unless otherwise indicated;
- (e) a reference to a document includes an amendment or supplement to that document, *provided* that such amendment or supplement has not been made in breach of this Guarantee;
- (f) a reference to a party to any document includes that party’s successors and permitted assigns; and

(g) any reference to treaties, statutes and related regulations shall include any amendments of the same and any successor treaties, statutes and regulations.

### **Section 1.03 Business Day Adjustment**

Unless otherwise provided, where the day on or by which a payment is due to be made is not a Business Day (in the place of payment), that payment shall be made on the immediately following Business Day (in the place of payment). In such case, interest, fees and charges (if any) accrue for the period from the due date which is not a Business Day (in the place of payment) to such immediately following Business Day (in the place of payment).

### **Section 1.04 Absence of Rights of Third Parties**

None of the terms of this Guarantee is intended to confer any rights, benefits, remedies, obligations or liabilities upon any person who is not a party to this Guarantee (including any Holder) and no such Person may enforce any of its terms. Only the Trustee, for the benefit of the Guaranteed Holders, may enforce the terms of this Guarantee. The Guarantor shall have no liability to any of the Holders or to any agent or representative thereof, except for the Trustee.

## ARTICLE II PARTIAL CREDIT GUARANTEE

### **Section 2.01 Establishment of Guarantee**

(a) Subject to the terms and conditions of this Guarantee, the Guarantor hereby establishes a partial credit guarantee, up to the Maximum Guaranteed Amount, in favor of the Trustee for the benefit of the Guaranteed Holders.

(b) From the Effective Date until the Termination Date, the Guarantor irrevocably guarantees to the Trustee for the benefit of the Guaranteed Holders the payment of each Scheduled Payment Amount on each Payment Date (up to the Maximum Guaranteed Amount and without regard to any acceleration under the Notes), in accordance with the terms of this Guarantee.

(c) This Guarantee shall only cover, up to the Maximum Guaranteed Amount, Scheduled Payment Amounts, without regard to any acceleration under the Notes, and shall not cover any other amounts, including any additional amounts or indemnification amounts payable on the Notes, fees, expenses, costs or other amounts payable pursuant to any Transaction Document. For the avoidance of doubt, if the Notes are accelerated, the Guarantee will continue to cover Scheduled Payment Amounts (including each amount of interest on the Notes that would have been payable by the Republic on the relevant Payment Dates had the Notes not been accelerated). This Guarantee shall not be accelerated except as provided for in Section 2.09.

(d) This Guarantee covers all payments by the Republic of Scheduled Payment Amounts on the Notes (being all principal and interest amounts originally payable by the Republic on the Notes on each Payment Date) up to the Maximum Guaranteed Amount, *provided* that the Guarantee shall not cover any amounts payable by the Republic in connection with an Optional Redemption (as described in paragraph (e) below) and shall only cover

Scheduled Payment Amounts originally payable by the Republic on Payment Dates (without regard to any acceleration under the Notes).

(e) If there is an Optional Redemption and the Republic fails to make payment of any amount due in connection with such Optional Redemption, the Guarantee shall: (i) not cover the payment of the Optional Redemption Amount payable by the Republic in connection with such Optional Redemption; and (ii) continue to cover Scheduled Payment Amounts originally payable by the Republic on the Payment Dates (and, in accordance with the terms of the Indenture, the Holders may elect to reinstate the original schedule of payments of principal and interest on the Notes following a failure by the Republic to make payment of any amount due in connection with an Optional Redemption).

(f) The obligations of the Guarantor under this Guarantee constitute direct, unsecured obligations of the Guarantor that rank equally, without any preference among themselves, with all other unsecured and unsubordinated Indebtedness of the Guarantor, *provided* that such ranking is in terms of priority only and does not require that the Guarantor make ratable payments on the Notes with payments made on its other Indebtedness.

(g) This Guarantee is in favor of the Trustee (for the benefit of the Guaranteed Holders). Subject to Section 3.09, as the Guaranteed Holders shall only be Holders that hold a beneficial interest in the Notes in the form of Global Notes, the Guarantee shall not benefit (and no payments under the Guarantee shall be attributed to) any Holders of the Notes that are holding (or have an interest in) Definitive Notes.

## **Section 2.02 Conditions Precedent to Effectiveness**

(a) This Guarantee will become effective upon satisfaction of the following conditions:

(i) the Republic shall be a member country of the Inter-American Development Bank;

(ii) the financial terms of the Notes are acceptable to the Guarantor in its sole discretion;

(iii) the Guarantor shall have been provided with a copy of the approval of the Debt and Finance Committee of the Republic authorizing the issuance of the Notes;

(iv) the conditions set forth in Section 2.02 (*Conditions Precedent to Executing the Guarantee*) of the Counter-Guarantee Agreement shall be satisfied;

(v) there shall have been due execution and delivery to the parties thereto of:

(a) this Guarantee;

(b) the Indenture;

(c) the Purchase Agreement;

- (d) the Counter-Guarantee Agreement;
- (e) the Escrow Agreement; and
- (vi) the Notes shall have been issued and authenticated under and in accordance with the Indenture.

