



# The Republic of Ecuador

*U.S.\$750,000,000*

*9.650% Notes due 2026*

The Republic of Ecuador (the “Republic” or “Ecuador”) is offering U.S.\$750,000,000 aggregate principal amount of its 9.650% Notes due 2026 (the “Notes”). Interest on the Notes will be payable semi-annually in arrears on June 13 and December 13 of each year commencing June 13, 2017. The Notes will mature on December 13, 2026.

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

Except as described herein, payments on the Notes will be made without deduction for or on account of withholding taxes imposed by the Republic. There is currently no public market for the Notes. Application has been made to list the Notes on the Official List of the Luxembourg Stock Exchange and to have the Notes admitted to trading on the Euro MTF Market. This Offering Circular constitutes a prospectus for the purpose of the Luxembourg Law dated July 10, 2005 on prospectuses for securities, as amended. The Notes are and will be issued in registered form and, in limited circumstances, definitive form in minimum denominations of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof.

See “Risk Factors” beginning on page 23 regarding certain risk factors you should consider before investing in the Notes.

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**Price: 100.000%**

plus accrued interest, if any, from December 13, 2016

Delivery of the Notes will be made on or about December 13, 2016.

**The Notes have not been and will not be registered under the Securities Act of 1933, as amended (the “Securities Act”). The Notes may not be sold within the United States or to U.S. persons except to qualified institutional buyers in reliance on the exemption from registration provided by Rule 144A under the Securities Act and offered and sold to certain persons in offshore transactions in reliance on Regulation S under the Securities Act. You are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A under the Securities Act.**

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

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

*Lead Manager and Global Coordinator*

**Citigroup**

The date of this Offering Circular is December 13, 2016.



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

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

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

## TABLE OF CONTENTS

	<u>Page</u>
PRESENTATION OF INFORMATION .....	v
FORWARD-LOOKING STATEMENTS .....	v
ARBITRATION AND ENFORCEABILITY .....	vii
EXCHANGE RATE INFORMATION .....	x
OFFERING CIRCULAR SUMMARY AND RECENT DEVELOPMENTS .....	1
THE OFFERING .....	15
RISK FACTORS .....	24
Risk Factors Relating to the Notes .....	24
Risk Factors Relating to Ecuador .....	26
USE OF PROCEEDS .....	35
THE REPUBLIC OF ECUADOR .....	36
Territory, Population and Society .....	36
Historical Background .....	38
Form of Government .....	39
Memberships in International Organizations and International Relations .....	41
THE ECUADORIAN ECONOMY .....	43
Gross Domestic Product .....	43
Economic and Social Policies .....	45
Strategic Sectors of the Economy .....	53
Other Sectors of the Economy .....	64
LEGAL PROCEEDINGS .....	72
BALANCE OF PAYMENTS AND FOREIGN TRADE .....	78
Balance of Payments .....	78
Current Account .....	82
Capital and Financial Account .....	83
Foreign Trade .....	84
Regional Integration .....	86
Foreign Direct Investment .....	90
MONETARY SYSTEM .....	92
The Central Bank .....	92
Financial Sector .....	93
Banking System .....	98
Banking Sector .....	101

Cooperative Banks.....	102
Capital Markets .....	103
Interest Rates and Money Supply .....	103
Inflation.....	106
<b>PUBLIC SECTOR FINANCES.....</b>	<b>108</b>
Overview.....	108
Non-Financial Public Sector Revenues and Expenditures .....	111
Central Government Revenues and Expenditures.....	112
Taxation and Customs.....	114
Foreign Aid.....	116
Central Government Expenditures.....	116
2015, 2016, and 2017 Budgets .....	116
<b>PUBLIC DEBT .....</b>	<b>118</b>
General.....	118
External Debt .....	119
Internal Debt.....	122
Debt Obligations.....	124
<b>DESCRIPTION OF THE NOTES .....</b>	<b>128</b>
<b>SUBSCRIPTION AND SALE .....</b>	<b>144</b>
<b>BOOK-ENTRY SETTLEMENT AND CLEARANCE .....</b>	<b>150</b>
Global Notes.....	150
Exchanges between the Global Notes .....	150
Book-Entry Procedures for the Global Notes .....	151
Certificated Notes.....	152
<b>TRANSFER RESTRICTIONS .....</b>	<b>153</b>
<b>TAXATION.....</b>	<b>156</b>
Ecuador Taxation.....	156
<b>VALIDITY OF THE NOTES .....</b>	<b>160</b>
<b>GENERAL INFORMATION .....</b>	<b>161</b>

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

The Notes will be issued in registered form only. Notes sold in offshore transactions in reliance on Regulation S under the Securities Act ("Regulation S") will be represented by one or more permanent global notes in fully registered form without interest coupons (the "Regulation S Global Note") and Notes sold in the United States to qualified institutional buyers (each a "qualified institutional buyer") as defined in, and in reliance on, Rule 144A under the Securities Act ("Rule 144A") will be represented by one or more permanent global notes in fully registered form without interest coupons (the "Restricted Global Note" and, together with the Regulation S Global Note, the "Global Notes"), in each case deposited with a common depositary for, and registered in the nominee name of a common depositary for Euroclear Bank S.A./N.V. ("Euroclear") for the respective accounts at Euroclear as such subscribers may direct. Beneficial interests of Euroclear participants (as defined under "Book-Entry Settlement and Clearance") in the Global Notes will be shown on, and transfers thereof between Euroclear participants will be effected only through, records maintained by Euroclear and its direct and indirect participants, including Clearstream. See "Book-Entry Settlement and Clearance." Except as described herein, definitive Notes will not be issued in exchange for beneficial interests in the Global Notes. See "Description of the Notes – Definitive Notes." For restrictions on transfer applicable to the Notes, see "Transfer Restrictions" and "Subscription and Sale."

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

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

Each purchaser of Notes sold outside the United States in reliance on Regulation S will be deemed to have represented that it is not purchasing Notes with a view to distribution thereof in the United States.

Each person purchasing Notes pursuant to Rule 144A will be deemed to:

- represent that it is purchasing the Notes for its own account or an account with respect to which it exercises sole investment discretion and that it or such account is a qualified institutional buyer (as defined in Rule 144A); and
- acknowledge that the Notes have not been and will not be registered under the Securities Act or any State securities laws and may not be reoffered, resold, pledged or otherwise transferred except as described under "Transfer Restrictions."

Each person purchasing Notes pursuant to Rule 144A also acknowledges that:

- it has been afforded an opportunity to request from the Republic and to review, and it has received, all additional information considered by it to be necessary to verify the accuracy of the information herein and acknowledges that the preliminary and final offering circulars supersede any other information or presentation regarding the Republic;
- it has not relied on the Lead Manager or any person affiliated with the Lead Manager in connection with its investigation of the accuracy of the information contained in this Offering Circular or its investment decision; and
- no person has been authorized to give any information or to make any representation concerning the Republic or the Notes other than those contained in this Offering Circular and, if given or made, such information or representation should not be relied upon as having been authorized by the Republic or the Lead Manager.

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

#### **PRESENTATION OF INFORMATION**

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

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

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

References to laws that are “published” are to laws that have been approved by the National Assembly and confirmed by the President.

Certain figures included in this Offering Circular have been rounded for ease of presentation. Percentage figures included in this Offering Circular have not in all cases been calculated on the basis of such rounded figures but on the basis of such amounts prior to rounding.

Certain economic and financial data in this Offering Circular is derived from information previously published by *Banco Central del Ecuador* (the “Central Bank”) and other Governmental entities of Ecuador. This data is subject to correction and change in subsequent publications.

#### **FORWARD-LOOKING STATEMENTS**

This Offering Circular contains certain forward-looking statements (as such term is defined in the Securities Act) concerning the Republic. These statements are based upon beliefs of certain Government officials and others as well as a number of assumptions and estimates that are inherently subject to significant uncertainties, many of which are beyond the control of the Republic. Future events may differ materially from those expressed or implied by such forward-looking statements. Such forward-looking statements include information contained in the sections “Offering Circular Summary and Recent Developments,” “The Republic of Ecuador,” “The Ecuadorian Economy,” “Balance of Payments and Foreign Trade,” “Monetary System,” “Public Sector Finances” and “Public Debt” as well as:

External factors, such as:

- lower petroleum and mineral prices, which could adversely affect Ecuador's economy, fiscal accounts and International Reserves (defined herein);
- damage to and volatility in the international capital markets for emerging markets issuers caused by economic conditions in other emerging markets and the international capital markets generally, which could affect Ecuador's ability to engage in planned borrowing;
- changes in import tariffs and exchange rates of other countries, which could harm Ecuador's exports and, as a consequence, have a negative impact on the growth of Ecuador's economy;
- recession or low growth in the economies of Ecuador's trading partners, particularly of the United States and the European Union, which could lead to fewer exports and affect Ecuador's growth;
- a deterioration in relations between Ecuador and other countries in the region or other disruptions to Ecuador's international relations;
- changes in credit rating of the Republic;
- the impact of changes in the international price of commodities;
- higher international interest rates, which could increase Ecuador's debt service requirements and require a shift in budgetary expenditures toward additional debt service; and
- terrorist attacks in the United States or elsewhere, acts of war, or any general slowdown in the global economy.

Internal factors, such as:

- social and political unrest in Ecuador;
- Ecuador's ability to continue to attract foreign investment;
- continued public support for Ecuador's current economic policies;
- Ecuador's level of domestic debt;
- general economic and business conditions in Ecuador; and
- other factors identified or discussed under "Risk Factors."

In addition, in those and other portions of this Offering Circular, the words "anticipates," "believes," "contemplates," "estimates," "expects," "plans," "intends," "projections" and similar expressions, as they relate to the Republic, are intended to identify forward-looking statements.

Undue reliance should not be placed on forward-looking statements, which are based on current expectations. Forward-looking statements are not guarantees of future performance. They involve risks, uncertainties and assumptions. Future results may differ materially from those expressed in forward-looking statements. Many of the factors that will determine these results and values are beyond the Republic's ability to control or predict. Because of the risks and uncertainties involved, an investment decision based on the estimates and forward-looking statements should not be made. All forward-looking statements and risk factors included in this Offering Circular are made as of the date on the front cover of this Offering Circular, based on information available to the Republic as of such date, and Ecuador assumes no obligation to update any forward-looking statement or risk factor.

## ARBITRATION AND ENFORCEABILITY

The Republic is a sovereign state. Consequently, it may be difficult for investors to obtain or realize upon judgments in the courts of the United States or otherwise to enforce the Republic's obligations under the Notes. Under its Constitution, the Republic recognizes arbitration, mediation and other alternative dispute resolution proceedings for the resolution of controversies. The Republic has not consented to the jurisdiction of any court in connection with actions arising out of relating to or having any connection with the Notes and has submitted itself to arbitration under the LCIA Rules (as defined below), which allow state courts to decide certain matters as described below. See "Description of the Notes – Sovereign Immunity." The Republic has agreed to the following arbitration provisions (which shall be governed by English law) as part of the terms and conditions of the Notes:

- (a) Any dispute, controversy or claim of any nature arising out of, relating to or having any connection with the Indenture, including any dispute as to the existence, validity, interpretation, performance, breach, termination or consequences of the nullity of the Indenture (a "Dispute") where the Republic is either a party, claimant, respondent or otherwise is necessary thereto, will not be referred to a court of any jurisdiction and will instead be referred to and finally resolved by arbitration under the Rules of the London Court of International Arbitration ("LCIA") ("LCIA Rules") as at present in force as modified by the Indenture, in which LCIA Rules are deemed to be incorporated by reference. In particular:
  - (i) There will be three arbitrators.
  - (ii) Each arbitrator will be an English or New York qualified lawyer of at least 15 years' standing with experience in relation to international banking or capital markets disputes. At least one of those arbitrators will be a lawyer qualified in New York.
  - (iii) If there are two parties to the Dispute, each party will be entitled to nominate one arbitrator. If there are multiple claimants and/or multiple respondents, all claimants and/or all respondents will attempt to agree upon their respective nomination(s) such that the claimants will together be entitled to nominate one arbitrator and the respondents will together be entitled to nominate one arbitrator. If any such party or multiple parties fail to nominate an arbitrator within thirty (30) days from and including the date of receipt of the relevant request for arbitration, an arbitrator will be appointed on their behalf by the LCIA Court in accordance with the LCIA Rules and applying the criteria at clause (ii) above. In such circumstances, any existing nomination or confirmation of the arbitrator chosen by the party or parties on the other side of the proposed arbitration will be unaffected, and the remaining arbitrator(s) will be appointed in accordance with the LCIA Rules.
- (b) The third arbitrator and chairman of the arbitral tribunal will be appointed by the LCIA Court in accordance with the LCIA Rules and applying the criteria at clause (ii) above.
- (c) The seat, or legal place, of arbitration will be London, England.
- (d) The language to be used in the arbitration will be English. The arbitration provisions contained in the Indenture will be governed by English law.
- (e) Without prejudice to any other mode of service allowed by law, the Republic 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 (10) days of the event taking place) appoint another agent (a "Replacement Agent") on terms acceptable to the Trustee.

The Republic agrees that failure by the Process Agent or, as applicable, a Replacement Agent, to notify the Republic of the process will not invalidate the proceedings concerned.

Under the terms of the Notes, each holder of the Notes is deemed to have agreed to the use of arbitration under the Rules of the LCIA to resolve any dispute, controversy or claim of any nature arising out of, relating to or having any connection with the Notes. Accordingly, any court proceedings brought against the Republic by a holder of the Notes (other than to enforce an arbitration award) may be stayed in favor of arbitration.

The Republic has not waived sovereign immunity in relation to the Notes. The Republic has, however, undertaken not to invoke any defence on the basis of any kind of immunity, for itself and/or its assets, which do not constitute "Immune Property" in respect of legal actions or proceedings in connection with the Notes.

"Immune Property," in accordance with the provisions of the laws of the Republic, means:

- (a) any property which is used or designated for use in the performance of the functions of the diplomatic mission of Ecuador or its consular posts;
- (b) aircraft, naval vessels and other property of a military character or used or designated for use in the performance of military functions;
- (c) property forming part of the cultural heritage of Ecuador or part of its archives;
- (d) unexploited natural non-renewable resources in Ecuador;
- (e) funds managed in the national Treasury Account (defined herein);
- (f) assets and resources comprising available monetary reserves of Ecuador;
- (g) public domain assets used for providing public services in Ecuador;
- (h) national assets located in the territory of Ecuador and belonging to the Republic, such as streets, bridges, roads, squares, beaches, sea and land located over 4,500 meters above sea level;
- (i) accounts of the Central Bank, whether they are held abroad or locally; and
- (j) public entities' deposits with the Central Bank, whether they are maintained abroad or locally.

The decision of any arbitral tribunal shall be final to the fullest extent permitted by law. The Republic submits to the jurisdiction of any Ecuadorian court or of any court outside the Republic in connection with a properly obtained arbitral award, and such an arbitral award may be enforced in any jurisdiction in accordance with the New York Convention on the Recognition and Enforcement of Arbitral Awards 1958. The Republic also submits to the jurisdiction of the English courts in connection with any proceedings invoking the supervisory jurisdiction of those courts in relation to an arbitration conducted pursuant to the Indenture.

Any award rendered by an arbitral tribunal properly constituted under the Purchase Agreement, the Indenture or the Notes (as the case may be), would be enforceable against the Republic after an homologation process before a Provincial Civil Court of Justice, without re-examination of the issues, provided that it complies with the requirements established in the treaty between Ecuador and the country in which such award has been rendered, or in the absence of such treaty, when the formalities set forth in Articles 104, 105 and 106 and other relevant provisions of the General Code of Procedure are met.

The Indenture contains a further provision which provides that any dispute between the Trustee and the holders of the Notes only, will be subject to the non-exclusive jurisdiction of the courts of New York. This provision is as follows:

Any Dispute between the Trustee and any holders or holders only and where the Republic is not a party, claimant, respondent or otherwise is necessary thereto, will be subject to the non-exclusive jurisdiction of any New York state or United States federal court sitting in the Borough of Manhattan, the City of New York, and any appellate court from any thereof, in any action or proceeding arising out of or relating to the Indenture (except actions or proceedings arising under or in connection with U.S. federal and state securities laws), and the Trustee and the holders hereby irrevocably submit to such jurisdiction and agree that all claims in respect of such Dispute may be heard and determined in such New York state or United States federal court.

## **EXCHANGE RATE INFORMATION**

In January of 2000, following several weeks of severe exchange-rate depreciation of the sucre, the Republic announced that it would dollarize the economy. On March 1, 2000, the Ecuadorian Congress approved the *Ley para la Transformación Económica del Ecuador* (“Ecuadorian Economic Transformation Law”, or the “Dollarization Program”), which made the U.S. dollar the legal tender in Ecuador. The Ecuadorian Economic Transformation Law provided for the Central Bank to exchange, on demand, sucres at a rate of 25,000 sucres per U.S.\$1.00. In addition to providing an official basis to dollarize the economy, the law contained reforms aimed at strengthening fiscal stability, improving banking supervision and establishing rules to encourage direct investment. Since the passage of the Ecuadorian Economic Transformation Law, the U.S. dollar has been the legal tender in Ecuador. Due to the Dollarization Program, the ability of the Republic, and/or the Central Bank to adjust monetary policy and interest rates in order to influence macroeconomic trends in the economy is limited.

## OFFERING CIRCULAR SUMMARY AND RECENT DEVELOPMENTS

*The following summary does not purport to be complete and is qualified in its entirety by, and is subject to, the detailed information appearing elsewhere in this Offering Circular.*

### **The Republic of Ecuador**

Ecuador is one of the smallest countries in South America, covering an area of approximately 99,054 square miles (256,549 square kilometers). Located on the north-western coast of the continent, it shares a 950-mile border with Peru to the south and the east, a 373-mile border with Colombia to the north, and a 1,452-mile coastline to the Pacific Ocean to the west. The country encompasses a wide range of geographic areas and climates, including the Pacific coastal plains, the Sierra (consisting of the Andean highland region), the Oriente (characterized by the Amazonian tropical rain forest) and the Galapagos Islands region located in the Pacific Ocean approximately 600 miles from the coast.

In 2006, current president Rafael Correa was elected with 56.67% of the vote. Prior to President Correa taking office, protests in Quito contributed to the mid-term ouster of three of Ecuador's last four democratically elected Presidents. President Correa was re-elected in general elections held in February 2013 with 57.17% of the vote. Ecuador is scheduled to have presidential elections in February 2017 (the "2017 Election").

On June 26, 2014, the President of the National Assembly submitted a request to the Constitutional Court soliciting their opinion as to whether certain proposals, including one that would allow for re-election of the President of Ecuador for an indefinite number of terms, were constitutional amendments or constitutional reforms. Constitutional amendments require only the approval of two-thirds of the National Assembly while constitutional reforms require both the approval of a two-thirds vote in the National Assembly and a majority of the population eligible to vote in a popular referendum. On November 1, 2014, the Constitutional Court ruled that the proposals were constitutional amendments and therefore did not require a popular referendum. In December 2015, the National Assembly approved the proposals, including an amendment allowing for the indefinite re-election of the president. However, a transitional provision was included stating that the amendment will not be effective before May 24, 2017, and thus it will not apply to President Correa, whose term finishes on May 23, 2017.

On April 13, 2016, a request soliciting the Constitutional Court's opinion on the feasibility of a referendum to eliminate such a transitional provision was accepted. The Constitutional Court held that pursuant to Article 441 of the 2008 Constitution, in order for the referendum to take place, certain formal requirements must be met including a petition signed by at least 8% of the citizens registered in the electoral roll. The April 13, 2016 decision of the Constitutional Court did not specify a time limit for the referendum to be held.

Upon taking office, President Correa believed that significant reforms were necessary to rectify years of corruption, especially in regards to economic and financial matters. To do so, President Correa called for a referendum to write a new constitution, which was approved by the electorate and the National Assembly (the "2008 Constitution"). The 2008 Constitution provided the foundation for the economic and financial reform initiatives of the Correa administration. These reforms were consistent with the Correa administration's objective to promote economic growth, while reducing poverty and inequality and fostering social progress.

On April 16, 2016, a 7.8 magnitude earthquake struck the northern coast of Ecuador, (the "Pedernales Earthquake"). The Pedernales Earthquake and its aftershocks, caused severe damage to Ecuador's infrastructure in that region, including its roads and ports. An evaluation conducted by SENPLADES, INEC and various ministries estimates that the cost of reconstructing the infrastructure damaged by the Pedernales Earthquake is approximately U.S.\$3.3 billion (approximately 2-3% of Ecuador's GDP), and that, without taking into account the cost of reconstruction, damage from the earthquake will have an impact of -0.7% on the growth of Ecuador's GDP in 2016, and an impact of -9.8% on the growth of GDP in Manabí, the province in which 95% of the damages caused by the earthquake are concentrated. In response to the earthquake, President Correa empowered the Ministry of Finance to reallocate public funds, other than those allocated toward health and education, toward reconstruction efforts through Article 3 of Executive Decree No. 1001 and proposed a series of measures to help finance reconstruction pursuant to

his authority under Articles 120 and 140 of the 2008 Constitution.