(b) The Guarantor will confirm to the Trustee by email once the conditions precedent in items (i) to (iv) and (v)(d) of paragraph (a) have been satisfied. The Trustee shall have no obligation to monitor or confirm the satisfaction of such conditions precedent to effectiveness of the Guarantee.

### **Section 2.03 Guarantee Payments**

- (a) If:
  - (i) no Termination Event has occurred and is continuing; and
  - (ii) a Guarantee Payment Event has occurred,

then the Trustee may (but is not obliged to) submit a Demand Notice to the Guarantor. Any Demand Notice shall: (1) inform the Guarantor of the occurrence of the Guarantee Payment Event; (2) set forth the amount of the relevant Scheduled Payment Amount that was not paid on the relevant Payment Date; and (3) set forth the amount being requested for payment under the Demand Notice (which may be equal to or lower than the relevant Scheduled Payment Amount, but shall in no case exceed the Maximum Guaranteed Amount). **Upon receipt of a duly completed Demand Notice by a Responsible Officer of the Guarantor**, the Guarantor shall be obligated on the terms and conditions hereof and thereof to make payment of the amount requested in such Demand Notice (up to the Maximum Guaranteed Amount), by depositing the applicable U.S. Dollar amount in the Collection Account no later than fourteen (14) Business Days from the receipt of such Demand Notice (with the payment by the Guarantor of any amount requested in a Demand Notice constituting a Guarantee Payment). Any amounts paid pursuant to this Guarantee shall be applied as set forth in Section 3.8(b) of the Indenture.

(b) If the Guarantor or the Trustee, in each case in its sole discretion, determines that a change in the manner or place of payment to the Paying Agent or the Trustee of any amount due hereunder or under any Notes is necessary or desirable to carry out the purposes of this Guarantee, the Trustee or any Paying Agent may agree with the Guarantor to any such change, *provided* that no such change may result in a delay of the date upon which the Guaranteed Holders are entitled to receive their proportionate share of any such payment or reduce the amount of any such payment under this Guarantee.

### **Section 2.04 Method of Guarantee Payments**

- (a) Demand Notices shall be submitted in writing (which may be by email) and confirmed by telephone on the day of submission.

(b) The Guarantor shall make each Guarantee Payment in the amount requested by the Trustee in a Demand Notice, and any payment due from the Guarantor in accordance with Section 2.09 (up to the Maximum Guaranteed Amount), by depositing the applicable amount in U.S. Dollars in immediately available funds in the Collection Account.

(c) Any amounts paid by the Guarantor in excess of the amounts required to be paid by the Guarantor pursuant to this Guarantee will be promptly returned by the Trustee to the Guarantor.

(d) The Trustee shall not set-off any amounts owed by the Republic or the Guarantor under any Transaction Document against any credits the Guarantor has against the Trustee or any of its affiliates, including any amounts or funds on deposit with the Trustee or any of its affiliates.

### **Section 2.05 Reinstatement of Maximum Guaranteed Amount**

Any amount of Guarantee Payments disbursed by the Guarantor that the Republic later reimburses to the Guarantor in accordance with the Counter-Guarantee Agreement will not be available for new Guarantee Payments.

### **Section 2.06 Continuing Obligation; Status of Guarantee**

(a) This Guarantee is a continuing obligation and shall remain in full force and effect until the occurrence of the Termination Date. Accordingly, the obligations of the Guarantor hereunder shall not be discharged except by performance (and then to the extent of such performance) or as otherwise provided in this Guarantee.

(b) The obligations of the Guarantor under this Guarantee will constitute direct, unsecured obligations of the Guarantor that will rank equally, without any preference among themselves, with all other unsecured and unsubordinated Indebtedness of the Guarantor, *provided* that such ranking is in terms of priority only and does not require that the Guarantor make ratable payments on the Notes with payments made on its other Indebtedness.

(c) This Guarantee is issued by the Guarantor and will not be the obligation of any government or nation state that is a member of the Inter-American Development Bank. No such government or nation state will be responsible for payments under this Guarantee or liable to the Trustee or to any Person in case of a Guarantor Event of Default.

### **Section 2.07 Waiver of Defenses**

For the benefit of the Trustee, who acts for the benefit of the Guaranteed Holders, and for purposes of this Guarantee only, the Guarantor waives diligence, notice of acceptance, presentment, protest, notice of dishonor or non-payment hereunder. Nothing in this Section 2.07 requires the Guarantor to perform under this Guarantee if a Termination Event has occurred.

## **Section 2.08 Subrogation**

(a) The Guarantor shall be subrogated to the rights of the Holders to the extent of any Guarantee Payments made by the Guarantor hereunder arising as a result thereof by way of right of subrogation, contribution, reimbursement, indemnity or otherwise *provided* that the Guarantor shall not exercise any such rights in connection with any amount or payment (i) in respect of which it has been reimbursed by the Republic under the Counter-Guarantee Agreement or (ii) which, following an Early Disbursement Event in respect of which the Guarantor has deposited the Maximum Guaranteed Amount into the Guarantee Escrow Account, has not been made by the Escrow Agent to the Trustee under the Escrow Agreement. In furtherance thereof, the Trustee shall from time to time take such actions as set forth in Section 4.12 of the Indenture to establish and facilitate the enforcement of the Guarantor's rights pursuant to this Section 2.08. For the avoidance of doubt, any rights that the Guarantor has to receive payments from the Republic under the Notes (only by virtue of it being subrogated to the rights of bondholders following Guarantee Payments under the Guarantee) shall be *pari passu* with any rights of the bondholders to receive payments from the Republic under the Notes.

(b) If the Guarantor exercises its subrogation rights pursuant to Section 2.08 of this Guarantee and Section 4.12 of the Indenture, the Guarantor shall notify the Trustee of the amounts of any reimbursements it receives from the Republic under the Counter-Guarantee Agreement.

(c) To the extent the Guarantor is subrogated in the rights of the Holders pursuant to Section 2.08(a), the Trustee shall forthwith assign or transfer to the Guarantor, without representation, warranty or recourse, all of such Holders' claims, interests, rights and security which it then has against the Republic under the Notes in respect of any amounts received by the Trustee on behalf of the Holders from the Guarantor.

(d) For the avoidance of doubt, if the Guarantor exercises the IDB Right to Purchase, the above subrogation rights shall not apply with respect to the RTP Subject Notes (as defined in Section 2.11), delivered to the Guarantor, in respect of which the Guarantor will have the same direct recovery rights against the Republic as other Holders in respect of such RTP Subject Notes. The Guarantor's exercise of the IDB Right to Purchase shall not affect any previously obtained subrogation rights, subject to there being no double counting.

## **Section 2.09 Guarantor Events of Default and Guarantee Acceleration**

(a) The Guarantor will give the Trustee notice by facsimile transmission or other written communication satisfactory to the Trustee of (i) the occurrence of any Guarantor Event of Default or of any condition or event which, with the giving of notice or the lapse of time or both, would constitute a Guarantor Event of Default, and (ii) of the measures it is taking to remedy such Guarantor Event of Default or such other event or condition (if any). In no event shall the Trustee be charged with knowledge of any Guarantor Event of Default unless a Responsible Officer of the Trustee shall have received written notice thereof from the Guarantor, the Republic or a Holder and such notice references the Guarantee, the Notes and the relevant Guarantor Event of Default or, with regard to a payment default, a Responsible Officer of any of the Trustee shall have actual knowledge thereof.

(b) If (i) a Guarantor Event of Default occurs and is continuing and (ii) the Holders have elected to accelerate the Notes pursuant to paragraph 8 of the terms and conditions of the Notes, then the Guaranteed Holders representing at least twenty-five percent (25%) of the outstanding Notes may direct the Trustee to declare that all amounts payable under this Guarantee (up to the Maximum Guaranteed Amount on the relevant date) are immediately due and payable by the Guarantor in which case the Trustee shall notify the Republic and the Guarantor in writing (a “**Guarantee Acceleration**”), *provided* that any Guarantee Acceleration may be annulled or rescinded, and any Guarantor Event of Default may be waived, by Holders of not less than a majority of the principal amount of the then-outstanding Notes as provided in the Indenture. On the date of a Guarantee Acceleration (which shall be the date on which the Trustee gives notice thereof to the Guarantor), an amount equal to the Maximum Guaranteed Amount shall become immediately due and payable by the Guarantor to the Trustee (on behalf of the Guaranteed Holders) under this Guarantee, payable in accordance with Section 2.04.

## Section 2.10 Termination Events

(a) This Guarantee shall terminate, and any written Demand Notice from the Trustee pursuant to this Guarantee shall be void, if any of the following events (each, a “**Termination Event**”) occurs, and the Guarantor sends a notice to the Trustee and the Republic confirming that it is terminating this Guarantee due to the occurrence of such event:

(i) the Holders or the Trustee (at the direction of the Holders under the Indenture) make any amendment, modification or waiver of the Guarantee, the provisions of the Notes and/or the Indenture which adversely affects the rights and the obligations of the Guarantor, or give any written waiver or consent with respect thereto, without the Guarantor’s prior written consent (with such written consent not to be unreasonably withheld and to be deemed given by the Guarantor after ten (10) Business Days of such written consent being sought);

(ii) an Early Disbursement Event occurs and the Guarantor has deposited the Maximum Guaranteed Amount into the Guarantee Escrow Account pursuant to the terms thereof, as described in Section 2.10(b) below;

(iii) any assignment by the Trustee of any of its rights and obligations under the Indenture or the Guarantee, which affect the rights and obligations of the Guarantor under the Guarantee or the provisions of the Notes, without the prior written consent of the Guarantor (with such written consent not to be unreasonably withheld and to be deemed given by the Guarantor after ten (10) Business Days of such written consent being sought), *provided* that no consent of the Guarantor shall be required (and no Termination Event shall occur) in connection with any assignment to an Approved Assignee or any assignment in accordance with Section 3.09(c) or in connection with the appointment of any successor Trustee under the Indenture.