On May 20, 2016, the *Ley Orgánica de Solidaridad y de Corresponsabilidad Ciudadana para la Reconstrucción de las Zonas Afectadas por el Terremoto de 16 de Abril de 2016* (the “Law of Solidarity”) was published and became effective. The Law of Solidarity includes the following measures:

- increasing the value added tax by 2 percentage points (from 12% to 14%) for one year, of which an additional 2% may be refunded if payments are made with electronic money (i.e. a 4% VAT reimbursement applies in payments made with electronic money);
- a one-time contribution by natural persons equal to 0.9% of an individual’s total assets for individuals whose total assets exceed U.S.\$1 million;
- a one-time contribution by corporations equal to 3% of their 2015 taxable income; and
- a one-time contribution of a day’s salary for one month for those earning more than U.S.\$1,000 a month; a one-time contribution of a day’s salary for two months for those earning more than U.S.\$2,000 a month, and similarly until a limit of a one-time contribution of one day’s salary for 5 months for those earning more than U.S.\$5,000 a month.

President Correa also indicated that Ecuador would draw from existing contingent credit lines, including a U.S.\$150 million credit line with the World Bank, a U.S.\$300 million credit line with Inter-American Development Bank (“IDB”), and a U.S.\$66 million with CAF, and would explore the possibility of selling certain assets of the Republic, including the Sopladora 487 MW hydroelectric plant, Banco del Pacífico S.A., the *Corporación Nacional de Telecomunicaciones*, and other state owned utilities. Additionally, on July 8, 2016, the International Monetary Fund (the “IMF”) approved a U.S.\$364 million facility to help Ecuador meet costs related to damages to infrastructure, housing, and agriculture caused by the Pedernales Earthquake.

On August 16, 2016, the Minister of Finance, Fausto Herrera, stated that the three sources of financing being used to address relief and restoration efforts in relation to the Pedernales Earthquake include the General State Budget, proceeds from the Law of Solidarity and contingent lines of credit. Minister Herrera stated that as of August 15, 2016, U.S.\$888 million had been allocated for relief and restoration efforts in relation to the Pedernales Earthquake.

In 2006, Chevron brought arbitration proceedings against the Republic under the arbitration rules of the UNCITRAL alleging the Republic’s breach of certain “denial of justice” provisions under the U.S.-Ecuador Bilateral Investment Treaty. In August 2011, the arbitral tribunal established that Ecuador had breached that treaty and should pay Chevron U.S.\$96 million plus compound interest calculated from September 1, 2011 until the date of payment. The District Court of the District of Columbia (Washington, DC) confirmed the award in favor of Chevron, and the United States Court of Appeals for the District of Columbia Circuit affirmed the District Court’s decision. Accordingly, the arbitral award granted to Chevron was due and payable in the United States with the same force and effect as a judgment in a judicial action. The total amount due under the award, (U.S.\$96.4 million plus U.S.\$16.4 million in interest) was paid by Ecuador to Chevron in satisfaction of the arbitral award.

### **The Ecuadorian Economy**

The U.S. dollar is the legal tender in Ecuador. In each of the five years from 2011 through 2015 the Ecuadorian economy registered positive rates of growth, in real terms. In 2015 the economy of Ecuador grew by 0.2% in real terms, compared to 7.9%, 5.6%, 4.9%, 4.0% for 2011, 2012, 2013, and 2014, respectively. This decreased level of growth when compared with prior years was mainly due to decreased revenues resulting from the decline in the price of oil. In the first six months of 2016, GDP decreased by 3.1% in real terms, when compared to the first six months of 2015. This decrease is mainly due to decreased revenues resulting from the decline in the price of oil. From 2011 to 2015, the Ecuadorian economy grew from a nominal gross domestic product (“GDP”) of U.S.\$79,277 million in 2011 to U.S.\$100,177 million in 2015. During the same five-year period, GDP per capita

grew from U.S.\$5,193 in 2011 to U.S.\$6,154 in 2015.

Inflation declined from 5.4% in 2011 to 3.4% in 2015. For the twelve-month period ended November 30, 2016, the inflation rate was 1.1%, compared to 3.4% for the twelve-month period ended November 30, 2015. The rate of unemployment decreased from 4.2% in 2011 to 3.8% in 2014 due to increased job creation in the services and commerce industries. The rate of unemployment increased from 3.8% in 2014 to 4.8% in 2015 due to a general slowdown of the economy in 2015 that led to job losses in both the private and public sectors. The rate of unemployment increased to 5.2% as of September 30, 2016 due to a continued slowdown of the economy.

In 2015, manufacturing was the largest sector of the economy measured by percentage of GDP (13.57%), followed by construction (10.70%), trade (10.48%), community services (8.66%) and agriculture (8.44%). In the first six months of 2015, manufacturing, construction, trade, community services and agriculture were also the largest sectors of the economy measured by percentage of GDP, respectively accounting for 13.78%, 10.89%, 10.64%, 8.52% and 8.34% of GDP. In the first six months of 2016, manufacturing, trade, construction, community services and agriculture continued to be the largest sectors of the economy measured by percentage of GDP, accounting for 14.06%, 10.16%, 9.92%, 9.00%, and 8.57%, respectively.

Oil field crude production, including that of private and state-owned companies, reached 198.2 million barrels in 2015, an amount that represented a 2.4% decrease from the 203.1 million barrels produced in 2014 (and a decrease of 2.4% in barrels per day (“bpd”)). This decrease was principally due to the Government’s decision to decrease production activity in 2015 in order to reduce investment costs and reduce the overall budget for the year. Despite the decrease in production in 2015, the Republic expects production to increase significantly through the development and inauguration of new fields, particularly the Ishpingo-Tambococha-Tiputini (“ITT”) field in Yasuni National Park, which began extraction in September 2016. Oil field crude production, including that of private and state-owned companies, reached 150.3 million barrels in the first nine months of 2016, representing a 0.9% increase from the 149.0 million barrels produced in the first nine months of 2015 (and an increase of 0.5% in barrels per day (“bpd”)).

Crude oil exports as measured in U.S. dollars steadily increased from 2011 to 2013. Ecuador’s crude oil exports totaled U.S.\$13,016 million in 2014, a 3.0% decrease from U.S.\$13,412 million in 2013. Crude oil exports in 2015 totaled U.S.\$6,355 million, a 51.2% decrease from U.S.\$13,016 million in 2014. Both decreases were due to the decline in the price of oil beginning in late 2014 and continuing through 2015. In the first nine months of 2016, crude oil exports totaled U.S.\$3,545 million, a 32.4% decrease from U.S.\$5,241 million in the first nine months of 2015.

The Republic considers the following four sectors to be the most important strategic sectors of the economy: water, telecommunications, natural resources, and electricity. During the period from 2011 through 2014, the total Government investment in these four strategic sectors has increased from U.S.\$3,617 million in 2011 to U.S.\$7,034 million in 2014. The U.S.\$5,621 million investment in 2015 is a decrease from the U.S.\$7,034 million investment in 2014 resulting from the Government’s decision to reduce investment in the oil sector in 2015 as a result of expected lower revenues from oil sales.

The Government has targeted the electricity sector for significant capital investment. In 2015, the Government invested U.S.\$1,566 million in the electricity sector, a 43% increase from 2011, when the Government invested U.S.\$1,094 million in the sector. As of 2014, hydroelectric plants supplied 46% of the power in Ecuador. By year-end 2016, the Government predicts that hydroelectric plants will generate 93% of the power in Ecuador. Ecuador’s objective in developing hydroelectric power is to reduce its consumption of oil through oil-based generators, thereby decreasing oil imports and electric energy imports and improving energy independence.

On July 21, 2016, the *Ley Orgánica de Prevención, Detección y Erradicación del Delito de Lavado de Activos y del Financiamiento de Delitos* (the “Law to Eliminate Money Laundering and the Financing of Crimes”) was published and became effective. This law is intended to prevent, detect, and eliminate money laundering and the financing of crimes by creating a registry of “unusual” and “unjustified” financial operations and transactions. In addition to the institutions that are part of the financial and insurance systems of Ecuador, the law requires certain other entities and institutions to report to the *Unidad de Análisis Financiero y Económico* (the “Financial and

Economic Analysis Unit”), the Government entity responsible for compiling information and producing reports relating to money laundering.

On August 22, 2016, President Correa signed a decree effectuating the merger of Ecuador’s Public TV and Radio Company (“E.P. RTVEcuador”) with the state owned newspaper, El Telégrafo, to form the *Empresa Pública de Medios Públicos de Comunicación del Ecuador–Medios Públicos EP* (the “Public Media and Communications Company of Ecuador”). This consolidation decree was issued for the purpose of eliminating duplicative functions of media entities.

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

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

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 December 1, 2016, President Correa submitted for the National Assembly’s approval, the *Ley Orgánica para evitar la Especulación sobre el valor de las tierras y fijación de tributos* as an urgent economic measure. If approved, this bill that would increase the tax on capital gains obtained from the sale of real estate from 10% to up to 75%. The National Assembly has 30 days from the time of submission to approve this law.

## **Balance of Payments and Foreign Trade**

Between 2011 and 2015, Ecuador experienced fluctuations between balance of payment deficits and surpluses. While there were surpluses in 2011 and 2013, there were deficits in 2012, 2014 and 2015. The increasing price of petroleum contributed to the U.S.\$272 million surplus in the balance of payments in 2011. In 2012, an increase in Government investment contributed to a deficit of U.S.\$581.9 million. In 2013, an improvement in the financial account that was the result of an increase in bilateral debt and corresponding loan disbursements contributed to a balance of payments surplus of U.S.\$1,845.9 million. However, the current account deficit of U.S.\$930.5 million registered in 2013 represents a decrease compared to the U.S.\$165.3 million current account deficit registered in 2012. This deficit is the result of an increase in imports, particularly with respect to imported capital goods and raw materials.

In 2014, Ecuador experienced a balance of payment deficit of U.S.\$424.5 million as a result of a decrease in the capital and financial account, which decreased from U.S.\$2,917.9 million in 2013 to U.S.\$326.8 million in 2014 as a result of a decrease in investment for the year. However, the current account improved from a deficit of U.S.\$926.6 million in 2013 to a deficit of U.S.\$525.6 million in 2014. This improvement was due to the improvement in the trade balance from a deficit of U.S.\$528.6 million in 2013 to a deficit of U.S.\$63.5 million in 2014. This improvement resulted from an increase in non-petroleum exports in 2014, particularly banana and shrimp exports.

In 2015, Ecuador's balance of payment deficit grew to U.S.\$1,488.4 million as a result of a decrease in the current account. The current account decreased from a deficit of U.S.\$526.7 million in 2014 to a deficit of U.S.\$2,122.2 million in 2015. The expansion of the deficit in the current account was due to an increase in the deficit in the balance of trade from U.S.\$63.5 million in 2014 to a deficit of U.S.\$1,649.8 in 2015, which resulted mainly from a decline in the price of oil. In the second quarter of 2016, there was a balance of payment surplus of U.S.\$854.5 million, a decrease of U.S.\$210.2 million compared to the U.S.\$1,064.7 million balance of payment surplus for the second quarter of 2015.

In Ecuador, total direct foreign investment has increased over the five-year period from 2011 through 2015, from U.S.\$643.7 million in 2011 to U.S.\$1,321.4 million in 2015. This increase was due to continuing investment in Ecuador's infrastructure, in particular, its electricity and water sectors. In the second quarter of 2016, direct investment totaled U.S.\$206.1 million, a decrease compared to the U.S.\$279.2 million total for the second quarter of 2015.

In 2015, overall exports decreased to U.S.\$18,331 million, a decrease of 29% compared to 2014. This decrease was primarily due to a decrease in crude oil exports (51%), though there were also decreases in shrimp exports (9.3%) and exports of tuna and other fish (17.8%). The decrease in crude oil exports reflected the decrease in the price of crude oil in 2015. Overall exports for the first nine months of 2016 totaled U.S. \$12,160 million, a decrease of 14.6% from the U.S.\$14,243 million for the first nine months of 2015 due to the decline in the price of oil.

Although the levels of imports increased from 2011 to 2015, the rate of increase has declined over this five-year period due to the Republic's promotion of domestic production. In 2011, imports increased by 19.1% compared to the previous year, while the rate of increase declined to 4.3% in 2012, increased slightly to 6.1% in 2013 and declined to 2.6% in 2014. In 2015, imports totaled U.S.\$21,518 million, compared to U.S.\$27,726 million for 2014 registering the first decrease in the levels of imports in the past five years. This decrease in the level of imports was due to budget adjustments that limited the amount of investment to be used in the purchase of imports. In the first nine months of 2016, imports totaled U.S.\$11,745 million, as compared to the U.S.\$16,791 million for the first nine months of 2015, a 30.1% decrease mainly as a result of a decrease in demand.

## **Monetary System**

Since taking office the Government of President Correa has prioritized the stabilization of the monetary system and promoted the safety of the financial system. As of December 31, 2015, the Ecuadorian banking system



had a total of 22 banking institutions, of which one was a foreign-owned bank and one was a state-owned bank.

Banking deposits, primarily composed of demand deposits and time deposits, constitute the principal source of financing for the banking system. From December 31, 2011 through December 31, 2014, total time and demand deposits increased 44.8%, from U.S.\$18,557.9 million to U.S.\$26,874.5 million. As of December 31, 2015, time and demand deposits totaled U.S.\$23,291.1 million, a decrease of 13.3% compared to December 31, 2014. This decrease is due to a decrease in the availability of credit for the year. As of October 31, 2016, total time and demand deposits increased to U.S.\$27,100 million, an increase of 11.4% compared to October 31, 2015. This increase was due to the recovery in oil prices and foreign investment which have increased liquidity and resulted in an increase in savings deposits and cash deposits.

Total assets of the banking system increased from U.S.\$23.9 billion in 2011 to U.S.\$33.6 billion in 2014. As of December 31, 2015, total assets for the banking system totaled U.S.\$30.9 billion, a decrease of 8% since December 31, 2014. This decrease in total assets is due to the decrease in time and demand deposits in 2015. Total assets of the banking system increased from U.S.\$30.9 billion as of October 31, 2015 to U.S.\$34.0 billion as of October 31, 2016, an increase of 10%. This increase was principally due to the increase of reserves in the Central Bank and growth in liquidity throughout 2016.

With respect to the various sectors, most loan interest rates remained stable during the period from 2011 through 2014 with the corporate lending interest rate remaining at 8.2%, and consumer lending rates remaining at approximately 15.9% from 2011 to 2013 and increasing slightly to 16.0% in 2014. In 2015, the Committee of Monetary and Financial Policy Regulation established new categories of credits in the financial sector and fixed the maximum interest rates for these categories. Following this change in categorization, in 2015 the key corporate lending interest rates increased above the corporate lending interest rate in 2014, from 9.1% to 9.2%. In 2015, the priority consumer lending interest rate remained in line with the general consumer lending interest rate available in 2014 at 16.0%, and the ordinary consumer lending interest rate increased above this rate to 16.2%. For more information regarding changes to categories of interest rates, see “Monetary System – Interest Rates and Money Supply.”

Average loan interest rates on short-term and long-term loans increased from 8.2% in 2011 to 9.1% in 2015 primarily due to the effect of the rise in interest rates by the United States Federal Reserve. During the same period, the average interest rates on deposits increased from 4.5% in 2011 to 5.1% in 2015 due to the increase in demand deposits with high interest rates.

From 2011 to 2015, the banking system’s delinquency rate varied and past-due loans represented 2.2%, 2.8%, 2.6%, 2.9%, and 3.7% of the total loan portfolio, respectively. The delinquency rate increased to 2.8% in 2012 as a result of an increase in consumer past-due loans which increased from U.S.\$175 million in 2011 to U.S.\$293 million in 2012. However, the rate decreased to 2.6% in 2013 due to a reduction in past-due loans of the commercial sector, which decreased to U.S.\$284 million. In 2014, the delinquency rate increased to 2.9%, as a result of the increase in delinquency rates in consumer credits from 4.7% to 5.5%. In 2015, the delinquency rate increased to 3.7% due to the increase in delinquency rates in commercial credits from 12.7% to 14.3% as well as the decrease in the total loan portfolio. As of October 31, 2016, the delinquency rate increased to 4.3% despite increased liquidity because the increased liquidity has not yet resulted in a corresponding growth in the loan portfolio and accordingly has not yet led to a growth in non-delinquent loans which growth would decrease the overall delinquency rate.

In September 2014, the National Assembly enacted the *Código Orgánico Monetario y Financiero* (the “Monetary and Financial Law”) in order to address weaknesses of the Republic’s financial system stemming from the banking crisis in 2000. To achieve its objectives, the Monetary and Financial Law creates a new regulatory body, the *Junta de Política y Regulación Monetaria y Financiera* (the “Committee of Monetary and Financial Policy Regulation”) to oversee and regulate the execution of monetary, foreign exchange, financial, insurance, and securities policies of the country. The committee is comprised of delegates from Ecuador’s Ministry of Finance, *Ministerio de Industrias y Productividad* (the “Ministry of Production and Industrialization”), *Ministerio Coordinador de Política Económica* (the “Ministry of Economic Policy”), office of the National Secretary of Planning and Development, and a delegate appointed by the President. The principal function of the committee is to

oversee and monitor the liquidity requirements of Ecuador's financial system, ensuring that liquidity remains above certain levels (to be determined by the Committee of Monetary and Financial Policy Regulation). The law also creates a separate internal auditor for the Government's financial entities, establishes certain norms for the Central Bank and the Superintendent of Banks (defined herein) regarding their budget, purpose, and supervision, and sets forth reporting requirements to the Committee of Monetary and Financial Policy Regulation. The law also explicitly establishes that certain accounts in the Central Bank, including the accounts used for the deposits of the COSEDE and the Liquidity Fund, are subject to sovereign immunity and cannot be subject to attachment of any kind.

The law further establishes that all transactions, monetary operations and accounts in the Republic of Ecuador will be expressed in U.S. dollars. Other sections of the law make reference to an electronic payment system to facilitate payments to vendors. Through this voluntary electronic payment system, Ecuadorians will be allowed to make online payments to participating vendors through a payment system managed by the Government. Payments made through the system will be deducted or credited directly from accounts that vendors can establish with the Central Bank and will be backed by liquid assets in the Central Bank. On August 7, 2014, mobile phone carrier Movistar signed an agreement with the Central Bank to establish accounts to use the electronic payment system. In December 2014, the electronic payment system began operations. According to the Central Bank, as of May 2016, approximately U.S.\$1 million was in circulation in Ecuador in electronic currency. The law further establishes that further details regarding this payment system may be set forth by the Committee of Monetary and Financial Policy Regulation in regulations and laws. The Committee of Monetary and Financial Policy Regulation issued various laws, including the Law to Balance Public Finances and the Law of Solidarity, both of which are described herein, incentivizing and further regulating the use of electronic money. For more information regarding the Monetary and Financial Law, see "Monetary System – Supervision of the Financial System."

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

On July 8, 2016, the Executive Board of the IMF concluded its annual Article IV consultation with Ecuador. The consultation took place in Washington D.C. through discussions with officials, and via video and telephone conferences with individuals in the public and private sector in Ecuador. According the website of the IMF, Ecuadorian authorities need more time to consider the publication of the IMF report and the related press release.

On November 24, 2016, the Monetary and Financial Policy and Regulation Board (*Junta de Política y Regulación Monetaria y Financiera*) issued Resolution No. 273-2016-F, which increases from 2% to 5% the reserves that financial institutions with more than U.S.\$1 billion in assets are required to hold at the Central Bank. This resolution is expected to reduce the liquidity of these financial institutions' Central Bank deposits by approximately U.S.\$750 million.

## **Public Sector Finances**

For the five-year period from 2011 to 2015, the amount of total revenues totaled approximately 89% of the budgeted targeted amount. During the five-year period from 2011 through 2015, the Central Government budget deficit as a percentage of GDP increased from 1.6% in 2011 to 3.8% in 2015. During the same five-year period, the budget deficit for the non-financial public sector increased from 0.1% in 2011 to 5.1% in 2015. The increases in the deficit from 2011 to 2013 were due to increased infrastructure spending. The increases in the deficit in 2014 and 2015 were due to an increase in wages and salaries and lower petroleum revenues for both years. However, the decrease in the deficit from 2014 to 2015 was the result of budget adjustments undertaken by Ecuador's Ministry of

Finance (outlined below). Total expenditures for the non-financial public sector totaled U.S.\$38,676 million (equivalent to 39.0% of GDP) and total revenues totaled U.S.\$33,586 million (equivalent to 33.9% of GDP).

Total revenues of the Central Government for the first nine months of 2016 were U.S.\$13,822 million, while total expenditures were U.S.\$16,043 million. This results in a deficit of U.S.\$2,221 million for the first nine months of 2016, an increase compared to the deficit of U.S.\$892 million for the first nine months of 2015. This increase in the deficit is primarily due to decreased petroleum revenue.

In the first nine months of 2016, the non-financial public sector registered a deficit of U.S.\$3,330 million compared to a deficit U.S.\$618 million in the first nine months of 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 the first nine months of 2016, total revenues for the non-financial public sector totaled U.S.\$21,798 million, a decrease from U.S.\$26,524 million in the first nine months of 2015. In the first nine months of 2016, total expenditures for the non-financial public sector totaled U.S.\$25,128 million, a decrease compared to U.S.\$27,142 in the first nine months of 2015.

On October 31, 2015, the executive branch presented the 2016 draft budget to the National Assembly which proposed a budget of U.S.\$29.8 billion for the year, a 17.9% decrease from the U.S.\$36.3 billion originally proposed for the 2015 budget and a 12.4% decrease from the U.S.\$34.1 billion adjusted budget for 2015. It assumes an average crude oil price of U.S.\$35.00 per barrel, which represents a 56% decrease from the U.S.\$79.70 per barrel assumption of the original 2015 budget. The draft budget also estimates that there will be a budget deficit equivalent to 2.4% of GDP and a GDP growth of 1%. Excluding financing, the initial draft budget provides for U.S.\$25.7 billion in expenses, comprised of U.S.\$8.8 billion in salaries and wages, U.S.\$4.7 billion in consumer goods and services, U.S.\$3.4 billion in capital transfers and donations, U.S.\$4.4 billion in other investment expenses and U.S.\$4.5 billion in other expenses. Total revenues under the draft budget are U.S.\$23.2 billion, including U.S.\$17.3 billion in taxes, rates and contributions, U.S.\$4.8 billion in current transfers and donations and U.S.\$1.2 billion in other revenues. The draft budget, as presented, was approved by the National Assembly on November 24, 2015 and became effective on January 1, 2016.

From time to time, the Ministry of Finance revises and adjusts the sources and uses of funds initially provided for in the draft budget. On March 3, 2016, the Minister of Finance announced that the 2016 Budget would be adjusted by approximately U.S.\$800 million. The Minister specified that approximately U.S.\$400 million would be reduced from investment and current expenses and that there would also be reductions to the budgets of the Autonomous Decentralized Governments. As of the date of this Offering Circular, the Ministry of Finance has made reductions in their estimates of revenue forecasts for non-petroleum revenue by U.S.\$780 million, income tax by U.S.\$507 million, value added tax by U.S.\$818 million, and the Currency Outflow Tax by U.S.\$209 million as compared to the original 2016 Budget revenue forecasts. In addition, while making reductions to permanent expenses by U.S.\$203 million and wages and salaries by U.S.\$284 million, the Ministry of Finance has increased its projected expenses for the provision of goods and services by U.S.\$137 million and other non-permanent costs by U.S.\$965 million, both as compared to the original 2016 Budget revenue forecasts. The Ministry of Finance has also increased its estimated projection for financing needs from U.S.\$6,602 million to approximately U.S.\$12,878 million. These adjustments are expected to increase the deficit by approximately U.S.\$982 million.

Pursuant to Article 295 of the 2008 Constitution, during a presidential election year, the national budget is to be presented for National Assembly approval within the first 90 days of the term of the next president. Accordingly, the 2017 budget ("2017 Budget") will be presented for National Assembly approval within the first 90 days of the term of the next president, which is scheduled to begin on May 24, 2017. In the interim period, Article 107 of the Public Planning and Finance Code provides that the total amount of the budget for the preceding year, which in this case is the 2016 Budget, as initially approved by the National Assembly, will be used as the working budget for 2017 until the 2017 Budget is approved. Article 118 of the Public Planning and Finance Code grants the Ministry of Finance the authority to modify any approved budget in an amount up to 15% of any approved allocation. The Ministry of Finance will have the authority to modify the 2016 Budget while it is being used as the working budget for 2017 and until the 2017 Budget is approved.

## Public Debt

Total public external debt increased from U.S.\$10.06 billion in 2011, which represented 12.7% of GDP, to U.S.\$20.23 billion in 2015, which represented 20.2% of GDP. This increase in debt was primarily due to increased debt from bilateral lenders. The total public external debt grew to U.S.\$22.6 billion by June 30, 2016. This increase is primarily due to a credit line facility with a consortium of banks led by Industrial and Commercial Bank of China Limited, the Export-Import Bank of China ("China Exim Bank"), and China Minsheng Banking Corp, described below.

Total public internal debt decreased from U.S.\$13,186.8 million in August 2016 to U.S.\$12,533.0 million in October 2016. This decrease of U.S.\$831.8 million was primarily due to an exchange offer of long-term government bonds held by the Central Bank. The Ministry of Finance exchanged U.S.\$778.99 million of the Central Bank's government bonds for U.S.\$780.07 million short-term treasury notes (CETES) issued by the Ministry of Finance which have a term of less than one year. Under Ecuadorian law, CETES are not considered public debt obligations because they have a term shorter than 360 days, although there is no limit to the number of times that they can be renewed. As a result of the exchange, the Ecuadorian government can issue additional domestic long term bonds (up to the amount exchanged of U.S.\$778.99 million) in order to finance projects. For more information regarding CETES, see "The Ecuadorian Economy – Economic and Social Policies– Public Planning and Finance Code."

As of December 31, 2014, the top three bilateral lenders to Ecuador were China, Brazil and Spain, with debt levels of U.S.\$5,074.4 million (63.7% of the total bilateral debt), U.S.\$302.8 million (3.8% of the total bilateral debt) and U.S.\$158.1 million (1.9% of the total bilateral debt) respectively. As of December 31, 2015, the top three bilateral lenders to Ecuador continued to be China, Brazil and Spain, with debt levels of U.S.\$5,295.4 million (85.4% of the total bilateral debt), U.S.\$295.5 million (4.5% of the total bilateral debt) and U.S.\$140.6 million (2.2% of the total bilateral debt) respectively. As of September 30, 2015, the top three bilateral lenders to Ecuador were China, Brazil and Spain, with debt levels of U.S.\$5,206.4 million (86.60% of the total bilateral debt), U.S.\$311.3 million (5.18% of the total bilateral debt) and U.S.\$137.3 million (2.29% of the total bilateral debt) respectively. As of October 31, 2016, the top three bilateral lenders to Ecuador were China, Brazil and Spain, with debt levels of U.S.\$ 6,842.0 million (89.3 % of the total bilateral debt), U.S.\$ 249.8 million (3.26 % of the total bilateral debt) and U.S.\$ 132.3 million (1.72 % of the total bilateral debt) respectively.

The Government is current on all of its obligations to bilateral lenders.

In 2008, Ecuador defaulted on its interest payments for the 2012 and 2030 Bonds (as defined in "Public Debt – Debt Obligations" herein) in the aggregate amount of approximately U.S.\$157 million and principal payments of approximately U.S.\$3,200 million. In 2009 the Republic launched cash tender offers to the holders of the 2012 and 2030 Bonds and from 2009 through the date of this Offering Circular has repurchased additional 2012 and 2030 Bonds. As of the date hereof, the total aggregate amount of outstanding principal on the 2012 and 2030 Bonds is U.S.\$52.1 million, which represents 1.6% of the original aggregate principal amount of the 2012 and 2030 Bonds.

In December 2005, the Republic successfully launched an issuance of the 2015 Bonds (the "2015 Bonds"). The use of the proceeds of the 2015 Bonds was to buy back certain of the 2012 Bonds in accordance with their terms. The Republic successfully repaid all principal and interest on the 2015 Bonds on December 15, 2015.

On June 17, 2014, the Republic successfully issued U.S.\$2 billion of Bonds due June 2024 (the "2024 Bonds") with a coupon of 7.95% at 100% of the purchase price. The most recent interest payment on the 2024 Bonds, which was due on June 20, 2016, was paid by the Republic in accordance with the relevant indenture. The Republic is current on its financial obligations under the 2024 Bonds and intends to make all payments as they become due and payable. The Republic used the proceeds of the 2024 Bonds to finance its various hydroelectric projects and other infrastructure projects contemplated in its National Development Plan.

On March 24, 2015, the Republic successfully issued U.S.\$750 million of Bonds due March 2020 with a

coupon of 10.50% (the “Original 2020 Issuance”) at 100% of the purchase price. The Republic re-opened the Original 2020 Issuance on May 19, 2015 and successfully issued an additional U.S.\$750 million of Bonds at a price of 107.789%, also due 2020 (together with the Original 2020 Issuance, the “2020 Bonds”). The most recent interest payment on the 2020 Bonds, which was due on September 24, 2016, was paid by the Republic in accordance with the relevant indenture. The Republic is current on its financial obligations under the 2020 Bonds and intends to make all payments as they become due and payable. The Republic used the proceeds of the 2020 Bonds to finance its various hydroelectric projects and other infrastructure projects contemplated in its National Development Plan.

On July 28, 2016, the Republic successfully issued U.S.\$1,000 million of Bonds due 2022 with a coupon of 10.75% (the “Original 2022 Issuance”) at 100% of the purchase price. The Republic re-opened the Original 2022 Issuance on September 30, 2016 and successfully issued an additional U.S.\$1,000 million of Bonds at a price of 100%, also due 2022 (together with the Original 2022 Issuance, the “2022 Bonds”). The Republic is current on its financial obligations under the 2022 Bonds and intends to make all payments as they become due and payable. The Republic used the proceeds of the 2022 Bonds to finance its various hydroelectric projects and other infrastructure projects contemplated in its National Development Plan.

Ecuador’s other significant external debt transactions in 2015 include a January 7, 2015 memorandum of understanding with China Development Bank in connection with a loan of up to U.S.\$1.5 billion. The proceeds of the loan are to be used for eligible infrastructure and development projects in Ecuador. On the same date, Ecuador entered into a framework agreement for future cooperation with China Exim Bank. This agreement allows the Ministry of Finance to regularly submit priority lists of projects which it proposes to be financed by China Exim Bank, within three years of the date of the agreement. The initial priority list includes six projects to be financed at a total cost of U.S.\$5.3 billion. The rights and obligations of the parties will be stipulated in relevant loan agreements to finance specific projects.

Additionally, on February 26, 2015, Ecuador entered into a Foreign Purchase Credit Agreement with Deutsche Bank Sociedad Anónima Española. The loan is to be used to purchase radar equipment and other equipment for the air defense of Ecuador. This agreement provides for a U.S.\$88 million facility to be repaid in a term of nine years.

On March 31, 2015, Ecuador entered into a thirteen year, U.S.\$85.7 million facility agreement with the Bank of China Limited, Panama Branch (U.S.\$60.0 million commitment) and Deutsche Bank AG, Hong Kong Branch (U.S.\$25.7 million commitment). The proceeds of this facility are to be used for the restoration and improvement of the Sigchos-Chugchilán and Buena Vista-Vega Rivera-Paccha-Zaruma Highways.

In January 2016, Petroecuador entered into a credit agreement for a facility of up to U.S.\$970 million from a consortium of banks led by Industrial and Commercial Bank of China Limited, China Exim Bank, and China Minsheng Banking Corp., Ltd. The first tranche of U.S.\$820 million was disbursed in February 2016. The facility relates to a multi-party contractual structure involving a crude oil delivery contract entered into with PetroChina. The credit has an interest rate of three-month Libor plus 6.2% and has a term of five years.

In February 2016, the Republic entered into a U.S.\$198 million preferential buyer credit loan agreement with China Exim Bank to finance the first phase of Yachay. The loan agreement has a 3% interest rate and a term of 20 years.

On April 29, 2016, Ecuador entered into an eight year loan agreement with China Development Bank for U.S.\$2 billion. The agreement relates to a multi-party contractual structure involving a crude oil delivery contract entered into with PetroChina.

On July 15, 2016, Ecuador’s Ministry of Finance and the Official Credit Institute of Spain (*Instituto de Crédito Oficial*), acting for Spain, entered into a U.S.\$183.6 million credit agreement for the financing of the supply of rolling stock, auxiliary vehicles, workshop tools and equipment and parts for Quito’s first metro line.

On July 28, 2016, IESS entered into two loans for U.S.\$65.0 million and U.S.\$13.3 million, respectively, both with Deutsche Bank, Sociedad Anónima Española, as agent, various other financial institutions, as mandated

lead arrangers and Ecuador, acting through its Ministry of Finance, as guarantor. The loans are to be repaid over a term of seven years and are to be used to finance the construction and outfitting of hospitals in the city of Guayaquil and the city of Machala, respectively.

On September 23, 2016, Ecuador entered into a U.S.\$100 million bilateral loan agreement with CAF to finance costs related to damages to infrastructure and housing caused by the Pedernales Earthquake.

On October 31, 2016, the Republic entered into two loans with IDB for U.S.\$160 million and U.S.\$143 million, respectively. The Republic is using the proceeds of the loans to support education and energy programs.

On November 14, 2016, the Republic entered into a U.S.\$175 million loan with the European Investment Bank. The Republic intends to use the proceeds of the loan towards reconstruction efforts in the areas that were affected by the Pedernales Earthquake.

On November 17, 2016, the Republic, acting through its Ministry of Finance, entered into a twenty year, U.S.\$102.6 million loan facility with China Exim Bank to be used to finance the survey, design and construction with respect to the Santa Ana Aqueduct Hydraulic Stage One Project.

On November 29, 2016, the Republic entered into a U.S.\$19.7 million loan facility with a final amortization date of October 15, 2041 with IDB to finance costs related to its emergency response program for reconstruction efforts in the areas that were affected by the Pedernales Earthquake.

On December 1, 2016, Petroecuador signed a crude oil sale and purchase contract with PTT Trading International Pte Ltd ("PTT International"), pursuant to which Petroecuador will receive initial prepayments of \$600 million shortly after signing for crude oil to be delivered to PTT International during the 5-year term of the contract. On December 6, 2016, Petroecuador signed a fuel oil sale and purchase contract with Oman Trading International Ltd ("OTI"), pursuant to which Petroecuador will receive an initial prepayment of U.S.\$300 million shortly after signing for fuel oil to be delivered to OTI during the 30-month term of the contract. In connection with each contract, the Republic has agreed to refund to the purchasers any amounts of the prepayments and related surcharges for advance payment which are not otherwise satisfied through the delivery of crude oil or fuel oil, respectively, or refunded by Petroecuador in accordance with the contracts.

On July 15, 2008, Petroecuador and Petróleos de Venezuela Ecuador, S.A. ("PDVSA Ecuador") formed a new entity called RDP (defined herein) in which Petroecuador is currently the majority shareholder (51%) and PDVSA Ecuador is the minority shareholder (49%). RDP will develop a refinery project with the same name to be built in the municipality of Manta, Manabí Province, with a total nameplate capacity of 300,000 bpd. The land rights and environmental licenses necessary to develop RDP have already been obtained, and a preliminary detailed feasibility study of the project is complete. The total estimated investment for RDP is approximately U.S.\$15 billion. Negotiations are ongoing to provide financing for the project. In the event RDP is able to obtain financing through debt for this project, it is not clear whether it would be able to do so while remaining within the 40% public debt to GDP limit as further described in "Public Sector Finances – Fiscal Policy." Construction has commenced and the project is scheduled to be completed by year-end 2021.

On October 25, 2016, pursuant to Article 147, Clause 13 of the 2008 Constitution, President Correa exercised his presidential authority to issue implementing regulations and signed Decree No. 1218 ("Decree 1218"), which modifies Article 135 of the Public Planning and Finance Code. Decree 1218 changes the methodology that the Ministry of Finance uses to calculate the total public debt to GDP ratio for the purpose of establishing whether the total public debt ceiling of 40% established in Article 124 of the Public Planning and Finance Code has been exceeded. Under Decree 1218, the Ministry of Finance will now use the Total Consolidated Public Debt methodology set out in the Manual of Public Finance Statistics of the IMF (the "IMF GFS"). 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. In contrast, the aggregation methodology, which the Ministry of 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 eliminates certain types of debt from the calculation and, by extension, reduces the amount of total public debt taken into account for purposes of the 40% total public debt to GDP ceiling. For a description of the risks of any action by the Government in relation to the 40% public debt to GDP limit, see *“Risk Factors – Risk Factors relating to Ecuador – The Republic may incur additional debt beyond what investors may have anticipated as a result of a change in methodology in calculating the public debt to GDP ratio for the purpose of complying with a 40% limit under Ecuadorian law, which could materially adversely affect the interests of Noteholders.”*

### Selected Economic Indicators

	For the Year Ended December 31,					For the Six Months Ended June 30,	
	2011	2012	2013	2014	2015	2015	2016
(in millions of U.S. dollars, except percentages)							
<b>The Economy</b>							
Nominal GDP .....	79,277	87,925	95,130	102,292	100,177	50,539	48,468
Real GDP <sup>(1)</sup> .....	60,925	64,362	67,546	70,243	70,354	35,409	34,319
Real GDP growth .....	7.9%	5.6%	4.9%	4.0%	0.2%	1.8%	-3.1%
	For the Year Ended December 31,					For the Twelve Months Ended November 30,	
	2011	2012	2013	2014	2015	2015	2016
(in millions of U.S. dollars, except percentages)							
Annual inflation.....	5.4%	4.2%	2.7%	3.7%	3.4%	3.4%	1.1%
	For the Year Ended December 31,					As of October 31,	
	2011	2012	2013	2014	2015	2015	2016
(in millions of U.S. dollars, except percentages)							
International reserves <sup>(2)</sup> .....	2,958	2,483	4,361	3,949	2,496	3,308	4,275
	For the Year Ended December 31,					For the Quarter Ended June 30,	
	2011	2012	2013	2014	2015	2015	2016
(in millions of U.S. dollars)							
<b>Balance of Payments <sup>(3) (6)</sup></b>							
Exports <sup>(3)</sup> .....	23,082	24,569	25,587	26,597	19,049	5,117	4,460.3
Imports <sup>(3)</sup> .....	-23,385	-24,519	-26,115	-26,660	-20,699	-5,309	-3,617.6
Trade balance <sup>(3)</sup> .....	-303	50	-529	-63.5	-1,650	-193	843
Services balance <sup>(3)</sup> .....	-1,563	-1,394	-1,420	-1,171	-805	-212	-148
Current account surplus/deficit of the balance of payments <sup>(3)</sup> .....	-402	-168	-927	-526	-2,122	-273	865



	For the Year Ended December 31,					For the Nine Months Ended <sup>(7)</sup>	
	2011	2012	2013	2014	2015	2015	2016
(in millions of U.S. dollars, except percentages)							
<b>The Economy</b>							
Unemployment Rate <sup>(4)</sup> .....	4.21%	4.12%	4.15%	3.80%	4.77%	4.28%	5.20%
<b>Non-Financial Public Sector</b>							
Total revenues.....	31,190	34,570	37,260	39,032	33,586	26,524	21,798
Total expenditures .....	31,290	35,394	41,607	44,346	38,676	27,142	25,128
Surplus/Deficit.....	-100	-824	-4,348	-5,314	-5,091	-618	-3,330
As % of GDP <sup>(1)</sup> .....	-0.1	-0.9	-4.6	-5.3	-5.1	-1.2	-6.9
<b>Central Government</b>							
Total revenues.....	17,198	19,523	20,400	20,381	20,344	16,010	13,822
Total expenditures .....	18,435	21,240	25,861	26,794	24,149	16,902	16,043
Surplus/Deficit.....	-1,236	-1,717	-5,461	-6,413	-3,805	-892	-2,221
As % of GDP <sup>(1)</sup> .....	-1.6	-2.0	-5.8	-6.4	-3.8	-1.8	-4.6

	For the Year Ended December 31,					As of October 31, <sup>(8)</sup>	
	2011	2012	2013	2014	2015	2015	2016
(in billions of U.S. dollars)							
<b>Public Debt <sup>(5)</sup></b>							
Total External Debt .....	10.06	10.87	12.92	17.58	20.23	20.31	24.58
Total External Debt (as % of GDP) ..	12.7	12.4	13.6	17.2	20.2	20.3	25.5
Total Internal Debt .....	4.51	7.78	9.93	12.56	12.55	12.10	12.53
Total Internal Debt (as % of GDP)....	5.7	8.8	10.4	12.3	12.5	12.1	13.0
Total Public Debt .....	14.56	18.65	22.85	30.14	32.77	32.42	37.11
Total Public Debt (as % of GDP).....	18.4	21.2	24.0	29.5	32.7	32.4	38.6

- (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 Second Quarter of 2016. 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 ("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.
- (3) Figures reflect figures from "Balance of Payments" tables on pages 80-81.
- (4) Unemployment figures based on figures from *Instituto Nacional de Estadística y Censos* ("National Institute of Statistics" or "INEC"). As a percentage of economically active population.
- (5) Debt figures in this Offering Circular are based on information from the Ministry of Finance's September 2016 Debt Bulletin and reflect data for September 2016 unless otherwise indicated.
- (6) Balance of payments data is published by the Central Bank on an annual and quarterly basis. Numbers reflect second quarter 2016 information.
- (7) Unemployment figures for these periods are as of September 30, 2015 and 2016, respectively.
- (8) Debt to GDP percentages for September 2016 are calculated using estimates from the Ministry of Finance and the Central Bank.