(b) If, in the determination of the Guarantor, an Early Disbursement Event occurs, the Guarantor shall notify the Trustee and the Republic and shall then be entitled to deposit an amount equal to the Maximum Guaranteed Amount into the Guarantee Escrow Account, for payment to the Guaranteed Holders in the same amounts and subject to the same terms and

conditions as under this Guarantee. Upon deposit by the Guarantor of such funds in the Guarantee Escrow Account, this Guarantee shall terminate.

(c) In accordance with clause 3(b) of the Escrow Agreement, after the date on which all amounts have been paid by the Republic under the Notes, such that no further amounts are (or may become) payable thereunder, the Escrow Agent shall return any amounts in deposit in the Guarantee Escrow Account to the Guarantor within three (3) Business Days (as defined in the Escrow Agreement) of the Escrow Agent verifying the payment instructions of the Guarantor (as provided in clause 3(b) of the Escrow Agreement).

(d) The termination of this Guarantee pursuant to this Section 2.10 shall be effective as of the date set forth in an officer's certificate delivered by the Guarantor to the Trustee notifying it that a Termination Event has occurred and that this Guarantee and the Guarantor's obligations hereunder are terminated (which date shall not precede the occurrence of such Termination Event); from and after such date, all obligations of the Guarantor hereunder shall terminate and be of no further force or effect.

(e) Notwithstanding the foregoing, this Guarantee and all obligations of the Guarantor hereunder shall automatically terminate, without delivery of any notice or performance of any act by any party, upon the earlier to occur of any of the events set forth in section (a) and (b) of the definition of Termination Date.

(f) Termination of this Guarantee shall not in any respect whatsoever affect any of the rights of the Guarantor, the Republic or any other party under the Counter-Guarantee Agreement, which shall remain in full force and effect.

## **Section 2.11 IDB Right to Purchase**

(a) If an Event of Default occurs and is continuing under the Notes, at any time between the date on which such Event of Default occurs and the date that is six (6) months therefrom (the "**RTP Period**"), the Guarantor shall have the right to purchase (and RTP Subject Notes Holders (as defined below) shall have the obligation to sell) the RTP Subject Notes (as defined below) for a price equal to par plus any interest accrued on such RTP Subject Notes, in an amount equal to the Maximum Guaranteed Amount (the "**IDB Right to Purchase**").

(b) In the event the Guarantor elects to exercise the IDB Right to Purchase, it shall provide the Trustee with (i) an irrevocable written notice of exercise no later than the last Business Day of the RTP Period (an "**RTP Exercise Notice**") and (ii) an officer's certificate from a Responsible Officer of the Guarantor certifying that the Guarantor is entitled to exercise the IDB Right to Purchase and that the all conditions precedent to the IDB Right to Purchase have been satisfied. The RTP Exercise Notice shall include the following information:

- (i) the Event of Default pursuant to which the Guarantor is exercising the IDB Right to Purchase;
- (ii) the date of occurrence of such Event of Default;

(iii) the Maximum Guaranteed Amount as of the date of the RTP Exercise Notice;

(iv) a calculation setting forth the total principal amount of the Notes to be purchased at par (the “**RTP Subject Notes**”), and the total amount of interest accrued in respect of such RTP Subject Notes, the sum of which shall be equal to the Maximum Guaranteed Amount; and

(v) the date on which, pursuant to the IDB Right to Purchase, the RTP Subject Notes Holders shall deliver their RTP Subject Notes (the “**RTP Settlement Date**”), *provided* that the RTP Settlement Date shall be no earlier than ten (10) Business Days and no later than thirty (30) days from the date of delivery of the RTP Exercise Notice.

(c) Upon receipt of an RTP Exercise Notice, the Trustee shall promptly give the Holders written notice thereof in accordance with paragraph 17(c) of the terms and conditions of the Notes. The Notes that shall comprise the RTP Subject Notes shall be selected in accordance with the procedure set out in paragraph 17(c) of the terms and conditions of the Notes (with the holders of such RTP Subject Notes being the “**RTP Subject Notes Holders**”).

(d) No later than 2:00 p.m., New York time on the RTP Settlement Date, the RTP Subject Notes Holders shall transfer, or cause the Trustee to transfer, to the Guarantor the RTP Subject Notes above; and (ii) the Guarantor shall transfer to the Collection Account, for the benefit of the RTP Subject Notes Holders holding RTP Subject Notes, an amount equal to the Maximum Guaranteed Amount.

(e) Upon transfer of the Maximum Guaranteed Amount to the Collection Account on the RTP Settlement Date, the Maximum Guaranteed Amount will be automatically reduced to US\$0.

(f) For the avoidance of doubt, the Counter-Guarantee Agreement shall not cover any payments made by the Guarantor in connection with the exercise of the IDB Right to Purchase.

(g) The Trustee shall be entitled to conclusively rely upon the information and calculations set forth in the RTP Exercise Notice and shall not be required to verify or re-calculate any of the above information.

## **Section 2.12 Bail-in**

Notwithstanding any other term of this Guarantee, the Indenture or any other agreements, arrangements or understanding between the parties, each counterparty to a BRRD Party acknowledges, accepts and agrees to be bound by:

(a) the effect of the exercise of Bail-in Powers by the Relevant Resolution Authority in relation to any BRRD Liability of any BRRD Party to it under this Guarantee, that (without limitation) may include and result in any of the following, or some combination thereof:

(i) the reduction of all, or a portion, of the BRRD Liability or outstanding amounts due thereon;

(ii) the conversion of all, or a portion, of the BRRD Liability into shares, other securities or other obligations of the relevant BRRD Party or another person (and the issue to or conferral on it of such shares, securities or obligations);

(iii) the cancellation of the BRRD Liability; and

(iv) the amendment or alteration of the amounts due in relation to the BRRD Liability, including any interest, if applicable, thereon, the maturity or the dates on which any payments are due, including by suspending payment for a temporary period; and

(b) the variation of the terms of the Indenture or this Guarantee, as deemed necessary by the Relevant Resolution Authority, to give effect to the exercise of Bail-in Powers by the Relevant Resolution Authority.

### ARTICLE III MISCELLANEOUS

**Section 3.01 Notices.** Except as provided in Section 2.04(a), any notice, demand, request, consent or other communication to be given or made under this Guarantee to the Guarantor or the Trustee shall be in writing. Such notice, demand, request, consent or other communication shall be delivered by hand, courier or email (*provided* that email delivery shall be effective only upon receipt of an acknowledgment from the intended recipient such as by the “return receipt request” function as available, reply email or other written acknowledgment) to the party’s address specified below or at such other address as that party notifies to the other party hereto from time to time, and will be effective upon receipt.

For the Trustee:

The Bank of New York Mellon  
Attention: Corporate Trust – Global Americas  
240 Greenwich Street – 7E  
New York, NY 10286  
Fax: 212-815-5603  
Email: Karen.Ferry@bnymellon.com

For the Paying Agent:

The Bank of New York Mellon, London Branch  
One Canada Square  
Canary Wharf  
London E14 5AL  
England

For the Guarantor:

Inter-American Development Bank  
1300 New York Avenue, N.W.

Washington, D.C. 20577  
Fax No.: (202) 312-4135

Email: FIN-FIN@IADB.ORG (addressed to IDB'S CFO & Finance Manager)  
FIN-TCS@iadb.org (addressed to IDB's Treasury Client Solutions Group)  
COFCEC@iadb.org (addressed to Country Representative – IDB's Country Office  
Ecuador)

### **Section 3.02 Governing Law; Dispute Resolution**

(a) This Guarantee shall be governed by and construed in accordance with the laws of the State of New York of the United States of America, without regard to the conflict of law rules thereof (other than Section 5-1401 of the New York General Obligations Law and successor provisions thereto).

(b) Any dispute, controversy or claim of any nature arising out of, relating to or having any connection with this Guarantee, including any dispute as to the existence, validity, interpretation, performance, breach, termination or consequences of the nullity of this Guarantee (a “**Dispute**”), where the Guarantor is either a party, claimant, respondent or otherwise is necessary thereto, shall not be referred to a court of any jurisdiction and shall 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 this Section 3.03, which LCIA Rules are deemed to be incorporated by reference into this Section 3.03. The provisions in the LCIA Rules regarding an Emergency Arbitrator shall not apply. Capitalized terms used in this Section 3.03 which are not otherwise defined in this Guarantee shall have the meaning given to them in the LCIA Rules. In particular:

(i) There shall be three arbitrators.

(ii) Each arbitrator shall be an English or New York qualified lawyer of at least fifteen (15) years’ standing with experience in relation to international banking or capital markets disputes. At least one of those arbitrators shall be a lawyer qualified in New York.

(iii) Within thirty (30) days after the filing of the arbitration, the Paying Agent and the Trustee shall jointly appoint one arbitrator and the Guarantor shall appoint 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 shall be appointed on their behalf by the LCIA Court in accordance with the LCIA Rules and applying the criteria at subparagraph (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 shall be unaffected, and the remaining arbitrator(s) shall be appointed in accordance with the LCIA Rules.

(iv) The third arbitrator and chairman of the arbitral tribunal shall be appointed by the LCIA Court in accordance with the LCIA Rules and applying the criteria at subparagraph (ii) above.

(v) The seat, or legal place, of arbitration shall be London, England.

(vi) The language to be used in the arbitration shall be English. This Section 3.03(b) shall be governed by English law.

(c) The Trustee and the Guarantor each irrevocably waives, to the fullest extent permitted by Applicable Law, (i) any objection which it may now or hereafter have to the laying of venue of any action, suit or proceeding brought in any court referred to in this Section 3.03, and (ii) any claim that any such action, suit or proceeding brought in any such court has been brought in an inconvenient forum.