## THE OFFERING

*The following summary does not purport to be complete and is qualified in its entirety by, and is subject to, the detailed information appearing elsewhere in this Offering Circular.*

<b>Issuer:</b>	The Republic of Ecuador.
<b>Issue Amount:</b>	U.S.\$750,000,000.
<b>Securities Offered:</b>	U.S.\$750,000,000 principal amount of 9.650% notes due 2026.
<b>Issue Format:</b>	Rule 144A/Regulation S.
<b>Issue Price:</b>	100.000% plus accrued interest, if any, from December 13, 2016.
<b>Issue Date:</b>	December 13, 2016.
<b>Maturity Date:</b>	December 13, 2026.
<b>Interest:</b>	9.650% per annum, computed on the basis of a 360-day year of twelve 30 day months.
<b>Interest Payment Dates:</b>	Each June 13 and December 13 of each year, commencing on June 13, 2017.
<b>Form:</b>	The Notes will be represented in the form of global notes, without coupons, registered in the nominee name of the common depositary for Euroclear and Clearstream for the accounts of its participants. Notes in definitive certificated form will not be issued in exchange for the global notes except under limited circumstances.
<b>Denominations:</b>	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.
<b>Ranking:</b>	The Notes will be general, direct, unsecured, unsubordinated and unconditional obligations of Ecuador, will be backed by the full faith and credit of Ecuador and will rank equally in terms of priority with Ecuador's External Indebtedness (other than Excluded Indebtedness), provided, that, such ranking is in terms of priority only and does not require that Ecuador make ratable payments on the Notes with payments made on its other External Indebtedness.
<b>Withholding Tax and Additional Amounts:</b>	Unless otherwise required by law, Ecuador will make all principal and interest payments on the Notes without withholding or deducting any present or future taxes imposed by Ecuador or any of its political

subdivisions or taxing authorities. If Ecuador is required by law to deduct or withhold taxes, except to the extent provided for in “Description of the Notes – Additional Amounts,” Ecuador will pay the holders of the Notes such additional amounts as may be necessary to ensure that they receive the same amount as they would have received without any withholding or deduction.

**Representations and Covenants:** The Republic will agree to comply with, among others, the following covenants:

- a) The Republic will obtain and maintain in full force and effect all Ecuadorian Authorizations necessary under the laws of Ecuador for the execution and delivery of, and performance by the Republic under, the Notes and the Indenture or for their validity or enforceability, and take all necessary and appropriate Governmental and administrative actions in Ecuador in order to be able to make all payments to be made by it under the Notes and the Indenture.
- b) The Republic will ensure that at all times its obligations under the Notes are general, direct, unsecured, unsubordinated and unconditional obligations of Ecuador and will be backed by the full faith and credit of Ecuador and ensure that the Notes will rank equally in terms of priority with Ecuador’s External Indebtedness (other than Excluded Indebtedness), provided, that, such ranking is in terms of priority only and does not require that the Republic make ratable payments on the Notes with payments made on its other External Indebtedness.
- c) The Republic will use its reasonable best efforts to list and thereafter to maintain the listing of the Notes on the Luxembourg Stock Exchange.
- d) The Republic will not create or suffer to exist, or permit the Central Bank to create or suffer to exist, any Lien upon any of its present or future assets or revenues to secure or otherwise provide for the payment of any External Indebtedness of Ecuador or the Central Bank unless, on or prior to the date such Lien is created or comes into existence, the obligations of the Republic under the Notes and the Indenture are secured equally and ratably with such External Indebtedness, subject to certain exceptions.

**Events of Default:** The Notes will contain, among others, the following events of default, the occurrence of which may result in the acceleration of the Republic’s obligations under the Notes prior to maturity:

- a) The Republic fails, on the applicable payment date, to (i) make any payment of principal or Make-Whole Amount on the Notes (unless such non-payment is due to an administrative or technical error and is

remedied within five Business Days of the date when such payment is due) or (ii) make any payment of an interest amount or Additional Amount on the Notes within 30 days of the date when such payment is due.

- b) The Republic fails to perform or comply with any other obligation under the Notes or under the Indenture and Ecuador does not or cannot cure that failure within 30 days after it receives written notice from the Trustee or holders of at least 25% of the aggregate principal amount of the Notes then outstanding regarding that default.
- c) The Republic, or a court of proper jurisdiction, declares a moratorium with respect to the payment of principal of, or interest on, Ecuador's External Indebtedness (other than Excluded Indebtedness).
- d) The Republic fails to make any payment in respect of any External Indebtedness (other than Excluded Indebtedness) in an aggregate principal amount in excess of U.S.\$50,000,000 (or its equivalent in any other currency) when due (as such date may be extended by virtue of any applicable grace period or waiver).
- e) The holders of at least 25% of the aggregate outstanding principal amount of any External Indebtedness (other than Excluded Indebtedness) having an aggregate principal amount in excess of U.S.\$50,000,000 (or its equivalent in any other currency), accelerate or declare such External Indebtedness to be due and payable, or required to be prepaid (other than by a regularly scheduled prepayment), prior to its stated maturity, as a result of Ecuador's failure to pay the principal or interest on such External Indebtedness, and such acceleration, declaration or prepayment is not annulled or rescinded within 30 days.
- f) The Republic denies, repudiates or contests any of its payment obligations under the Notes or the Indenture in a formal administrative, legislative, judicial or arbitral proceeding or any constitutional provision, treaty, law, regulation, decree, or other official pronouncement of the Republic, or any final decision by any court in the Republic having jurisdiction, renders it unlawful for the Republic to pay any amount due on the Notes or to perform any of its obligations under the Notes or the Indenture.
- g) The Republic fails to maintain its membership in the IMF or ceases to be eligible to use the resources of the IMF.
- h) The Republic fails to maintain its membership in, or its eligibility to use the general resources or equivalent of, any of CAF, FLAR and IDB.
- i) There shall have been entered against the Republic or the Central

Bank in a matter related to External Indebtedness (other than Excluded Indebtedness) a final judgment, decree or order by a court of competent jurisdiction from which no appeal may be made, or is made within the time limit for doing so, for the payment of money in excess of U.S.\$50,000,000 (or its equivalent in another currency) and 120 days shall have passed since the entry of any such order without Ecuador having satisfied such judgment.

- j) There shall be made against the Republic or the Central Bank in a matter related to External Indebtedness (other than Excluded Indebtedness) an arbitral award by a tribunal of competent jurisdiction from which no appeal or application to a tribunal or court of competent jurisdiction to set aside may be made, or is made within the time limit for doing so, for the payment of money in excess of U.S.\$50,000,000 (or its equivalent in another currency) and 120 days shall have passed since the making of any such award without the Republic having satisfied the award.

**Use of Proceeds:**

The Republic will use the proceeds of U.S.\$1,000,000,000 of the Notes in accordance with the limitations of the Public Planning and Finance Code (defined herein), as further described in “Use of Proceeds.”

**Collective Action Clauses:**

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

Action.”

**Transfer Restrictions:** The Notes have not been and will not be registered under the Securities Act, and will be subject to restrictions on transferability and resale. See “Transfer Restrictions.”

**Listing:** Application has been made to list the Notes on the Luxembourg Stock Exchange and to have the Notes admitted to trading on the Euro MTF Market.

**Absence of a Public Market for the Notes:** The Notes will be a new issue of securities, and there is currently no established market for the Notes. The Republic and the Lead Manager cannot provide any assurances that a liquid market for the Notes will develop. The Lead Manager has advised the Republic that it currently intends to make a market in the Notes. However, it is not obligated to do so, and any market-making with respect to the Notes may be discontinued without notice.

**Trustee, Registrar and Transfer Agent:** The Bank of New York Mellon.

**London Paying Agent:** The Bank of New York Mellon, London Branch.

**Luxembourg Listing Agent, Transfer Agent and Luxembourg Paying Agent:** The Bank of New York Mellon (Luxembourg) S.A.

**Governing Law:** The Notes will be governed by the laws of the State of New York, except for the terms concerning submissions to arbitration which will be governed by English law.

**Submission to Arbitration:**

(a) Any dispute, controversy or claim of any nature arising out of, relating to or having any connection with the Indenture, including any dispute as to the existence, validity, interpretation, performance, breach, termination or consequences of the nullity of the Indenture (a “Dispute”) where the Republic is either a party, claimant, respondent or otherwise is necessary thereto, will not be referred to a court of any jurisdiction and will instead be referred to and finally resolved by arbitration under the Rules of the LCIA (“LCIA Rules”) as at present in force as modified by the Indenture which LCIA Rules are deemed to be incorporated by reference. In particular:

(i) There will be three arbitrators.

- (ii) Each arbitrator will be an English or New York qualified lawyer of at least 15 years' standing with experience in relation to international banking or capital markets disputes. At least one of those arbitrators will be a lawyer qualified in New York.
  - (iii) If there are two parties to the Dispute, each party will be entitled to nominate one arbitrator. If there are multiple claimants and/or multiple respondents, all claimants and/or all respondents will attempt to agree upon their respective nomination(s) such that the claimants will together be entitled to nominate one arbitrator and the respondents will together be entitled to nominate one arbitrator. If any such party or multiple parties fail to nominate an arbitrator within thirty (30) days from and including the date of receipt of the relevant request for arbitration, an arbitrator will be appointed on their behalf by the LCIA Court in accordance with the LCIA Rules and applying the criteria at clause (ii) above. In such circumstances, any existing nomination or confirmation of the arbitrator chosen by the party or parties on the other side of the proposed arbitration will be unaffected, and the remaining arbitrator(s) will be appointed in accordance with the LCIA Rules.
- (b) The third arbitrator and chairman of the arbitral tribunal will be appointed by the LCIA Court in accordance with the LCIA Rules and applying the criteria at clause (ii) above.
- (c) The seat, or legal place, of arbitration will be London, England.
- (d) The language to be used in the arbitration will be English. The arbitration provisions of the Indenture will be governed by English law.

- (e) Without prejudice to any other mode of service allowed by law, the Republic hereby appoints Law Debenture Corporate Services Limited, with its registered office at 5/F, 100 Wood Street, EC2V 7EX, London, England (the “Process Agent”) as its agent under the Indenture for service of process in relation to any proceedings before the English courts in relation to any arbitration contemplated by the Indenture or in relation to recognition or enforcement of any such arbitral award obtained in accordance with the Indenture.

If the Process Agent is unable to act as the Republic's agent under the Indenture for the service of process, the Republic must immediately (and in any event within ten (10) days of the event taking place) appoint another agent (a “Replacement Agent”) on terms acceptable to the Trustee.

The Republic agrees that failure by the Process Agent or, as applicable, a Replacement Agent, to notify the Republic of the process will not invalidate the proceedings concerned.

Any Dispute between the Trustee and any holders or holders only and where the Republic is not a party, claimant, respondent or otherwise is necessary thereto, will be subject to the non-exclusive jurisdiction of any New York state or United States federal court sitting in the Borough of Manhattan, the City of New York, and any appellate court from any thereof, in any action or proceeding arising out of or relating to the Indenture (except actions or proceedings arising under or in connection with U.S. federal and state securities laws), and the Trustee and the holders will irrevocably submit to such jurisdiction and agree that all claims in respect of such Dispute may be heard and determined in such New York state or United States federal court.

**Scope of Sovereign Immunity:**

The execution and delivery of the Indenture by the Republic constitutes, and the Republic's performance of and compliance with its obligations will constitute, an act of commercial public credit as provided under the laws of the Republic. To the extent permitted by law, the Republic will irrevocably and unconditionally agree that:

- (a) the Republic submits to the jurisdiction of any Ecuadorian court and to any legal process in the Republic's courts (other than attachment proceedings prior to recognition or enforcement of an arbitral award), in connection with the enforcement of an arbitral award obtained in accordance with the Indenture, except with



respect to the Immune Property, which shall be entitled to immunity from enforcement in accordance with mandatory provisions of the laws of Ecuador;

- (b) the Republic submits to the jurisdiction of any court outside the Republic and to any legal process, orders or other measures in courts outside the Republic, whether through service or notice, attachment in aid of execution, execution against property of any sort, actions in rem or the grant of injunctions or specific performance, in connection with the enforcement of an arbitral award obtained in accordance with the Indenture, except with respect to the Immune Property, which shall be immune to the fullest extent;
- (c) the Republic undertakes not to invoke any defense on the basis of any kind of immunity, for itself and/or its assets which do not constitute Immune Property in respect of any of the foregoing legal actions or proceedings; and
- (d) the Republic submits to the jurisdiction of the English courts in connection with any proceeding invoking the supervisory jurisdiction of those courts in relation to an arbitration conducted pursuant to the Indenture.

The levy of execution on assets of the Republic within the territory of the Republic will be carried out in accordance with and under the laws of the Republic.

The Republic irrevocably waives, to the fullest extent permitted by law, any requirement or provision of law that requires the posting of a bond or other security as a condition to the institution, prosecution or completion of any action or proceeding.

An arbitral award obtained in accordance with the Indenture will be conclusive and may be enforced in any jurisdiction in accordance with the New York Convention or in any other manner provided for by law.

“Immune Property,” in accordance with the provisions of the law of Ecuador, means:

- (a) any property which is used or designated for use in the performance of the functions of the diplomatic mission of Ecuador or its consular posts;
- (b) aircraft, naval vessels and other property of a military character or used or designated for use in the performance of military functions;

- (c) property forming part of the cultural heritage of Ecuador or part of its archives;
- (d) unexploited natural non-renewable resources in Ecuador;
- (e) funds managed in the national Treasury Account;
- (f) assets and resources comprising available monetary reserves of Ecuador;
- (g) public domain assets used for providing public services in Ecuador;
- (h) national assets located in the territory of Ecuador and belonging to the Republic, such as streets, bridges, roads, squares, beaches, sea and land located over 4,500 meters above sea level;
- (i) accounts of the Central Bank, whether they are held abroad or locally; and
- (j) public entities' deposits with the Central Bank, whether they are maintained abroad or locally.

“New York Convention” means the New York Convention on the Recognition and Enforcement of Arbitral Awards 1958.

**Further Issues:**

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

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

## RISK FACTORS

*This section describes certain risks associated with investing in the Notes. You should consult your financial and legal advisors about the risk of investing in the Notes. Ecuador disclaims any responsibility for advising you on these matters.*

### **Risk Factors Relating to the Notes**

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

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

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

Ecuador has been advised by the Lead Manager that it intends to make a market in the Notes but is not obligated to do so, and in the event that it does so, it may discontinue market making at any time without notice. Application has been made to list the Notes on the Official List of the Luxembourg Stock Exchange and to have the Notes admitted to trading on the Euro MTF Market. No assurance can be given as to the liquidity of the trading market for the Notes. The price at which the Notes will trade in the secondary market is uncertain.

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

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

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

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

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

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

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

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

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

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

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

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

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

any time by the issuing organization. Each agency's rating should be evaluated independently of any other agency's rating.

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

On June 23, 2016, the United Kingdom voted by a majority in favor of the United Kingdom leaving the European Union at a referendum on the United Kingdom's membership of the European Union. As of the date of this Offering Circular, the actions that the United Kingdom will take to effectively exit from the European Union or the length of such process are uncertain. The results of the United Kingdom's referendum have caused, and are anticipated to continue causing, significant new uncertainties and volatility in the global financial markets, which may affect Ecuador and the trading market of the Notes, though exports to the United Kingdom only represented 0.9% of Ecuador's exports for 2015. These uncertainties could have a material adverse effect on the global economy and Ecuador's economy, fiscal condition or prospects. It is unclear at this stage what the impact of the United Kingdom's departure from the European Union will ultimately be on the global economy, including Ecuador, or the trading market of the Notes.

### **Risk Factors Relating to Ecuador**

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

In 2009, Ecuador defaulted on its interest payments for the 2012 and 2030 Bonds (as defined in "Public Debt – Debt Obligations" herein) in the aggregate amount of approximately U.S.\$157 million and principal payments of approximately U.S.\$3,200 million. The 2012 and 2030 Bonds were originally issued in exchange for prior debt offerings of the Republic in order to extend the maturity dates of those prior obligations. These defaults followed the publication of a report in 2008 by the Commission of Integral Audit of Public Credit ("CAIC"), a committee composed of representatives from both the Ecuadorian Government and private sector organizations and members of civil society. CAIC reviewed Ecuador's debt obligations from 1976 to 2006 and in its report made a number of findings regarding the legitimacy of Ecuador's debt obligations (including the 2012 and 2030 Bonds), in particular relating to concerns involving the public assumption of private debt, appropriate authorizations, sovereign immunity, and the relevant economic terms of the debt obligations incurred. After the default, which occurred during the first term of President Correa's administration, Ecuador offered to repurchase the 2012 and 2030 Bonds at a discount to their par value. Holders responded to this offer by tendering substantially all of the 2012 and 2030 Bonds. Although some holders continue to hold the defaulted 2012 and 2030 Bonds, Ecuador has successfully repurchased additional 2012 and 2030 Bonds from remaining holders from 2009 onwards. For more information, see "Public Debt – Debt Obligations – 2012 and 2030 Bonds and tender offer." Ecuador has remained current on its obligation to its other series of sovereign bonds including the 2020 Bonds and 2024 Bonds (as defined in "Public Debt – Debt Obligations" herein), as well as on its other debt obligations as further described in "Public Debt – External Debt." To date, no judgments have been issued against the Republic with respect to the 2012 and 2030 Bonds and none are pending. Proceedings have been issued against the Republic in two cases. See "Risk Factors – Risks Factors Relating to Ecuador - *Ecuador is involved in a number of legal proceedings and disputes that could result in losses to Ecuador as well as a decrease in foreign investment.*" There is a risk that other holders, other than the holders described in "Public Debt – Debt Obligations – 2012 and 2030 Bonds and tender offer," of these defaulted bonds may institute proceedings against the Republic and may seek to enforce any judgments obtained by seeking to attach assets of the Republic. Any action by the holders of the 2012 and 2030 Bonds, or any further defaults by Ecuador on its sovereign debt obligations, could materially adversely affect the market value of the Notes and the ability of the Republic to make principal and interest payments free of the risk of attachment. Any action by the holders of the 2012 and 2030 Bonds making similar *pari passu* arguments as the holders in *NML Capital, Ltd. v. Republic of Argentina* (see "Risk Factors – Risk Factors Relating to the Notes – *Recent federal court decisions in New York create uncertainty regarding the meaning of ranking provisions and could potentially reduce or hinder the ability of sovereign issuers to restructure their public sector debt*") or any further defaults by Ecuador of its sovereign debt obligations, could materially adversely affect the market value of the Notes and the ability of the Republic to make principal and interest payments free of the risk of attachment.

*Ecuador's past history has been characterized by institutional instability.*

Between 1997 and 2007, Ecuador has had eight presidents, and three of them were overthrown during periods of political unrest: Abdala Bucaram in 1997, Jamil Mahuad in 2000, and Lucio Gutiérrez in 2005. Since 2007, Ecuador has experienced political stability with President Correa's Alianza PAIS party having won five consecutive National Assembly elections, and President Correa having won re-election in 2013. Ecuador is scheduled to have presidential elections in February 2017 (the "2017 Election"). For more information on presidential term limits, see "The Republic of Ecuador – Form of Government." A return to an unstable political environment could significantly affect Ecuador's economy and Ecuador's ability to perform its obligations under the Notes.

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

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

- interest rates in the United States and financial markets outside Ecuador;
- changes in economic or tax policies in Ecuador;
- the imposition of trade barriers by Ecuador's trade partners;
- general economic, political, and business conditions in Ecuador, Ecuador's major trading partners, and the global economy;
- the ability of Ecuador to effect key economic reforms, including its economic strategy to re-balance the economy by increasing the percentage of GDP represented by the non-petroleum economy. For more information, see "The Ecuadorian Economy – Strategic Sectors of the Economy – Oil Sector";
- political and social tensions in Ecuador;
- the prices of commodities, including oil;
- the impact of hostilities or political unrest in other countries that may affect international trade, commodity prices and the global economy; and
- the decisions of international financial institutions regarding the terms of their financial assistance to Ecuador.

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

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

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

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

If interest rates outside Ecuador increase significantly, Ecuador's trading partners, in particular, could find it more difficult and expensive to borrow capital and refinance their existing debt. These increased costs could in turn adversely affect economic growth in those countries. Decreased growth on the part of Ecuador's trading partners could have a material adverse effect on the markets for Ecuador's exports and, in turn, adversely affect Ecuador's economy. An increase in interest rates would also increase Ecuador's debt service requirements with respect to Ecuador's debt obligations that accrue interest at floating rates. As a result, Ecuador's ability to make payments on its outstanding public debt generally, including the Notes, would be adversely affected.

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

The economy of Ecuador and the Government's budget are highly dependent on petroleum revenues. For example, in 2015, 18.9% of Ecuador's non-financial public sector revenues were derived from petroleum and petroleum-related taxes and royalties. In response to the decline in revenue attributable to the fall in the price of oil in 2015, Ecuador reduced its original 2015 budget of U.S.\$36.3 billion to U.S.\$34.1 billion, a decrease of 6%. For more information, see "Public Sector Finances – Non-Financial Public Sector Revenues and Expenditures." In the event the price of oil was to decrease from its current levels of approximately U.S.\$50 per barrel, Ecuador's revenues from oil could significantly decline. There can be no assurance that Government revenues from petroleum exports will not experience significant fluctuations as a result of changes in the international petroleum market. Concerns with respect to the current global recession, weakness of the world economy, terrorism, market volatility and certain geopolitical developments, such as political instability in the Middle East and Venezuela, may have a potentially adverse effect on the petroleum market as a whole.

In addition, in 2015, 81.4% of Ecuador's petroleum exports by destination were to three countries - the United States (62.4%), Chile (13.0%), and Peru (6.0%). Worsening economic conditions in any of these countries could have a significant impact on Ecuador's revenues from oil and overall economic activity.

Further, operating difficulties in certain oil fields, lower production budgets, and the outages and the overhaul of Ecuador's largest refinery, the Esmeraldas Refinery (see "The Ecuadorian Economy – Strategic Sectors of the Economy – Oil Sector"), have led to uneven crude oil and petroleum derivatives production over the last few years. While Ecuador expects to increase production through the development of new fields, in particular the ITT fields (see "The Ecuadorian Economy – Strategic Sectors of the Economy – Oil Sector") and has completed the overhaul of the Esmeraldas Refinery, future political opposition, budget adjustments that affect investments in oil

exploration, natural disasters such as earthquakes, or further outages could result in a decline of overall production. Accordingly, any sustained period of decline in capacity, if exacerbated by a decline in oil production, could adversely affect the Government's fiscal accounts and International Reserves.

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

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.

In addition to the effects of the volatility of the oil market, the National Assembly has passed several laws that have altered the Government's budget and the established budgetary agenda and resulted in higher deficits. Certain assumptions regarding the levels of future oil prices are contained in the budgetary process and in the *Plan Nacional para el Buen Vivir* (the "National Development Plan"). Anticipated revenues contained in the budget could be lower if these assumptions about oil prices are not accurate. In January 2015, in response to the decline of oil prices in the last quarter of 2014, Ecuador reduced its 2015 budget by U.S.\$1.4 billion and again by U.S.\$800 million in August 2015, resulting in a modified budget of U.S.\$34.1 billion for 2015. On March 3, 2016, the Minister of Finance announced that the 2016 Budget would be reduced by U.S.\$800 million. For more information see "Public Sector Finances-2015 and 2016 Budget." President Correa has stated, in light of the global economic climate, that Ecuador's priority will be to meet the Government's employment and social goals. Ecuador may need to balance these social and employment goals given its budgetary constraints.

*Petroamazonas' failure to make timely payments to contractors could have an adverse effect on Petroamazonas and on revenues that the Government Receives from Petroamazonas.*

As oil prices have decreased, Petroamazonas has failed to pay on a timely basis certain amounts owed to contractors. Petroamazonas is engaged in discussions with certain of its contractors with respect to some of its outstanding accounts payable. Nonetheless, we cannot provide any assurance as to whether or when Petroamazonas will become current on the rest of its outstanding supplier payment obligations. Delays in payments to contractors could have an adverse effect on Petroamazonas' operations and the revenues that the Government receives from Petroamazonas.

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

In addition to petroleum prices, see "Risk Factors – Risk Factors Relating to Ecuador - A number of factors have impacted on and may continue to impact on revenues and the performance of the economy," Ecuador's economy is exposed to other commodity price volatility, especially with regard to bananas and shrimp, which in 2015 made up approximately 15.3% and 12.4% of Ecuador's total exports, respectively. A significant drop in the price of certain commodities, such as bananas or shrimp, would adversely affect Ecuador's economy and could affect Ecuador's ability to perform its obligations under the Notes.

*Damage caused by the April 2016 earthquake may impede Ecuador's ability to export goods and the associated reconstruction costs may affect its ability to perform its obligations under the Notes.*



On April 16, 2016, a 7.8 magnitude earthquake struck the northern coast of Ecuador, (the “Pedernales Earthquake”). The Pedernales Earthquake and its aftershocks, caused severe damage to Ecuador’s infrastructure in the region, including its roads and ports. A study conducted by SENPLADES, INEC and various ministries estimates that the cost of reconstructing the infrastructure damaged by the Pedernales Earthquake is approximately U.S.\$3.3 billion (approximately 3% of Ecuador’s GDP). The damage to Ecuador’s infrastructure may have an adverse impact on the Ecuadorian economy and, in particular, on export businesses that operate in the affected areas. The study estimates that the Pedernales Earthquake will have an impact of -0.7% on the growth of GDP in 2016. In addition, the increased need for funds to finance reconstruction of infrastructure damaged in the Pedernales Earthquake may have an adverse impact on Ecuador’s ability to perform its obligations under the Notes.

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

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

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

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

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

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

### Burlington

Burlington Resources, Inc. (“Burlington”) filed an arbitration claim before ICSID on April 2008 against Ecuador, seeking compensation for alleged modifications to its contracts for the development of Blocks 7 and 21 in Ecuador imposed by Ecuadorian law 42-2006. Burlington argued that such unilateral modification resulted in an expropriation of the blocks that Burlington was operating, although, subsequent to the commencement of the proceedings, Burlington withdrew the contractual claims and based all claims solely on violations of the U.S.-Ecuador Bilateral Investment Treaty. On December 14, 2012, the tribunal decided the liability issue in favor of Burlington and consequently, on January 28, 2013, Ecuador submitted a petition for reconsideration.

On September 30, 2011, Ecuador filed two counterclaims against Burlington for environmental damage and failure to maintain the facilities of Blocks 7 and 21, in an approximate amount of U.S.\$2 billion. The arbitral tribunal was scheduled to meet for a hearing on damages (in respect to Burlington’s claims) and Ecuador’s counterclaims in August 2013, but the hearings were suspended due to the request by Ecuador that one of the arbitrators recuse himself from the proceeding because of a conflict of interest.

Burlington presented its assessment of damages memorandum on June 24, 2013, to which Ecuador responded on May 23, 2014. The tribunal held a hearing regarding damages from March 2 to March 6, 2015 in Paris, after which both parties presented their post-hearing briefs on May 29, 2015. Ecuador expects the tribunal to deliver its decision with respect to damages in December 2016.

Hearings for the counterclaims took place from June 1 to June 7, 2014 in Paris. The parties presented their post-hearing briefs on October 3, 2014 and, in an effort to assess the validity of the counterclaims, the tribunal visited Blocks 7 and 21 in April 2015. The parties presented their post-visit briefs on July 15, 2015. The result of the hearing regarding the counterclaim is pending.

### Claims under the 2030 Bonds

On December 12, 2014, GMO Trust issued proceedings against the Republic in respect of an alleged U.S.\$15,876,000 holding of 2030 Bonds. GMO voluntarily withdrew its complaint pursuant to a settlement agreement between the parties. A stipulation dismissing the complaint was filed on March 16, 2015; under that stipulation, the case cannot be re-filed.

On January 30, 2015, Daniel Penades issued proceedings against the Republic in respect of an alleged U.S.\$455,000 holding of 2030 Bonds. Ecuador was served with a notification of the claim on September 16, 2015. On January 15, 2016, Ecuador filed a motion to dismiss. On September 30, 2016, the United States District Court for the Southern District of New York granted Ecuador’s January 15, 2016 motion to dismiss the Penades complaint and ordered the case closed. On October 27, 2016, Penades filed a notice of appeal with the Southern District of New York to the United States Court of Appeals for the Second Circuit. Thereafter, Penades duly filed the required standard forms to initiate the new appeal case.

On November 29, 2016 the United States Court of Appeals for the Second Circuit issued a notice stating that the appeal had been assigned to the Court’s Expedited Appeals Calendar. The Court stated that Appellant’s brief (Penades) is due no later than January 3, 2017, 35 days from the date of the notice. Appellee’s brief (Ecuador) is due no later than February 7, 2017 or, 35 days from the date Appellant’s brief is filed, whichever date is sooner. Absent extraordinary circumstances, the Court stated that it will not grant a motion to extend the time to file a brief.

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

Creditors holding outstanding arbitral awards or court judgments present a risk of disruption to the offering. This could involve any type of creditor, including trade, supply, investor and finance creditors who obtain arbitral awards and possibly seek to enforce these awards or judgments. The risk with respect to the offering includes that the Lead Manager in the offering could be said to have an obligation to pay the offering proceeds to Ecuador, and that Ecuador’s creditors may attempt to enforce their rights against Ecuador’s interest in any such obligation.

Further, Ecuador's creditors could attempt to attach the proceeds of the offering or the payment of principal and/or interest on the Notes.

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

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

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

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

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

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

On October 25, 2016, pursuant to Article 147, Clause 13 of the 2008 Constitution, President Correa exercised his presidential authority to issue implementing regulations and signed Decree No. 1218 ("Decree 1218"), which modifies Article 135 of the Public Planning and Finance Code. Decree 1218 changes the methodology that the Ministry of Finance uses to calculate the total public debt to GDP ratio for the purpose of establishing whether the total public debt ceiling of 40% established in Article 124 of the Public Planning and Finance Code has been exceeded. Under Decree 1218, the Ministry of Finance will now use the Total Consolidated Public Debt methodology set out in the Manual of Public Finance Statistics of the IMF (the "IMF GFS"). 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. In contrast, the aggregation methodology, which the Ministry of 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 eliminates certain types of debt from the calculation and, by extension, reduces the amount of total public debt taken into account for purposes of the 40% total public debt to GDP ceiling.

Because the consolidation methodology does not take into account intra-governmental debt in the calculation of total public debt, Decree 1218 will enable 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. While the change in methodologies may reduce the near-term likelihood that the Republic will need to amend the Public Planning and Finance Code or seek an exception from the National Assembly in order to incur more debt, the interests of the Noteholders could be materially affected to the extent that the change in methodologies results in the incurrence of additional public debt.

*Ecuador faces challenges in its ability to access external financing.*

Ecuador may have to rely in part on additional financing from the domestic and international capital markets in order to meet its future expenses. Given the fluctuations in Ecuador's level of International Reserves in the last few years, as of December 31, 2015, International Reserves (defined herein) covered 9.5% of current account payments. Ecuador's ability to obtain diverse sources of international funding has become increasingly important. See "Public Sector Finances – Overview – Fiscal Policy." Since the U.S. dollar is legal tender of Ecuador, the level of International Reserves may not be an indicator of its ability to meet current account payments as would be the case in an economy where the dollar is not legal tender.

In 2008, CAIC issued a report that made a number of findings regarding the legitimacy of Ecuador's debt obligations (including the 2012 and 2030 Bonds), in particular relating to concerns involving the public assumption of private debt, appropriate authorizations, sovereign immunity, and the relevant economic terms of the debt obligations incurred. See also "Risk Factors – Risk Factors Relating to Ecuador – *Ecuador has defaulted on its sovereign debt obligations in the past, in particular its obligations under the 2012 and 2030 Bonds.*" Following the report in 2008, Ecuador defaulted on its payments for the 2012 and 2030 Bonds in the aggregate amount, as of February 2009, of approximately U.S.\$157 million in interest and U.S.\$3,200 million in principal. Ecuador invited holders of the 2012 and 2030 Bonds to participate in two tender offers in April 2009 and November 2009 which resulted in the tender of 93.22% of the 2012 and 2030 Bonds. Although some holders continue to hold the defaulted 2012 and 2030 Bonds, Ecuador has successfully repurchased additional 2012 and 2030 Bonds from remaining holders from 2009 onwards. As of the date hereof, the total aggregate amount of outstanding principal on the 2012 and 2030 Bonds is U.S.\$52.1 million, which represents 1.6% of the original aggregate principal amount of the 2012 and 2030 Bonds. For more information, see "Public Debt – Debt Obligations – 2012 and 2030 Bonds and tender offer." Given the history of defaults, and more recently, defaults with respect to the 2012 and 2030 Bonds as a result of CAIC determining that the bonds were issued illegally, Ecuador may not be able access external financing on favorable terms. For further information regarding the external debt payment record of Ecuador and the history of defaults, see "Public Debt – Debt Obligations."

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

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



## **USE OF PROCEEDS**

The use of proceeds for public debt is limited by the Public Planning and Finance Code (defined herein). Under the Public Planning and Finance Code, proceeds of public debt transactions may only be used to: (1) finance Government programs, (2) finance infrastructure projects that have the capacity to repay the related debt obligations and (3) refinance an existing external debt obligation on more favorable terms. The Public Planning and Finance Code prohibits public transactions for the purpose of paying ongoing expenses, with the exception of expenses related to health, education, and justice, under exceptional circumstances as determined by the President of the Republic.

The Republic will use the proceeds of U.S.\$750,000,000 of the Notes in accordance with the limitations of the Public Planning and Finance Code. The total expenses of this offering, including the underwriter's fee, will be approximately U.S.\$3.74 million.

## THE REPUBLIC OF ECUADOR

### Territory, Population and Society

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

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

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

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

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

According to projections based on the 2010 census conducted by the *Instituto Nacional de Estadística y Censos* ("National Institute of Statistics" or "INEC"), in 2016, the total population of Ecuador is approximately 16.5 million. Approximately 50.2% of the population live in the Pacific coastal plains, 44.5% live in the Andean highlands, 5.1% in the Oriente and 0.2% in the Galapagos Islands. From 2001 to 2010, the population grew at an average annual rate of 1.9%, down from 2.05% between 1990 and 2001. Approximately 63.6% of the population is urban. Guayaquil, which is located on the coast, is the largest city with 2.6 million inhabitants. Quito, the country's capital, has a population of just under 2.6 million and is located in the highlands at 2,850 meters above sea level. Cuenca is the third largest city with 591,996 inhabitants, and is also located in the Andean highlands. Spanish is the official language, while Quechua and Shuar are considered official languages for intercultural relations.

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

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

### Demographic Characteristics

	2011	2012	2013	2014	2015
<b>Total population (million)</b> .....	15.3	15.5	15.8	16.0	16.3
Female (%).....	50.4	50.4	50.5	50.5	50.5
Male (%) .....	49.6	49.6	49.5	49.5	49.5
Urban (%) .....	62.9	63.0	63.2	63.3	63.4
Rural (%).....	37.1	37.0	36.8	36.7	36.6
<b>Functional age groups (%)</b>					
Child (0–14).....	32.1	31.8	31.5	31.1	30.7
Adult (15–64).....	61.3	61.6	61.9	62.2	62.5
Elderly (65+).....	6.6	6.6	6.7	6.7	6.8
<b>Demographic Indicators</b>					
Average Annual Growth (%) .....	1.7	1.7	1.6	1.6	1.6
<b>Birth Rate (per thousand)</b>	19.7	4.1	4.0	n/a	n/a
Infant Mortality Rate (per 1,000 live births) .....	8.9	8.8	8.6	8.4	n/a
Fertility Rate (per woman).....	2.7	2.7	2.6	2.6	2.5
<b>Average Life Expectancy (age)</b>					
Female.....	78.1	77.8	78.6	78.8	79.1
Male.....	75.3	72.7	72.9	73.2	72.2
Overall.....	75.8	75.5	75.8	76.0	76.2

Source: Based on data from INEC.

The following table sets forth certain comparative information for Ecuador in 2015 relative to certain countries:

### Selected Comparative Social Statistics <sup>(1)</sup> As of December 31, 2015

	Ecuador	Bolivia	Paraguay	Honduras	Guatemala	Costa Rica	United States
Average life expectancy.....	75.8	68	73	73	71	79	79
Adult literacy rate.....	94%	94%	95%	87%	77%	97%	n/a
Expected years of schooling.....	9.8	13.9	12.3	11.2	10.7	15.1	16.5
Population below poverty line.....	23.3%	39.1%	22.6%	49.3%	53.7%	21.7%	n/a

Source: Ecuador data based on INEC projections as of December 31, 2015, remaining country data based on World Bank data available as of December 31, 2015.

(1) In Ecuador, as of December 2015, the poverty line was U.S.\$83.79/month, per household.

### Pedernales Earthquake

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

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



Significant aftershocks followed the initial earthquake, including eight aftershocks with a magnitude above 6 on the Richter scale as of the date of this Offering Circular. While the damage from aftershocks occurring in the five week period following the earthquake was minimal, aftershocks of 6.8 and, 6.7 magnitudes which occurred on May 18, 2016 led to one fatality and left an additional 85 people injured.

An evaluation conducted by SENPLADES, INEC and various ministries estimates that the cost of reconstructing the infrastructure damaged by the Pedernales Earthquake is approximately U.S.\$3.3 billion (approximately 2-3% of Ecuador's GDP), and that, without taking into account the cost of reconstruction, damage from the earthquake will have an impact of -0.7% on the growth of Ecuador's GDP in 2016, and an impact of -9.8% on the growth of GDP in Manabí, the province in which 95% of the damages caused by the earthquake are concentrated. In response to the earthquake, President Correa empowered the Ministry of Finance to reallocate public funds, other than those allocated toward health and education, toward reconstruction efforts through Article 3 of Executive Decree No. 1001 and proposed a series of measures to help finance reconstruction pursuant to his authority under Articles 120 and 140 of the 2008 Constitution.

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

- increasing the value added tax by 2 percentage points (from 12% to 14%) for one year, of which an additional 2% may be refunded if payments are made with electronic money (i.e. a 4% VAT reimbursement applies in payments made with electronic money);
- a one-time contribution by natural persons equal to 0.9% of an individual's total assets for individuals whose total assets exceed U.S.\$1 million;
- a one-time contribution by corporations equal to 3% of their 2015 taxable income; and
- a one-time contribution of a day's salary for one month for those earning more than U.S.\$1,000 a month; a one-time contribution of a day's salary for two months for those earning more than U.S.\$2,000 a month, and similarly until a limit of a one-time contribution of one day's salary for 5 months for those earning more than U.S.\$5,000 a month.

President Correa also indicated that Ecuador would draw from existing contingent credit lines, including a U.S.\$ 150 million credit line with the World Bank, a U.S.\$300 million credit line with IDB, and a U.S.\$66 million with CAF (defined herein), and would explore the possibility of selling certain assets of the Republic, including the Sopladora 487 MW hydroelectric plant, Banco del Pacífico S.A., the *Corporación Nacional de Telecomunicaciones*, and other state owned utilities. Additionally, on July 8, 2016, the IMF approved a U.S.\$364 million facility to help Ecuador meet costs related to damages to infrastructure, housing, and agriculture caused by the Pedernales Earthquake.

On August 16, 2016, the Minister of Finance, Fausto Herrera, stated that the three sources of financing being used to address relief and restoration efforts in relation to the Pedernales Earthquake include the General State Budget, proceeds from the Law of Solidarity and contingent lines of credit. Minister Herrera stated that as of August 15, 2016, U.S.\$888 million had been allocated for relief and restoration efforts in relation to the Pedernales Earthquake.

## **Historical Background**

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

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

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

Although Ecuador marked 25 years of civilian governance in 2004, the period was marked by political instability. Protests in Quito contributed to the mid-term ouster of three of Ecuador's last four democratically elected Presidents. In 2006, current president Rafael Correa was elected with 56.67% of the vote. Under his administration, which began in January 2007, voters approved a new constitution (the "2008 Constitution"), Ecuador's 20th constitution since gaining independence. President Correa was reelected in general elections held in February 2013 with 57.17% of the vote and his term will end in May 2017.

### **Form of Government**

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

The President is the head of Government and head of state, and is elected by direct popular vote for a four-year term. The President's duties include the enforcement of the Constitution, the establishment of economic, trade and foreign policy, and the enforcement of domestic law and order. The President is also commander-in-chief of the armed forces and appoints ministers and heads the Government's cabinet. President Correa came into office in January 2007 under the previous Constitution, and is currently serving his second term under the 2008 Constitution, after being re-elected in general elections held in February 2013. The next presidential election will take place in February 2017.