(d) The Trustee hereby agrees that service of process in any such action, suit or proceeding may be effected by mailing a copy thereof by registered or certified mail (or any substantially similar form of mail) to The Bank of New York Mellon, London Branch (the "**Trustee Process Agent**") as the Trustee's registered agent in London for service of process at its address at The Bank of New York Mellon, London Branch, One Canada Square, Canary Wharf, London E14 5AL, England or at such other address in London of which the Guarantor shall have been notified by the Trustee. The Guarantor hereby agrees that service of process in any such action, suit or proceeding may be effected by mailing a copy thereof by registered or certified mail (or any substantially similar form of mail) to Cogency Global (UK) Limited (the "**Guarantor Process Agent**") as such Person's registered agent in London for service of process at its address at 6 Lloyds Avenue, Unit 4CL, London EC3N 3AX or at such other address in London of which the Trustee shall have been notified by the Guarantor. The Trustee and the Guarantor shall each, for so long as it shall be bound to the Guarantor under this Guarantee, maintain their respective Process Agent (or if such Process Agent can no longer perform its functions of agent for service of process, another agent satisfactory to the other party) as its duly appointed agent to receive for and on its behalf service of summons, complaint or other legal process in any legal action, suit or proceeding the Guarantor or the Trustee may bring in the English courts in relation to any arbitration proceedings contemplated by this Section 3.02 or in relation to recognition or enforcement of any such arbitration award obtained in accordance with this Section 3.02.

(e) Service of process in the manner provided in this Section 3.03 in any such action, suit or proceeding shall be deemed personal service and accepted by the Trustee and Guarantor (as applicable) as such and shall be valid and binding upon the Trustee and the Guarantor (as applicable) for all the purposes of any such action suit or proceeding.

### **Section 3.03 Language**

This Guarantee is signed in the English language, which shall be binding upon the parties hereto, and the parties hereby agree that only a duly executed English version of this Guarantee is a valid version of this Guarantee.

### **Section 3.04 Waiver of the Guarantor Security**

To the extent that the Holders or the Trustee may, in any suit, legal action or proceeding brought in any court in Ecuador, the United States, the State of New York or any other jurisdiction arising out of or in connection with this Guarantee or any other Transaction Document, be entitled to the benefit of any provision of any Applicable Law requiring the

Guarantor, in such suit, legal action or proceeding, to post security for the costs of the Holders or the Trustee or to post a bond or to take similar action, the Trustee hereby irrevocably waives such benefit to the fullest extent now or hereafter permitted under the laws of Ecuador, the United States, the State of New York and, as the case may be, such other relevant jurisdictions.

### **Section 3.05 Waiver of Trial by Jury**

The Trustee hereby acknowledges that the Guarantor shall, under Applicable Law, including without limitation the provisions of the International Organizations Immunities Act of 1945 (22 U.S.C. 288) and the regulations issued thereunder, be entitled to immunity from a trial by jury in any action, suit or proceeding arising out of or relating to this Guarantee, or any other Transaction Document or the transactions contemplated hereby or thereby, that may be brought against the Guarantor in any court of the United States. **TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, THE TRUSTEE HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVES TRIAL BY JURY IN ANY LEGAL ACTION OR PROCEEDING RELATING TO THIS GUARANTEE OR ANY OTHER TRANSACTION DOCUMENT AND FOR ANY COUNTERCLAIM WITH RESPECT THERETO.** The Trustee agrees that the waivers set forth above shall have the fullest extent permitted under the Foreign Sovereign Immunities Act of 1976 of the United States (28 U.S.C. §§ 1602-1611) and are intended to be irrevocable and not subject to withdrawal for purposes of such Act.

### **Section 3.06 Scope of Guarantor's Immunity**

(a) The Trustee and the Paying Agent acknowledge that, in accordance with the Agreement Establishing The Inter-American Development Bank, actions may be brought against the Guarantor only in a court of competent jurisdiction in the territories of a member country of the Guarantor in which the Guarantor has an office, has appointed an agent for accepting service or notice of process, or has issued or guaranteed securities.

(b) The Trustee and the Paying Agent acknowledge further acknowledge that:

(i) no actions shall be brought against the Guarantor by member countries of the Guarantor or persons acting for or deriving claims from such member countries;

(ii) the property and assets of the Guarantor, wherever located and by whomsoever held, shall be immune from all forms of seizure, attachment or execution before the delivery of final judgment against the Guarantor; and

(iii) the archives of the Guarantor shall be inviolable.

### **Section 3.07 Amendments, Modifications, Etc.**

(a) No amendment, modification or waiver of any provision of this Guarantee shall be effective unless such amendment, modification or waiver shall be in writing and signed by each of the parties hereto and the same shall be effective only for the period and on the conditions and for the specific instances specified therein.

(b) No amendment, modification or waiver of any provision of the Indenture or the Notes that adversely affects the obligations of the Guarantor thereunder may be made without the prior written consent of the Guarantor. Such consent shall not be unreasonably withheld by the Guarantor and shall be subject to deemed consent after ten (10) Business Days of such written consent being sought. In connection with any amendment, modification or waiver of any provision of the Indenture or the Notes, the Republic will seek the relevant consent of the Guarantor under and in accordance with the terms of this Guarantee.

### **Section 3.08 Entire Agreement**

The obligations of the Guarantor hereunder are governed by this Guarantee only and, in the event of any conflict between this Guarantee on the one hand, and any other Transaction Document on the other hand, the terms of this Guarantee shall govern. This Guarantee represent the final and complete agreement of the parties hereto with respect to the subject matter hereof, and all prior negotiations, representations, understandings, writings and statements of any nature with respect thereto are hereby superseded in their entirety by the terms of this Guarantee.