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

In the most recent legislative elections held in February 2013, Alianza PAIS, President Correa's party, increased its control over the National Assembly with a total of 99 seats. The newly founded right wing party, *Creando Oportunidades*, won 11 seats and became the National Assembly's largest minority party. Several parties, such as PSC-Madera de Guerrero and MPD-Pachakutik formed alliances to gain 7 and 5 seats in the National Assembly, respectively.

The following table shows the current composition of the National Assembly as of May 2016:

**Legislative Assembly  
Composition by Political Party**

<b><u>Political Party</u></b>	<b><u>Number of Members</u></b>
Alianza PAIS	82
PAIS-PACHAKUTIK	2
PAIS-Unidad Primero	8
PAIS-Mov. Aut. Reg.	4
PAIS-Partido Social Frente Amplio	4
Avanza	5
CREO	9
PSP	5
PSC-Madera de Guerrero	4
PSC	2
Alianza UP IZQ	4
Others	8
<b>Total</b>	<b>137</b>

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*Source: National Assembly of the Republic of Ecuador.*

Ecuador is administratively divided into 24 provinces and 221 municipalities. Each province is governed by a prefect who is popularly elected. The Government also designates a governor for each province that coordinates and administers the initiatives of the Government; while mayors, who are elected by popular vote, govern municipalities. Each of the 24 provinces has a popularly elected provincial council headed by a prefect. A municipal council is responsible for the government of each municipality. All provincial and municipal officials are popularly elected to four-year terms. In the most recent municipal elections, held in February 2014, candidates from Alianza PAIS lost mayoral elections in Ecuador's three major cities of Quito, Cuenca, and Guayaquil.

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

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

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

The purpose of the *Función Electoral* (the “Electoral Branch”) is to provide oversight for the Republic’s political parties and elections. The Electoral Branch is comprised of the *Consejo Nacional Electoral* (“National Electoral Council”) and the *Tribunal Contencioso Electoral* (the “Electoral Dispute Settlement Court”). The National Electoral Council organizes and oversees elections to ensure transparency and compliance with election law, supervises the activities of political parties, and establishes a civil registry. The Electoral Dispute Settlement Court hears and resolves, among others things, disputes regarding campaign finance violations and settles election results appeals.

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

### *International Organizations*

Ecuador has diplomatic relations with approximately 102 countries, and is a member of a number of international organizations, some of which include the United Nations, Organization of the Petroleum Exporting Countries (“OPEC”), the Organization of American States (“OAS”), the World Health Organization (“WHO”), the Community of Latin American and Caribbean States (“CELAC”), and the Union of South American Nations (“UNASUR”).

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

On July 2, 2009, President Correa issued a decree declaring that Ecuador was terminating its agreement as a member of the International Centre for Settlement of Investment Disputes (“ICSID”). The decree stated that the ICSID convention violated principles of sovereignty enshrined in Article 422 of Ecuador’s 2008 Constitution, which provides the rules for submission to arbitration proceedings by Ecuador as a sovereign. Notwithstanding the foregoing, Ecuador is a member of UNCITRAL and is still a party to the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards of 1958.

Ecuador continues to be a member of both the IMF and the World Bank. On July 8, 2016, the IMF approved a U.S.\$364 facility to help Ecuador meet costs related to damages to infrastructure, housing, and agriculture caused by the Pedernales Earthquake. The World Bank has provided several recent project level financing for projects in infrastructure, irrigation, transport and sanitation. These projects include the Chimborazo Development Investment project in 2007 and the Quito Metro line project in 2012. See “The Ecuadorian Economy–Strategic Sectors – Transportation.” On September 25, 2015, the Executive Board of the IMF concluded its annual Article IV consultation with Ecuador. For more information, see “Monetary System – the Central Bank.”

### *Treaties and Other Bilateral Relationships*

Ecuador is party to bilateral investment treaties with Argentina, Bolivia, Canada, Chile, China, Costa Rica, France, Germany, Spain, Italy, the Netherlands, Peru, Russia, Spain, Sweden, Switzerland, the United Kingdom, the United States, and Venezuela. Bilateral investment treaties with the following countries have either been terminated or expired: Cuba, the Dominican Republic, El Salvador, Finland, Guatemala, Honduras, Nicaragua, Paraguay, Romania, and Uruguay.

In addition, on December 12, 2014, representatives from Ecuador’s Ministry of Foreign Commerce signed a trade agreement with the European Union. For more information see “Balance of Payments and Foreign Trade – Foreign Trade – Trade Policy.”

On November 11, 2016, Ecuador signed a trade agreement with the European Union Council. 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. Both the European Union and Ecuador intend to implement the trade agreement on a provisional basis beginning in January 2017.

### *Regional Organizations*

Ecuador also maintains close ties with most of its neighboring countries and participates in several regional arrangements to promote trade, investment and services. As a member of the Latin American Integration Association (“ALADI”), a regional external trade association, Ecuador and the other signatories (Argentina, Bolivia, Brazil, Chile, Colombia, Cuba, Ecuador, Mexico, Panama, Paraguay, Peru, Uruguay and Venezuela) have worked to remove regional trade restrictions among member nations. Ecuador also forms part of the *Comunidad Andina de Naciones* (“Community of Andean Nations”) along with Colombia, Peru and Bolivia. Among the organization’s greatest achievements is the free flow of merchandise of Andean origin and the free mobility of member state citizens. Ecuador is also a member of the *Alianza Bolivariana para los Pueblos de nuestra América Latina* (“ALBA”) along with Venezuela, Bolivia, Cuba, and other Caribbean nations. In February 2012, ALBA members signed an agreement to create an *espacio de interdependencia*, a shared economic development zone between all members. Ecuador is also linked to Mercosur (comprised of Argentina, Brazil, Paraguay, Uruguay and Venezuela), as an associate member and has been invited to participate as a full member and is a member of *Corporación Andina de Fomento* (“CAF”), who has helped Ecuador finance several transportation and infrastructure projects. In November of 2016, Ecuador entered into the Protocol of Accession of Ecuador to the Trade Agreement with Colombia and Peru along with the EU, Colombia and Peru.

In 2008, Ecuador, along with eleven other nations (Argentina, Bolivia, Brazil, Colombia, Chile, Guyana, Paraguay, Peru, Uruguay, Venezuela and Suriname) signed a treaty establishing the *Unión de Naciones Suramericanas* (“Union of South American Nations” or “UNASUR”). The organization’s General Secretariat has its permanent headquarters in the city of Quito, while its Parliament will be located in the Bolivian city of Cochabamba. In 2010, Ecuador formed part of the *Comunidad de Estados Latinoamericanos y Caribeños* (“Community of Latin American and Caribbean States” or “CELAC”). CELAC promotes the integration and development of Latin American nations.

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

## THE ECUADORIAN ECONOMY

### Gross Domestic Product

In 2011, the economy grew by 7.9% in real terms, the highest growth rate in the last decade. Foreign debt reached U.S.\$10.06 billion, primarily due to a loan with the China Development Bank in the amount of U.S.\$2 billion. This total external debt amount represented 12.7% of GDP, while annual year-end inflation for the year was 5.4%.

In 2012, the economy of Ecuador grew by 5.6% in real terms, which was mainly driven by an increase in fixed capital formation and public sector consumption, 10.6% and 11.4%, respectively. Gross fixed capital formation in 2012 increased, in real terms, by U.S.\$1.58 billion due to the various infrastructure projects and public sector investments undertaken by Ecuador that year. For more information, see “The Ecuadorian Economy – Strategic Sectors of the Economy – Electricity and Water.” Foreign debt reached U.S.\$10.87 billion, which represented 12.4% of GDP, while the annual year-end inflation for the year was 4.2%.

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

In 2014, the economy of Ecuador grew by 4.0% in real terms, which increase was mainly due to the continuing growth of the construction and manufacturing sectors of the economy. Year-end external debt for 2014 reached U.S.\$17.58 billion, which represents 17.4% of GDP, while the annual year-end inflation for the year was 3.7%.

In 2015, the economy of Ecuador grew by 0.2% 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 20.1% of GDP, an increase of 15.0% compared to 2014. This increase was primarily due to the issuance of the 2020 Bonds. The rate of unemployment increased from 3.8% in 2014 to 4.8% in 2015 due to a general slowdown of the economy in 2015 that led to job losses in both the private and public sectors. Inflation for the twelve-month period ending in December decreased from 3.7% in 2014 to 3.4% in 2015 due to a decrease in the price of certain foods, primarily shrimp and chicken. For the twelve-month period ended November 30, 2016, the inflation rate was 1.1%, compared to 3.4% for the twelve-month period ended November 30, 2015.

Real GDP for the second quarter of 2016 was U.S.\$48,468 million, compared to U.S.\$50,539 million in the second quarter of 2015, representing a decrease of 3.1% in real terms. This decrease is mainly due to decreased revenues resulting from the decline in the price of oil.

### Real and Nominal GDP

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

	For the Year Ended December 31,					For the Six Months Ended June 30,	
	2011	2012	2013	2014	2015	2015 <sup>(1)</sup>	2016 <sup>(1)</sup>
Real GDP (in millions of U.S.\$) .....	60,925	64,362	67,546	70,243	70,354	35,409	34,319
Real GDP growth .....	7.9%	5.6%	4.9%	4.0%	0.2%	1.8%	-3.1%
Nominal GDP .....	79,277	87,925	95,130	102,292	100,177	50,539	48,468

*Source: Based on figures from the Central Bank Quarterly National Accounts for the Second Quarter of 2016.*

(1) Real GDP Growth measured as compared to Real GDP figure from the same six-month period of the previous year.

**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 Six Months Ended June 30,			
	2011	% of GDP	2012	% of GDP	2013	% of GDP	2014	% of GDP	2015	% of GDP	2015	% of GDP	2016	% of GDP
Manufacturing <sup>(2)</sup>	9,670	12.20	10,740	12.21	11,974	12.59	13,879	13.57	13,815	13.79	6,963	13.78	6,814	14.06
Construction	8,106	10.23	9,379	10.67	10,013	10.53	10,869	10.63	10,719	10.70	5,506	10.89	4,808	9.92
Petroleum	10,234	12.91	11,092	12.66	11,545	12.14	10,915	10.67	4,410	4.40	2,495	4.94	1,716	3.54
Trade (commerce)	8,400	10.60	9,054	10.30	9,977	10.49	10,555	10.32	10,501	10.48	5,380	10.64	4,924	10.16
Agriculture	6,702	8.45	6,564	7.49	7,231	7.60	8,114	7.93	8,452	8.44	4,216	8.34	4,155	8.57
Community services	5,996	7.56	6,943	7.90	7,513	7.90	7,879	7.70	8,679	8.66	4,304	8.52	4,360	9.00
Government services <sup>(3)</sup>	5,013	6.32	5,500	6.26	6,051	6.36	6,610	6.46	6,938	6.93	3,434	6.79	3,408	7.03
Administrative activity <sup>(4)</sup>	5,046	6.37	5,712	6.50	6,550	6.89	7,149	6.99	6,920	6.91	3,548	7.02	3,310	6.83
Transportation	3,696	4.66	3,860	4.39	4,300	4.52	4,523	4.42	4,469	4.46	2,244	4.44	2,218	4.58
Finance and insurance	2,300	2.90	2,761	3.14	2,591	2.72	3,180	3.11	3,332	3.33	1,676	3.32	1,645	3.39
Telecommunications	1,812	2.29	1,914	2.18	2,021	2.12	2,171	2.12	2,039	2.04	1,053	2.08	876	1.81
Electricity and water	928	1.17	1,046	1.19	1,066	1.12	1,302	1.27	1,557	1.55	769	1.52	840	1.73
Shrimp	421	0.53	462	0.53	516	0.54	491	0.48	393	0.39	194	0.38	207	0.43
Mining	229	0.29	289	0.33	305	0.32	337	0.33	354	0.35	185	0.37	173	0.36
Others <sup>(5)</sup>	10,722	13.52	12,609	14.34	13,477	8.29	14,317	8.10	17,598	11.21	8,572	16.96	9,014	18.60
Total GDP	79,277	100	87,925	100	95,130	100	102,292	100	100,177	100	50,539	100.0	48,468	100.0

Source: Based on information from the Central Bank.

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

(2) Includes manufacturing other than petroleum refining.

(3) Includes Public Defense and Social Security Administration.

(4) Includes Professional and Technical Administration.

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

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

**Real GDP and Expenditure Growth**

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

	For the Year Ended December 31,					For the Six Months Ended June 30,	
	2011	2012	2013	2014	2015	2015	2016
Real GDP Growth.....	7.9	5.6	4.9	4.0	0.2	1.8	-3.1
Import of goods & services <sup>(1)</sup> .....	3.6	0.8	7.0	4.3	-8.6	-3.0	-14.2
<b>Total Supply of Goods &amp; Services</b>	<b>6.8</b>	<b>4.5</b>	<b>5.4</b>	<b>4.1</b>	<b>-1.9</b>	<b>0.7</b>	<b>-5.6</b>
Public Sector Consumption.....	8.7	11.1	10.3	5.2	0.6	1.7	-1.2
Private Consumption .....	5.1	2.9	3.9	3.4	-0.1	2.0	-5.1
Gross Fixed Capital Formation.....	14.3	10.6	10.4	3.8	-5.9	0.1	-12.8
Exports of goods and services <sup>(1)</sup> .....	5.7	5.5	2.6	4.2	-0.4	0.8	1.5
<b>Total Final Demand.....</b>	<b>6.8</b>	<b>4.5</b>	<b>5.4</b>	<b>4.1</b>	<b>-1.9</b>	<b>0.7</b>	<b>-5.6</b>

Source: Based on figures from the Central Bank Quarterly National Accounts for the Second Quarter of 2016.

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

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

	<b>Per Capita GDP</b>					<b>For the Six Months Ended June 30,</b>	
	<b>For the Year Ended December 31,</b>					<b>2015</b>	<b>2016</b>
	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>		
Per capita Nominal GDP (current U.S.\$) ....	5,193	5,665	6,030	6,382	6,154	3,129	2,955
Per capita Real GDP .....	3,991	4,147	4,282	4,383	4,322	2,192	2,092
Population (in thousands) <sup>(1)</sup> .....	15,266	15,521	15,775	16,027	16,279	16,153	16,404

Source: Based on figures from the Central Bank Quarterly National Accounts for the Second Quarter of 2016.

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

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

Real GDP by Expenditure							
(in millions of dollars)							
	For the Year Ended December 31,					For the Six Months Ended June 30,	
	2011	2012	2013	2014	2015	2015	2016
Consumption							
Public Sector Consumption .....	7,840.9	8,712.1	9,609.8	10,111.9	10,172.3	5,053.4	4,995.2
Private Consumption .....	39,234.6	40,361.9	41,942.3	43,375.8	43,313.2	21,909.5	20,792.2
Total Consumption .....	47,075.5	49,074.0	51,552.1	53,487.7	53,485.5	26,962.9	25,787.4
Gross Investment							
Gross Fixed Capital Formation.....	14,920.8	16,496.2	18,214.0	18,904.8	17,797.9	9,230.6	8,045.1
Change in Inventory .....	1,277.0	380.3	261.3	460.2	-101.7	110.4	-215.3
Exports of goods and services <sup>(1)</sup> .....	16,835.7	17,756.0	18,210.3	18,974.5	18,904.0	9,392.5	9,531.3
Imports of goods and services <sup>(1)</sup> .....	19,183.9	19,344.1	20,691.6	21,584.1	19,731.9	10,287.5	8,829.7
Real GDP .....	60,925.1	64,362.4	67,546.1	70,243.0	70,353.9	35,408.8	34,318.7

Source: Based on figures from the Central Bank Quarterly National Accounts for the Second Quarter of 2016.

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

## Economic and Social Policies

Since taking office in 2007, President Correa has sought to reform certain aspects of the Ecuadorian economy in order to comply with constitutional mandates. Certain reforms were undertaken as legislative proposals, which require the National Assembly's approval. Other reforms were undertaken by the executive branch and do not require legislative approval. The reforms were consistent with the Correa administration's objective to promote economic growth, while reducing poverty and inequality and fostering social progress. Below is a brief description of the most relevant major economic and financial reform initiatives since 2008.

### *The 2008 Constitution*

Upon taking office, President Correa believed that significant reforms were necessary to rectify years of corruption, especially in regards to economic and financial matters. To do so, President Correa called for a referendum to write a new constitution, which was approved by the electorate and the National Assembly. The 2008 Constitution provided the foundation for the economic and financial reform initiatives of his administration.

One of the most important objectives of the 2008 Constitution was to grant control over the Central Bank to the executive branch. Section 6, Article 303 of the 2008 Constitution states that "the drafting of monetary, credit, foreign exchange and financial policies is the exclusive power of the executive branch and shall be implemented



through the Central Bank” hence limiting the autonomy and authority of the Central Bank for the purpose of effective implementation of reforms by the executive branch and its agencies.

Another relevant reform embedded in the 2008 Constitution is the creation of a debt and finance committee (the “Debt and Finance Committee”), tasked with evaluating and approving issuances or incurrence of sovereign debt. The Debt and Finance Committee is comprised of the President or his delegate, the Minister of Finance or his delegate, and the National Secretary of Planning and Development or his delegate. The sub-secretary in charge of public debt (the “Undersecretary of Public Finance”) acts as the secretary for the committee. See “Public Debt – General.” Other important reforms include the establishment of limitations on the proceeds of public borrowing (Article 289) (see “Public Debt – General”), the establishment of presidential term limits (Article 144 of the 2008 Constitution) (see “The Republic of Ecuador - Form of Government”), the requirement of an evaluation structure for any public program in conjunction with the National Development Plan (Article 297 of the 2008 Constitution), and the establishment of a single master account in the Central Bank (the “*Cuenta Única del Tesoro*” or “Treasury Account”) or the administration of the general budget (Article 299). In May 2011, certain amendments to the 2008 Constitution were approved by popular referendum. The most debated amendments included the change to the Judiciary Council to its current make up (see “The Republic of Ecuador - Form of Government”), and the prohibition of owners of media companies to own stock in non-media companies.

On June 26, 2014, the President of the National Assembly submitted a request to the Constitutional Court soliciting their opinion as to whether certain proposals, including one that would allow for re-election of the President of Ecuador for an indefinite number of terms, were constitutional amendments or constitutional reforms. Constitutional amendments require only the approval of two-thirds of the National Assembly while constitutional reforms require both the approval of a two-thirds vote in the National Assembly and a majority of the population eligible to vote in a popular referendum. On November 1, 2014, the Constitutional Court ruled that the proposals were constitutional amendments and therefore did not require a popular referendum. In December 2015, the National Assembly approved the proposals, including an amendment allowing for the indefinite re-election of the president. However, a transitional provision was included stating that the amendment will not be effective before May 24, 2017, and thus it will not apply to President Correa, whose term finishes on May 23, 2017.

On April 13, 2016, a request soliciting the Constitutional Court’s opinion on the feasibility of a referendum to eliminate such a transitional provision was accepted. The Constitutional Court held that pursuant to Article 441 of the 2008 Constitution, in order for the referendum to take place, certain formal requirements must be met including a petition signed by at least 8% of the citizens registered in the electoral roll. The April 13, 2016 decision of the Constitutional Court did not specify a time limit for the referendum to be held.

### ***Budget Reforms***

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

### ***Bank Supervision***

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

### ***Tax Reforms***

Enacted in December 2008, the *Ley Reformativa a la Ley de Régimen Tributario Interno y a la Ley Reformativa para la Equidad Tributaria del Ecuador* (“Reform Act to the Internal Tax Regime Law and the Reform Act for Tax Equity in Ecuador”) reformed the existing tax system by improving the mechanisms by which the Government collects tax revenues. The objectives of the law were to reduce tax evasion, improve direct and progressive taxation, increase the tax base, and generate adequate incentives for investment in economic activity. On December 29, 2014, the National Assembly enacted a corporate tax reform relating to the taxation of shareholders of Ecuadorian companies who reside in tax havens. The reform increases the corporate tax rate to 25% from 22% if an Ecuadorian company’s owners are tax haven residents who own collectively more than 50% of the company. In addition, the tax reform exempts companies from corporate taxes, for a period of 10 years, for profits related to new and productive investments as defined by the Production Code. For more information on these laws and other tax reforms, see “Public Sector Finances –Taxation and Customs,” and “Public Sector Finances –Tax Reforms.”

### ***Mining Law***

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

On June 13, 2013, the National Assembly passed an amendment to the Mining Law, imposing an 8% ceiling on previously open-ended royalties, streamlining the permits required for mining, and eliminating windfall taxes for companies until they have recouped their investments. For more information on the Mining Law, see “The Ecuadorian Economy–Strategic Sectors of the Economy –Mining.” In June 2014, President Correa announced on national radio that the Republic will amend its existing mining laws. In an interview, the Minister of Coordination of Strategic Sectors has stated the principal objective of these new laws will be to attract investment in the mining sector. However, drafts of these potential reforms have not been publicly circulated and once publicly announced, are subject to the modifications by and approval of the National Assembly.

### ***Public Corporations Law***

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

- determines the procedures for the formation of public enterprises that are required to manage strategic sectors of the Ecuadorian economy;

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

### ***Renegotiation of Oil Field Contracts***

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

### ***Public Planning and Finance Code***

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

- allows for more flexibility for the Ministry of Finance to reallocate and reassign expenditures up to 15% of the approved Government budget without the prior approval of the National Assembly;
- sets an explicit total public debt ceiling of 40% of GDP including Central Government, non-financial public sector and Autonomous Decentralized Governments (see “Public Debt – General”);
- allows the Ministry of Finance to issue *Certificados de Tesorería* (“short-term treasury notes” or “CETES”), at its discretion, without having to undergo the same approval process required for long-term internal and external sovereign debt;
- allows for the establishment of citizens’ committees for financial public policy consultations;
- determines that all excess cash not spent during a fiscal year will be accounted for as initial cash for the following fiscal year; and
- establishes the functions and responsibilities of the Debt and Finance Committee (See “Public Debt – General”).

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

### ***Production Code***

Enacted in December 2010, the *Código Orgánico de la Producción* (“Production Code”) was created to stimulate investment and increase the production of good and services. The objective of this law was to create fair guidelines that would balance workers’ rights with economic incentives for investors. To achieve that objective, the Production Code:

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

### ***Law for Market Power Control and Regulation***

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

### ***Environmental Improvement and State Resources Optimization Law***

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

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

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

Enacted in March 2012, the *Ley Reformativa a la Ley General de Instituciones del Sistema Financiero y a la Ley de Reordenamiento en Materia Económica en el área Tributario Financiero* (“Law Reforming the Financial Institutions Law and the Restructuring Financial Taxes Law”) was created to strengthen prior legislation related to mutual savings and housing credit associations. The objective of the law was to incorporate the concept of social capital and the framework of economic sustainability to mutual savings and housing credit associations. The law provides mutual savings and housing credit associations with political, economic and property rights to promote the social well-being of its members.

### ***Comprehensive Law for the Regulation of Housing and Automobile Loans***

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

### ***Comprehensive Law of Redistribution of Income for Social Expenditures***

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

### ***Law to Strengthen and Optimize the Corporate and Securities Sector***

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

### ***Monetary and Financial Law***

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

The law further establishes that all transactions, monetary operations and accounts in the Republic of Ecuador will be expressed in U.S. dollars. Other sections of the law make reference to an electronic payment system to facilitate payments to vendors. Through this voluntary electronic payment system, Ecuadorians will be allowed to make online payments to participating vendors through a payment system managed by the Government. Payments made through the system will be deducted or credited directly from accounts that vendors can establish with the Central Bank. Each dollar in the electronic payment system is backed by a physical dollar at one time deposited or credited to an individual user, and will be backed by liquid assets in the Central Bank. On August 7, 2014, mobile phone carrier Movistar signed an agreement with the Central Bank to establish accounts to use the electronic payment system. In December 2014, the electronic payment system began operating. According to the Central Bank, as of May 2016, approximately U.S.\$1 million was in circulation in Ecuador in electronic currency.

The law further established that further details regarding this payment system may be set forth by the Committee of Monetary and Financial Policy Regulation in regulations and laws. The Committee of Monetary and Financial Policy Regulation issued various laws, including the Law to Balance Public Finances and the Law of Solidarity, both of which are described herein, incentivizing and further regulating the use of electronic money. For more information regarding the Monetary and Financial Law, see “Monetary System – Supervision of the Financial System.”

On November 24, 2016, the Monetary and Financial Policy and Regulation Board (*Junta de Política y Regulación Monetaria y Financiera*) issued Resolution No. 273-2016-F, which increases from 2% to 5% the reserves that financial institutions with more than U.S.\$1 billion in assets are required to hold at the Central Bank. This resolution is expected to reduce the liquidity of these financial institutions' Central Bank deposits by approximately U.S.\$750 million.

### ***Telecommunications Law***

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

### ***Labor, Justice and Home Maker Recognition Law***

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

### ***Law for the Remission of Interest, Penalties and Surcharges***

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

### ***Civil Procedure Code***

On May 12, 2015, a new *Código Orgánico General de Procesos* (the “Civil Procedure Code”) creating a new homologation process involving additional court procedures for the enforcement of foreign arbitration awards in Ecuador, were approved and enacted by the National Assembly. Under the new Civil Procedure Code, any judgment rendered by a properly constituted arbitral tribunal would be enforceable against the Republic after an homologation process before a Provincial Civil Court of Justice, without re-examination of the issues, provided it complies with the requirements established in the treaty between Ecuador and the country in which such judgment

has been rendered, or in the absence of such treaty, when the formalities set forth in Articles 104, 105 and 106 and other relevant provisions of the General Code of Procedure are met.

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

On December 18, 2015, the National Assembly enacted the *Ley Orgánica de Incentivos para Asociaciones Público-Privadas y la Inversión Extranjera* (“Law on Incentives for Public-Private Joint Ventures and Foreign Investment”) with the purpose of establishing incentives for the development of public projects by public-private joint ventures. According to the law, joint ventures that provide socially desirable and environmentally responsible goods to the country in accordance with Article 285 of the 2008 Constitution will be entitled to certain tax benefits such as a 10-year income tax exemption, among others. This law also provided new exemptions to the 5% Currency Outflow Tax including foreign payment transactions made by public-private partnerships established or structured for purposes of developing and implementing public projects.

### ***Law to Balance Public Finances***

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

### ***Law of Solidarity***

On May 20, 2016, the Law of Solidarity was published and became effective in an effort to reallocate public funds other than those for health and education, toward reconstruction effort resulting from the Pedernales earthquake. The Law of Solidarity includes the following measures:

- increasing the value added tax by 2 percentage points (from 12% to 14%) for one year, of which an additional 2% may be refunded if payments are made with electronic money (i.e. a 4% VAT reimbursement applies in payments made with electronic money);
- a one-time contribution by natural persons equal to 0.9% of an individual’s total assets for individuals whose total assets exceed U.S.\$1 million;
- a one-time contribution by corporations equal to 3% of their 2015 taxable income; and
- a one-time contribution of a day’s salary for one month for those earning more than U.S.\$1,000 a month; a one-time contribution of a day’s salary for two months for those earning more than U.S.\$2,000 a month, and similarly until a limit of a one-time contribution of one day’s salary for 5 months for those earning more than U.S.\$5,000 a month.

### ***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 *Unidad de Análisis Financiero y Económico* (the “Financial and Economic Analysis Unit”), the Government entity responsible for compiling information and producing reports relating to money laundering.

#### ***Law on Tax Incentives***

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

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

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

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

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

#### ***Decree 1218***

On October 25, 2016, pursuant to Article 147, Clause 13 of the 2008 Constitution, President Correa exercised his presidential authority to issue implementing regulations and signed Decree No. 1218 (“Decree 1218”), which modifies Article 135 of the Public Planning and Finance Code. Decree 1218 changes the methodology that the Ministry of Finance uses to calculate the 40% total public debt to GDP ceiling established in Article 124 of the Public Planning and Finance Code. This change in methodology effectively reduces the amount of internal public debt taken into account for purposes of calculating the 40% total public debt to GDP ceiling. For a further discussion of the impact of Decree 1218, see—“Public Debt.”

#### ***Further Reforms***

On December 1, 2016, President Correa submitted for the National Assembly's approval, the *Ley Orgánica para evitar la Especulación sobre el valor de las tierras y fijación de tributos* as an urgent economic measure. If approved, this bill that would increase the tax on capital gains obtained from the sale of real estate from 10% to up to 75%. The National Assembly has 30 days from the time of submission to approve this law.

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

Ecuador’s principal economic sectors are coordinated under the Ministry of Coordination of Strategic Sectors (“*Ministerio Coordinador de Sectores Estratégicos*” or “*MICSE*”). MICSE supervises and coordinates the activities of the Secretary of Water, Ministry of Telecommunications, Ministry of Electricity and Renewable Energy, Ministry of Mines and the Ministry of Hydrocarbons, who in turn are in charge of the water, telecommunications, electricity, and natural resources (oil and mining) sectors of the economy, respectively. The Republic considers these sectors as the most important aspects of its economy. Consequently, public investment in these segments has



grown at a rapid rate. In 2014, the Government invested U.S.\$7,034 million in these strategic sectors, compared to U.S.\$3,617 million in 2011. In 2015, investment in Ecuador's principal economic sectors decreased by 20% to U.S.\$5,621 million. This decrease was due to the Government's decision to decrease investment in the oil sector in 2015 as a result of expected lower revenues from oil sales. Investment in the oil and mining sector decreased from U.S.\$4,339 million in 2014 to U.S.\$3,119 million in 2015. For more information regarding the 2015 budget please see "Public Sector Finances – 2015, 2016, and 2017 Budgets." The total aggregate investment amount in the strategic sectors from 2011 to 2015 was U.S.\$27,195 million. The following chart sets forth accumulated investment in strategic sectors since 2011.

<b>Strategic Sector Investment</b>						
(in millions of U.S.\$)						
	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016<sup>(1)</sup></b>
Water .....	83	69	201	384	350	249
Telecommunications .....	283	360	422	294	305	202
Natural Resources (oil and mining) .....	2,082	2,604	3,915	4,338	3,119	1,643
Electricity .....	1,094	1,148	1,730	1,777	1,566	804
Ecuador Estratégico .....	0	109	190	175	225	24
Other investment <sup>(2)</sup> .....	75	107	67	66	57	8
<b>Total Investment .....</b>	<b>3,617</b>	<b>4,397</b>	<b>6,525</b>	<b>7,034</b>	<b>5,622</b>	<b>2,930</b>

Source: MICSE Information as of November 2016.

(1) Includes accumulated investment through the third quarter of 2016.

(2) Includes investments made by the *Ministerio de Ambiente* (the “Environment Ministry”) and the Public Enterprise Administrator of the Special Economic Development Zone Eloy Alfaro ZEDE) in the first nine months of 2016.

*Ecuador Estratégico* (“Strategic Ecuador”) is the state-owned company that administers all infrastructure projects carried out by MICSE. Its main functions are to evaluate project proposals submitted by municipalities, administer and distribute funds towards approved projects, and supervise the completion and progress of each project. According to Strategic Ecuador, the projects with the highest priority include the Mirador and Fruta del Norte mines (see “Mining” below). Financing for infrastructure projects has been procured through a selection process where competing financing offers are compared to determine the offer with the most favorable terms. The process, undertaken by Strategic Ecuador in consultation with the Ministry of Finance, assigns a percentage value to different aspects of an offer (price, experience of the financing entity in the type of project, and overall experience, among others). Projects with high levels of financing emphasize the price offered by the financing entity and assign a large percentage value to price. Then, competing offers are granted points depending on their qualifications. The financing entity with the most points is then chosen to finance the project. Financing has also been procured through joint venture contracts and direct investment through a grant of a concession and service contracts.

On February 13, 2015, President Correa signed Decree 578 (“Decree 578”), which creates the *Ministerio de Minas* (“Ministry of Mines”) and renames the Ministry of Non-Renewable Resources as the *Ministerio de Hidrocarburos* (“Ministry of Hydrocarbons”). Decree 578 was signed with the purpose of establishing one ministry to supervise and regulate geological, mineral, and metallurgical activities in the country, which were formerly undertaken by the Ministry of Natural Resources and the Vice-Ministry of Mines. The Ministry of Hydrocarbons will continue to supervise and regulate oil related activities in Ecuador in the same capacity as the Ministry of Non-Renewable Resources.

## Oil Sector

Ecuador’s oil reserves are managed directly by state-owned oil companies Petroecuador and *Empresa Pública del Ecuador Petroamazonas EP* (“Petroamazonas”) and through service contracts with other Ecuadorian and foreign companies such as Rio Napo CEM. Oil exploitation operations are conducted under the supervision and regulation of the Ministry of Hydrocarbons acting through the *Agencia de Regulación y Control Hidrocarburífico* (“Hydrocarbons Regulation and Control Agency”) and the *Secretaría de Hidrocarburos del Ecuador* (“Hydrocarbons Secretariat of Ecuador”). In November 2012, President Correa signed Decree 1351-A (the “Consolidation Decree”), which consolidated the operations of Petroecuador and Petroamazonas allocating exploration and exploitation of hydrocarbon resources to Petroamazonas and transportation, refining and commercialization activities to Petroecuador.

While revenues from oil exports (including oil derivatives) decreased from 2011 to 2015, non-petroleum sources of revenue in the non-financial public sector increased during that time period. As a result, the percentage of oil revenues with respect to GDP has declined in relation to the percentage of GDP of non-petroleum revenues during the time period. According to data from the Central Bank of Ecuador, Ecuador’s crude oil exports reached U.S.\$13,016 million in 2014, a 3.0% decrease from U.S.\$13,412 million in 2013. Additionally, crude oil exports in 2015 reached U.S.\$6,355 million, a 51.2% decrease from U.S.\$13,016 million in 2014. In the first nine months of 2016, oil exports totaled U.S.\$3,545 million, a 32.4% decrease from U.S.\$5,241 million in the first nine months of 2015. These decreases were due to the decrease in the price of oil beginning in late 2014 and continuing through

2015. In contrast, revenues from non-petroleum sources increased in both 2014 and 2015, reaching U.S.\$22,939 million in 2014 and U.S.\$25,942 million in 2015. Both increases were due to increased tax revenues for both years.

In 2015, Central Government oil revenues represented 2.2% of GDP and 11.1% of Central Government revenues and non-petroleum revenues represented 17.9% of GDP and 88.9% of Central Government revenues. For more information on Central Government revenues, see “Public Sector Finances – Central Government Revenues and Expenditures.” In the same year, oil revenues for the non-financial public sector represented 6.4% of GDP and 18.9% of non-financial public sector revenues and non-petroleum revenues represented 26.2% of GDP and 77.2% of non-financial sector revenues. For more information on revenues of the non-financial public sector, see “Public Sector Finances – Non-Financial Public Sector Revenues and Expenditures.”

In January 2015, in response to the decline of oil prices in the last quarter of 2014, Ecuador reduced its 2015 budget by U.S.\$1.4 billion, resulting in a modified budget of U.S.\$34.9 billion for 2015. In August 2015, in response to the continuing decline of oil prices, Ecuador further reduced its 2015 budget by U.S.\$800 million, resulting in a modified budget of U.S.\$34.1 billion. In November 2015, the National Assembly approved a budget of U.S.\$29.8 billion for 2016, a decrease of 17.9% as compared to the original budget for 2015. The 2016 budget assumes an average crude oil price of U.S.\$35 per barrel, which represents a 56% decrease from the U.S.\$79.7 per barrel assumption of the original 2015 budget. For information regarding adjustments to the 2016 Budget see “Public Sector Finances – 2015 and 2016 Budgets.”

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

### *Exploitation*

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

With the reforms to the Hydrocarbons Law, enacted in 2010, oil production sharing contracts were replaced by service contracts.

The reforms clearly define the public sector oil entities’ functions as follows:

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

Under this new framework, Ecuador allows foreign investment in its hydrocarbon resources, which, under the 2008 Constitution and Hydrocarbons Law are exclusively owned by the state. In November 2010, the Government completed its contract renegotiations with foreign oil companies under the Hydrocarbons Law, which,

as mentioned above, replaced production-sharing agreements for private companies with a fixed per-barrel fee for their exploration and production activities.

### Production

<b>Petroleum Production</b>							
(in thousands of barrels per year, except where noted)							
	<b>For the year ended December 31</b>				<b>January 1 – September 30</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2015</b>	<b>2016</b>
<b>Petroleum</b> <sup>(1)</sup>	500	504	526	557	543	545	548
<b>Public Companies</b> <sup>(2)(3)</sup>	130,528	133,656	144,921	157,976	154,308	115,701	118,088
<b>Other operators</b>	51,829	50,667	47,198	45,166	43,922	33,209	32,166
<b>Total</b>	<b>182,357</b>	<b>184,323</b>	<b>192,119</b>	<b>203,142</b>	<b>198,230</b>	<b>148,911</b>	<b>150,254</b>
<b>Natural Gas Production</b> <sup>(4)</sup>	<b>8,522</b>	<b>15,249</b>	<b>18,052</b>	<b>20,292</b>	<b>17,429</b>	<b>n/a</b>	<b>n/a</b>

Source: Petroleum data is based on figures from the Central Bank October 2016 Monthly Bulletin (Table 4.1.1). Natural gas information is provided by Petroecuador.

(1) Petroleum information is displayed in thousands of barrels per day.

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

(3) Public company numbers include the production of Rio Napo, CEM, ("Rio Napo"). Petroamazonas and PDVSA own Rio Napo, with 70% and 30% interests respectively.

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

According to the Central Bank's Monthly Bulletin for October 2016, oil field crude production, including that of private and state-owned companies, reached 150.3 million barrels for the first nine months of 2016, averaging 548 thousand barrels per day. This represents a 0.9% increase from the 148.9 million barrels produced in the first nine months of 2015, or an average production of 545 thousand barrels per day. In the first nine months of 2016, state-owned companies were responsible for 78.6% of production, compared to 77.7% of production in the first nine months of 2015.

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

Despite the decrease in production in 2015, the Republic expects production to increase significantly through the development and inauguration of new fields. In 2010, Petroamazonas began production in the Pañacocha field in the Ecuadorian Amazon. On November 28, 2012, President Correa officially launched the 11th round of tenders for oil exploration of thirteen oil blocks in southeast Ecuador. Ecuador earmarked three additional fields for Petroamazonas, which will enter into exploration agreements with foreign state-owned oil companies. The first agreement was a joint-venture agreement signed in September 2014 with Chile's Sipetrol S.A. and Belarus' Belorusneft. Under the agreement, Sipetrol S.A. and Belorusneft plan to invest U.S.\$400 million to explore and develop a 490,000-acre concession in Block 28 in southeastern Ecuador. Petroamazonas will own a 51% stake in the project, while Sipetrol S.A. and Belorusneft will own 42% and 7%, respectively. The companies plan to conduct exploration beginning in January 2015 for a three-year period and anticipate producing oil from the block for over 15 years. As of the date of this Offering Circular, Ecuador continues to evaluate the proposals of possible foreign state-owned oil companies for future joint venture contracts.

In August 2013, President Correa signed a decree authorizing the exploitation of oil from Blocks 31 and 43, which include the ITT field in Yasuní National Park. The ITT field has estimated reserves of 1.67 billion barrels of crude, 750 million barrels more than originally estimated. This decree reversed a moratorium imposed since 2007 on the extraction of oil from ITT, which was created to protect biodiversity and avoid dislocation of isolated indigenous cultures with support from international donors to partially offset the opportunity costs of not developing the ITT fields. However, considering the low levels of support from international donors as well as the potential gains from the extraction of oil for this initiative, President Correa issued the decree allowing development of the ITT fields. Following the issuance of the decree in August 2013, environmental and indigenous groups have announced their opposition to the removal of the moratorium and the Presidential decree authorizing the development of the ITT fields; however, the National Assembly has approved the use of the ITT fields and, as of May 2014, the Environment Ministry has issued permits allowing Petroamazonas to develop the fields. Ecuador expects that the output from the ITT fields will offset the decline from existing oil fields and increase overall production. According to estimates by Petroamazonas, investment to exploit the ITT fields is expected to equal U.S.\$4.3 billion until 2021 and once fully operational, the oil field is expected to generate revenues of U.S.\$18 billion over the life of the reserves. On September 7, 2016, Petroamazonas began extracting oil from the ITT fields.

In December 2015, Schlumberger, a French oilfield services company, entered into an oilfield servicing contract with Petroamazonas. The 20-year agreement commits Schlumberger to invest U.S.\$4.9 billion in production-enhancing measures at Block 61, located in the Ecuadorian Amazon. The primary part of Schlumberger's investment will be spent on improving upstream production. However, the company has also agreed to assume the block's operational costs, which will require an additional investment of U.S.\$1.8 billion during the term of the contract.

### *Exports*

Crude oil exports as measured in U.S. dollars steadily increased from 2011 to 2013. Ecuador's crude oil exports reached U.S.\$13,016 million in 2014, a 3.0% decrease from U.S.\$13,412 million in 2013. Crude oil exports in 2015 reached U.S.\$6,355 million, a 51.2% decrease from U.S.\$13,016 million in 2014. Both decreases were due to the decrease in the price of oil beginning in late 2014 and continuing through 2015.