### **Section 3.09 Successors and Assigns**

(a) This Guarantee shall bind and inure to the benefit of the respective successors and permitted assigns of the parties hereto. Subject to paragraphs (b) and (c) below, neither the Trustee nor the Guarantor may transfer or assign this Guarantee, or its rights or obligations under this Guarantee, without the prior written consent of the Guarantor, except that the Trustee may transfer and assign this Guarantee, or its rights or obligations under this Guarantee, to an Approved Assignee.

(b) If, in accordance with Section 2.6(e) of the Indenture, all Notes (and not some only) are to be represented by Definitive Notes (such that no Notes will continue to be represented by the Global Notes), the Trustee may notify the Guarantor that the Guaranteed Holders will no longer be the Holders that hold a beneficial interest in the Notes in the form of Global Notes and will instead be such Holders specified in the Register by the Trustee from time to time, determined in accordance with Section 2.9 of the Indenture.

(c) The Guarantor acknowledges that the Trustee or any Guaranteed Holder may charge, assign or otherwise create a security interest in or over any of its rights and obligations under this Guarantee to The Bank of New York Mellon (acting in the capacity of a collateral agent in connection with any transaction which references this Guarantee), *provided that* the relevant party will provide notice to the Guarantor promptly after any such charge, assignment or security interest has been created.

### **Section 3.10 Severability**

Any provision of this Guarantee which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

### **Section 3.11 Counterparts**

This Guarantee may be executed in several counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same agreement.

### **Section 3.12 Saving of Rights; Waivers and Remedies**

(a) No course of dealing or waiver by the Guarantor in connection with any condition of a Guarantee Payment under this Guarantee shall impair any right, power or remedy of the Guarantor with respect to any other condition of such Guarantee Payment, or be construed to be a waiver thereof, nor shall the action of the Guarantor with respect to any Guarantee Payment affect or impair any right, power or remedy of the Guarantor with respect to any other Guarantee Payment.

(b) Without prejudice to the generality of Section 3.13(a), the right of the Guarantor to require compliance with any condition under this Guarantee that may be waived by the Guarantor with respect to any Guarantee Payment is expressly preserved for the purposes of any subsequent Guarantee Payment.

(c) No course of dealing, and no failure or delay by the Guarantor in exercising, in whole or in part, any power, remedy, discretion, authority or other right under this Guarantee or any other agreement shall waive or impair, or be construed to be a waiver of or an acquiescence in, such or any other power, remedy, discretion, authority or right under this Guarantee, or in any manner preclude its additional or future exercise.

### **Section 3.13 Not an Insurance Product**

This Guarantee is not, is not intended to be, and shall not be construed as, financial guaranty insurance, but as a credit guarantee product.

### **Section 3.14 Trustee, Registrar, Paying Agent.**

In executing this Guarantee and acting hereunder, the Trustee, Registrar and Paying Agent are acting in such capacities under the Indenture and not in their individual capacity and as such, shall be entitled to the rights, benefits, protections, indemnities and immunities afforded to each of them under the Indenture.

[SIGNATURE PAGES FOLLOW]

INTER-AMERICAN DEVELOPMENT BANK

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

ACCEPTED AND AGREED:

THE BANK OF NEW YORK MELLON

By: \_\_\_\_\_  
Name:  
Title:

By: \_\_\_\_\_  
Name:  
Title:

THE BANK OF NEW YORK MELLON,  
LONDON BRANCH

By: \_\_\_\_\_  
Name:  
Title:

By: \_\_\_\_\_  
Name:  
Title:

**SCHEDULE I**  
**MAXIMUM GUARANTEED NOTES AMOUNT**

<b>Period start date (from and including)</b>	<b>Period end date (to but excluding) ("Payment Date")</b>	<b>Maximum Guaranteed Notes Amount (US\$)</b>
30-Jan-20	30-Jul-20	300,000,000.00
30-Jul-20	30-Jan-21	296,997,507.00
30-Jan-21	30-Jul-21	293,995,014.00
30-Jul-21	30-Jan-22	290,992,521.00
30-Jan-22	30-Jul-22	287,990,028.00
30-Jul-22	30-Jan-23	284,987,535.00
30-Jan-23	30-Jul-23	281,985,042.00
30-Jul-23	30-Jan-24	278,982,549.00
30-Jan-24	30-Jul-24	267,019,056.00
30-Jul-24	30-Jan-25	255,133,056.00
30-Jan-25	30-Jul-25	243,364,056.00
30-Jul-25	30-Jan-26	238,712,056.00
30-Jan-26	30-Jul-26	234,086,056.00
30-Jul-26	30-Jan-27	229,486,056.00
30-Jan-27	30-Jul-27	224,912,056.00
30-Jul-27	30-Jan-28	220,364,056.00
30-Jan-28	30-Jul-28	215,842,056.00
30-Jul-28	30-Jan-29	209,846,056.00
30-Jan-29	30-Jul-29	203,895,556.00
30-Jul-29	30-Jan-30	195,990,556.00
30-Jan-30	30-Jul-30	188,157,056.00
30-Jul-30	30-Jan-31	176,895,056.00
30-Jan-31	30-Jul-31	165,750,056.00
30-Jul-31	30-Jan-32	153,722,056.00
30-Jan-32	30-Jul-32	141,824,056.00
30-Jul-32	30-Jan-33	115,056,056.00
30-Jan-33	30-Jul-33	88,613,056.00
30-Jul-33	30-Jan-34	62,495,056.00
30-Jan-34	30-Jul-34	36,702,056.00
30-Jul-34	30-Jan-35	18,234,056.00

## EXHIBIT A

### Form of Demand Notice

[Date]

Inter-American Development Bank

1300 New York Avenue, N.W.

Washington, D.C. 20577

Fax No.: (202) 312-4135

Attn: IDB'S CFO & Finance Manager

IDB's Treasury Client Solutions Group

Country Representative – IDB's Country Office Ecuador

Re: Demand Notice – Partial Credit Guarantee to Ecuador's Notes due 2035

1. Reference is made to the Partial Credit Guarantee, dated as of [January 30, 2020] (the “**Guarantee**”), between Inter-American Development Bank (“**Guarantor**”), The Bank of New York Mellon (the “**Trustee**”) and The Bank of New York Mellon, London Branch (the “**Paying Agent**”).

2. Capitalized terms used but not defined herein have the meanings assigned to them in the Guarantee.

3. In accordance with the Guarantee, we submit to you this Demand Notice and we hereby certify to you that the Republic has failed to pay the following Scheduled Payment Amount on the following Payment Date:

Payment Date: \_\_\_\_\_  
Scheduled Payment Amount(s): US\$ \_\_\_\_\_

4. The Guarantor is hereby requested and instructed to make a payment of US\$\_\_\_\_\_, which shall constitute a Guarantee Payment under the Guarantee, and which relates to US\$\_\_\_\_ of the interest component of the Scheduled Payment Amount described above and US\$\_\_\_\_ of the principal component of the Scheduled Payment Amount described above. This Guarantee Payment shall be made to the Collection Account on or before the fourteenth (14<sup>th</sup>) Business Day following the Guarantor's receipt of this Demand Notice.

To induce you to make such payment and as contemplated by the Guarantee, we further certify that (a) the amount of the Guarantee Payment specified under this Demand Notice does not exceed the Maximum Guaranteed Amount calculated as of today and that upon making said payment, you will not exceed your liability under the Maximum Guaranteed Amount; (b) we have complied with all terms and conditions of the Guarantee; (c) upon your payment, you shall automatically have full rights pursuant to Section 2.08 of the Guarantee; (d) no Termination Event has occurred; and (e) the making and submission of this Demand Notice has been duly

authorized by the Trustee through all appropriate action and the undersigned is a Responsible Officer of the Trustee.

[Signature page follows]

Sincerely,  
THE BANK OF NEW YORK MELLON

By: \_\_\_\_\_  
Name:  
Title:

**ISSUER**

**The Republic of Ecuador**

Ministry of Economy and Finance

Av. Amazonas entre Pereira y Unión Nacional de Periodistas  
Plataforma Gubernamental de Gestión Financiera, Pisos 10 y 11  
Quito, Ecuador

**LEGAL ADVISORS TO THE REPUBLIC OF ECUADOR**

*As to United States and English Law*

**Hogan Lovells US LLP**

390 Madison Ave.  
New York, New York 10017  
United States

*As to Ecuadorian Law*

**Coordinación General Jurídica**

**Ministerio de Economía y Finanzas**  
Av. Amazonas entre Pereira y Unión Nacional de  
Periodistas  
Plataforma Gubernamental de Gestión Financiera,  
Pisos 10 y 11  
Quito, Ecuador

**LEGAL ADVISORS TO THE SOLE GLOBAL COORDINATOR, BOOKRUNNER AND  
SOCIAL BOND STRUCTURING AGENT**

*As to United States and English Law*

**Clifford Chance US LLP**

31 W. 52<sup>nd</sup> St.  
New York, New York 10019  
United States

*As to Ecuadorian Law*

**Fabara & Compañía Abogados C.L.**

Diego de Almagro 1823  
Quito, Ecuador

**LEGAL ADVISORS TO THE INTER-AMERICAN DEVELOPMENT BANK**

**Latham & Watkins LLP**

555 Eleventh Street, NW  
Suite 1000  
Washington, D.C. 20004-1304  
United States

**TRUSTEE, REGISTRAR AND TRANSFER AGENT**

**The Bank of New York Mellon**

240 Greenwich Street, Floor 7E  
New York, New York 10286  
United States

Attention: Corporate Trust – Global Americas

**PAYING AGENT AND ACCOUNT BANK**

**The Bank of New York Mellon, London Branch**

One Canada Square, 40th Floor  
London E14 5AL  
United Kingdom

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 Sole Global Coordinator, Bookrunner and Social Bond Structuring Agent has 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.\$400,000,000 7.25% Social  
Housing Notes due 2035**

*Sole Global Coordinator, Bookrunner and Social  
Bond Structuring Agent*

**GOLDMAN SACHS & CO. LLC**

Offering Circular  
January 16, 2020