In 2014, 98.0% of the value of oil exports was crude oil and 2.0% was oil derivatives. In 2015, 95.4% of the value of oil exports was crude oil and 4.6% was oil derivatives. In 2014, 59.7% of oil exports were exported to the United States, followed by Chile, Peru, Panama, and India with 15.5%, 9.6%, 8.6%, and 2.2%, respectively. In 2015, 62.4% of oil exports were exported to the United States, followed by Chile, Peru, Panama, and Japan with 13.0%, 10.2%, 6.0%, and 2.4%, respectively.

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

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

On December 1, 2016, Petroecuador signed a crude oil sale and purchase contract with PTT Trading International Pte Ltd ("PTT International"), pursuant to which Petroecuador will receive initial prepayments of \$600 million shortly after signing for crude oil to be delivered during the 5-year term of the contract. On December 6, 2016, Petroecuador signed a fuel oil sale and purchase contract with Oman Trading International Ltd ("OTI"), pursuant to which Petroecuador will receive an initial prepayment of U.S.\$300 million shortly after signing for fuel oil to be delivered to OTI during the 30-month term of the contract. In connection with each contract, the Republic has agreed to refund to the purchasers any amounts of the prepayments and related surcharges for advance payment

which are not otherwise satisfied through the delivery of crude oil or fuel oil, respectively, or refunded by Petroecuador in accordance with the contracts.

### *Transportation*

Ecuador has two major oil pipelines. Most of Ecuador's crude oil production is transported through the Trans-Ecuadorian Pipeline System (the "SOTE"), which links Lago Agrio in the Oriente region to the Balao export terminal on the Pacific coast. The SOTE was built by Texaco (now Chevron) and was transferred to Petroecuador in 1998. The SOTE has a capacity of approximately 390,000 bpd. In 2013, the SOTE transported 131.9 million barrels, averaging 361,568 bpd, an increase of 2.3% compared to 2012. In 2014, the SOTE transported 132.5 million barrels, averaging 363,097 bpd, an increase of 0.4% compared to 2013. In 2015, the SOTE transported 133.7 million barrels, averaging 366,215 bpd, an increase of 0.9% compared to 2014.

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

In June 2001, Ecuador awarded the construction and operation contract for its second pipeline, the OCP heavy crude oil pipeline, to Oleoducto de Crudos Pesados Ecuador S.A., a consortium of domestic and foreign oil companies. The OCP pipeline was constructed at a cost of U.S.\$1.4 billion, all of which was paid by the consortium. Construction was completed in September 2003, and operations began the same month. The contract for the operation of the OCP has a duration of twenty years and ends in 2023. At the end of the contract, the OCP pipeline will become national property. The Ministry of Energy and Mines and Petroleum (now the Ministry of Hydrocarbons) oversaw the construction of the OCP pipeline, and now oversees its operation. The OCP pipeline is made up of two sections, the largest of which was designed to transport a maximum of 517,300 bpd and has a sustainable transportation rate of 450,000 bpd of crude oil of 18° to 24° American Petroleum Institute degrees. In 2013, the OCP pipeline transported 53.3 million barrels, averaging 146,121 bpd, an increase of 10.2% compared to 2012. In 2014, the OCP pipeline transported 59.1 million barrels, averaging 161,929 bpd, an increase of 10.8% compared to 2013. In 2015, the OCP pipeline transported 62.1 million barrels, averaging 170,025 bpd, an increase of 5.0% compared to 2014.

### *Refining*

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

In 2015, the three main refineries produced 66.2 million barrels of oil derivatives including gasoline, diesel, fuel oil, jet fuel and liquefied petroleum, which represented a decrease of 0.3% compared to the 66.0 million barrels of oil derivatives produced in 2014. This decrease was caused primarily by the maintenance project in the Esmeraldas refinery, which is described below.

During 2015, the domestic consumption of oil derivatives was 92.8 million barrels, which represents an increase of 2% compared to the 94.7 million barrels in 2014. It is important to note, however, that Ecuadorian refineries do not produce sufficient oil derivatives to meet internal demand. Accordingly, Ecuador is a net importer of oil derivatives, even though it is a net exporter of crude oil.

In February 2013, Petroecuador announced that the Esmeraldas refinery would be undergoing a project of preventative maintenance, which resulted in reduced operations until year-end 2015, when all maintenance was completed. Reduced production by the Esmeraldas refinery during the preventive maintenance project required Ecuador to import additional oil derivatives to meet domestic demand. Upon completion, improvements to the refinery included, among other things, the expansion of the Fluid Catalytic Fractionation Unit (the “FCC”), and replacement of the FCC’s reactor and regenerator which increased processing capacity and improved the quality of finished products. Ecuador estimates that the preventive maintenance project at Esmeraldas will allow Ecuador to reduce imports of gasoline by 17%, diesel by 15%, and liquefied petroleum gas by 10%, resulting in annual savings of approximately U.S.\$305 million in fuel import costs for the country. The cost of the project, contracted with several international companies including SK Engineering, was approximately U.S.\$1.2 billion.

Operations at the Esmeraldas refinery were temporarily halted to allow for technical inspections of the facility following the earthquake on April 16, 2016 but resumed on April 18, 2016 and returned to full operating rates as of April 23, 2016 and intermittently halted for inspections following aftershocks.

As of the current date, there is no private sector participation in the production of oil derivatives. However, on July 15, 2008, Petroecuador and Petróleos de Venezuela Ecuador, S.A. (“PDVSA Ecuador”) formed a new entity called RDP in which Petroecuador is currently the majority shareholder (51%) and PDVSA Ecuador is the minority shareholder (49%). RDP will develop a refinery project with the same name to be built in the municipality of Manta, Manabí Province, with a total nameplate capacity of 300,000 bpd. It is expected that RDP will produce gasoline, diesel, kerosene, polypropylene, benzene, mixed xylene and LPG. The land rights and environmental licenses necessary to develop RDP have already been obtained, and a preliminary detailed feasibility study of the project is complete. The total estimated investment for RDP is approximately U.S.\$15 billion. Negotiations are ongoing to provide financing for the project, although no decisions have been made as to whether the project will be financed by debt or equity or a combination of both. In the event RDP is able to obtain financing through debt for this project, it is not clear whether it would be able to do so while remaining within the 40% public debt to GDP limit as further described in “Public Sector Finances – Fiscal Policy.” For a description of the risks of the limitation on further borrowing for projects like RDP, see *“Risk Factors – Risk Factors relating to Ecuador – The Republic may incur additional debt beyond what investors may have anticipated of as a result of a change in methodology in calculating the public debt to GDP ratio for the purpose of complying with a 40% limit under Ecuadorian law, which could materially adversely affect the interests of Noteholders.”* Construction has commenced and the project is scheduled to be completed by year-end 2021.

#### *Domestic Fuel Distribution*

In 1993, the Government implemented a free market in domestic fuel distribution, which has led to a rapid modernization of distribution facilities. The price at which gasoline is sold to domestic distributors is fixed by the President in accordance with the Hydrocarbons Law, and set according to variables such as domestic demand and the impact of the price on public finances. Until 1998, the Government had fixed the maximum profit level for distributors at 18%. In 1999, the fixed margin was eliminated. In early 2000, the Government reinstated a 15% fixed margin for regular gasoline and diesel fuels (distributors remained free to set any margin for premium gasoline). Since 2003, the fixed margin has been determined in cents per gallon. In 2005, the margin increased to U.S.\$0.71 per gallon of regular gasoline and to U.S.\$0.137 per gallon of diesel. These margins were set by Presidential decree number 73 (“Decree 73”), which was issued in August 2005. Any future change to the profit margin would require a new Presidential decree.

Decree 73 also regulates the sales price of consumer petroleum derivatives, thereby creating consumer subsidies for gasoline and diesel products. The price of gasoline sold to consumers is fixed at U.S.\$1.68 per gallon for gasoline and at U.S.\$0.90 per gallon for diesel. The amount of the subsidy is thereby determined by the differential price between this fixed price of crude oil and the spot price of West Texas Intermediate (“WTI”), as determined by the New York Mercantile Exchange (“NYMEX”).

Several private multinational petroleum companies, including ExxonMobil and PDVSA Ecuador, have established service stations in Ecuador. As of December 31, 2015, Petroecuador maintains a network of 45 service stations of its own and 264 affiliate stations.

### *Natural and Liquefied Petroleum Gas*

An important part of Petroecuador's commercial strategy includes the distribution of natural gas to southern Ecuador in order to reduce the consumption of LPG, the replacement of gasoline use with LPG for taxis and the creation of a network of service stations in order to compete in quality, service and price with private oil companies. Ecuador has 5.2 billion cubic meters of natural gas reserves, which it expects will be sufficient to meet internal demand for the next 20 years.

Since 2010, the natural gas platform at the Amistad field which was previously operated by the U.S. Company Energy Development Corp. Ecuador Ltd. ("EDC") has been managed by Petroecuador, as a result of EDC failing to reach a contractual agreement with the Government. In 2012, Petroecuador announced the discovery of approximately 28.3 billion cubic meters of natural gas in block 6 of the Amistad field in the gulf of Guayaquil. Due to the creation of four new wells and exploration drilling in this block, production increased from 49.77 cubic meters per day in 2013 to 55.91 cubic meters per day in 2014.

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

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

### **Mining**

The mining sector represents an important source of potential resources for the development of the Republic. According to information from MICSE as of December 2016, Ecuador has potential mineral reserves of 41.4 million pounds of copper, valued at U.S.\$91 billion, potential gold reserves valued at U.S.\$50.9 billion, molybdenum reserves valued at U.S.\$5.5 billion, and silver reserves valued at U.S.\$3.7 billion. In total, the nation has estimated reserves valued at U.S.\$151.1 billion.

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

The mining sector represents a small portion of GDP (0.35% in 2015, 0.33% 2014, 0.32% in 2013, 0.33% in 2012 and 0.29% in 2011). In the first six months of 2016, the mining sector represented 0.36% of GDP, compared to 0.37% of GDP for the first six months of 2015. In 2013, most production from mining was generated by domestic artisan and jeweler businesses. However, Ecuador expects mining exports to continue to increase as a result of an expansion of the nation's mining projects in 2014 and 2015. Currently, there are five projects in advanced stages of completion – two copper mines and three gold mines. Project Mirador is the largest copper project in Ecuador. The copper mine in the Zamora Chinchipe province is expected to begin production in 2018.



Project Mirador is financed in part through a U.S.\$2,040 million concession to Ecuacorriente S.A., a joint-venture owned by the Chinese companies China Railway Construction Corporation (“CRCC”) and Tongling Nonferrous Metals Group. Investment in the project will be made by Ecuacorriente S.A. over a 15-year period, with 50% of the amount coming in the first seven years. The Government estimates that the project will produce 30,000 tonnes per day during the first three years, increasing afterwards to 60,000 tonnes per day. The Fruta del Norte Project, located in the Zamora Chinchipe Province, is a gold and silver ore deposit owned by the Lundin Gold group, which is expected to start operations in 2018. The Rio Blanco project is a gold and silver mining project located in the Azuay Province which will start operations in the second half of 2017. Other projects, mostly in the south of the country, are in different stages of negotiation and completion.

### **Electricity and Water**

As of 2014, hydroelectric plants supplied approximately 46% of the power in Ecuador. By year-end 2016, the Government predicts that hydroelectric plants will generate 93% of the power in Ecuador, compared to 45.6% in 2014. This is expected to be achieved through the development of a matrix of hydroelectric plants built throughout Ecuador. Ecuador’s objective in developing this matrix is to reduce its consumption of oil through oil based generators, thereby decreasing oil imports and improving energy independence. Ecuador also plans to replace household oil-based consumption (for cooking and heating as further described below) with electricity-based consumption through the hydroelectric power grid, thereby eliminating the need for a gas subsidy.

The 1,500 MW Coca Codo Sinclair plant will be Ecuador’s largest hydroelectric project. It is expected to generate an average of 8.73 GWh per year and supply approximately 30% of the country’s electricity needs. In November 2016, all eight turbines in the plant became operational, generating 1,500MW of power, or 30% of Ecuador’s electricity needs. On October 19, 2016, two additional turbines in the Coca Codo Sinclair plant became operational. The two turbines generate 180MW each, and bring the total production of the Coca Codo Sinclair plant to approximately 1,113MW. On the same day, the Vice President Jorge Glas announced that the two final turbines of the plant will become operational before the end of 2016. The plant is set to reduce 3.5 million tons of carbon emissions per year and replace oil energy consumption for domestic purposes such as cooking and water heating. The plant will join the existing infrastructure of hydroelectric plants that include the 160 MW Mazar plant in the Azuay province, the 1,075 MW Paute-Molino plant near Cuenca, the 275 MW Minas San Francisco plant, the 50 MW Quijos plant, and the 487 MW Sopladora and Cardenillo plants planned along the Paute River. Many of these hydroelectric projects are financed through agreements with bilateral lenders, including the China Exim Bank, which has provided U.S.\$1,700 million to finance the Coca Codo Sinclair project, U.S.\$571 million to finance the Sopladora hydroelectric project and U.S.\$313 million to finance the Minas San Francisco hydroelectric project, the Brazilian National Economic and Social Development Bank which has provided U.S.\$90.2 million to finance the Manduriacu hydroelectric power plant project near Quito, and Société Générale and Deutsche Bank which in April 2014 committed to together provide an additional U.S.\$50 million to finance the Manduriacu hydroelectric power plant.

The construction of these hydroelectric plants is due to an enhanced effort by the Government to invest in the sector. In 2015, the Government invested U.S.\$1,566 million in the electricity sector, a 43% increase from 2011, when the Government invested U.S.\$1,094 million in the sector. Construction on the new line of hydroelectric plants continued in 2016 including the 115MW Delsitanisagua hydroelectric plant and the 254.4 MW Toachi Pilaton hydroelectric plants, and the construction of a reservoir in the Minas San Francisco project.

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

The Government has also increased investment in the water sector in order to alleviate flood conditions and access to potable water in various parts of the country. Ecuador’s national water authority, *Secretaria de Agua*, currently has invested U.S.\$1,130 million out of a planned U.S.\$2,100 million for six multi-purpose projects to improve flood control and irrigation. One of the most important projects in the water sector is the Multipropósito

Chone project in the Manabí province. Financed by the Government and private partners, the U.S.\$20.3 million project sets out to construct a dam to alleviate the flood conditions of the region. The project will also construct a drain system, which will serve for irrigation purposes and provide a drinking water supply for Manabí.

Other water projects include: (i) the Cañar Naranjal project, which is expected to cost U.S.\$319 million to protect approximately 40,553 hectares along the Cañar River and its adjoining streams through a system of levees, including a 12-kilometer bypass, (ii) four new bridges, (iii) a flood regulatory system and (iv) the U.S.\$352 million Daule-Vinces project that is expected to redirect water from the Daule River and transport it along a 70 kilometer canal to dry farmlands.

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

In 2015, the electric and water sectors contributed a total of U.S.\$1,421 million to GDP, an increase compared to U.S.\$1,201 million in 2014. Since 2011, the sectors represent an average of approximately 1.2% of GDP per year. For the first quarter of 2016, the electric and water sectors contributed a total of U.S.\$364 million to GDP, an increase compared to U.S.\$343 million for the first quarter of 2015.

## **Telecommunications**

In 2007, only 8.47% of the Ecuadorian population was connected to the Internet. Under President Correa's administration, the average percentage of Internet users has increased to 108.7% per every 100 inhabitants as of March 2016. Similarly, while only 20 of Ecuador's 221 municipalities had access to the national fiber optic network in 2007, this number increased to 200 by 2015.

In 2011, the telecommunications sector accounted for U.S.\$1,812 million of GDP. This amount steadily increased through 2014, when the telecommunication sector accounted for U.S.\$2,175 million of GDP. In 2015, the telecommunications sector decreased and accounted for U.S.\$2,152 million. From 2011 through 2015, the telecommunications sector represented an average of approximately 2.18% of GDP per year. In 2015, the Government invested U.S.\$305 million in the sector, an increase compared to U.S.\$294 million in 2014. For the first six months of 2016, the telecommunications sector accounted for U.S.\$876 million of GDP, a decrease compared to U.S.\$1,053 million for the first six months of 2015.

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

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

## **Other Sectors of the Economy**

### **Agriculture**

Before the discovery of petroleum fields in provinces of the Orient region in the 1970's, the agriculture sector had traditionally been the largest contributor to Ecuador's GDP. Of Ecuador's total 27.1 million hectares, 7.8 million are devoted to agriculture and livestock. Ecuador's diverse climatic conditions, varying altitudes and rich volcanic soil are well suited to tropical and subtropical agriculture. Ecuador's primary product from this sector, which is also the nation's most significant non-oil export, is bananas. According to data from the Food and Agricultural Organization of the United Nations ("FAO"), Ecuador has represented approximately 25% to 30% of banana world exports for the ten years ending in December 31, 2013. Ecuador also exports significant amounts of coffee, flowers, and cacao. The agricultural sector constituted an average of 7.67% of GDP per year for the years 2011 through 2015. In the first six months of 2016, the agricultural sector represented 8.57% of GDP, an increase compared to 8.34% for the first six months of 2015.

Between 2011 and 2015, the volume of Ecuador's banana exports increased by 25%. In 2012, the value of Ecuador's banana exports decreased by 7.5%, primarily as a result of difficult growing conditions for that year. However, the value of these exports increased by 11.8% in 2013 when growing conditions returned to normal and 10.9% and 9.0% in 2014 and 2015, respectively. In the first nine months of 2016, banana exports totaled U.S.\$2,039 million, a 4.2% decrease from U.S.\$2,128 million in the first nine months of 2015.

Ecuador also exports significant amounts of cacao. Cacao exports were U.S.\$474 million in 2011. In 2012, the value of cacao exports decreased to U.S.\$345 million due to difficult growing conditions for that year. However, exports increased to U.S.\$423 million in 2013 when growing conditions returned to normal. With continued normal growing conditions, cacao exports reached U.S.\$576 million in 2014 and increased to U.S.\$693 million in 2015. In the first nine months of 2016, cacao exports totaled U.S.\$389 million, a 16.0% decrease from U.S.\$463 million in the first nine months of 2015.

Flowers and flower products are among one of the newest, but fastest growing exports for Ecuador, making up 4.5% of Ecuador's total exports in 2015. Flower exports were U.S.\$676 million in 2011, U.S.\$714 million in 2012, U.S.\$830 million in 2013 and U.S.\$918 million in 2014. In 2015, flower exports decreased by 12% to U.S.\$820 million primarily as a result of the strengthening of the dollar which made Ecuador's flowers more expensive compared to Colombian flowers. In the first nine months of 2016, flower exports totaled U.S.\$619 million, a 3.7% decrease from U.S.\$643 million in the first nine months of 2015.

### **Fishing**

Another important aspect of Ecuador's agriculture is its fishing exports. Ecuador exports significant amount of tuna and other fish, but its predominant fishing export is shrimp. Ecuador is the largest shrimp producer in the Americas, and one of the largest shrimp producers in the world. According to the FAO, over the ten years ending December 31, 2013, Ecuadorian shrimp exports have represented approximately 2% of worldwide shrimp exports. The amount of shrimp exports steadily rose in the period from 2011 to 2014, growing from U.S.\$1,178 million in 2011 and reaching U.S.\$2,513 million in 2014. In 2015, shrimp exports totaled U.S.\$2,280 million, a 9.3% decrease from 2014. This decrease is due to the phenomenon of El Niño, which took place in 2015, as well as a decrease in exports to Asia. In the first nine months of 2016, shrimp exports totaled U.S.\$1,887 million, an 11.7% increase from U.S.\$1,689 million in the first nine months of 2015. This increase was due to the recovery of the price of shrimp caused by a decrease in shrimp exports from India and Vietnam. Fishing exports, other than shrimp, decreased from U.S.\$257 million in 2011 to U.S.\$231 million in 2015. In the first nine months of 2016, fishing exports, other than shrimp, totaled U.S.\$178 million, a 4.8% decrease from U.S.\$187 million in the first nine months of 2015. This decrease is due to the impact of prolonged climate change on the Ecuadorian coast.

### **Manufacturing**

Manufacturing, excluding petroleum products, is dominated by consumer products such as food, beverages, textiles, and paper, with a concentration of imported intermediate and capital goods. The manufacturing sector contributed 12.20%, 12.21%, 12.59%, 13.57% and 13.79% to the GDP, per year for the years 2011, 2012, 2013, 2014 and 2015 respectively. The manufacturing sector also contributed 13.78% and 14.06% to the GDP for the first six months of 2015 and 2016, respectively.

Ecuador's main manufactured, non-petroleum exports are canned seafood, automobile assembly, processed cocoa, and processed coffee. The manufacturing sector has grown an average of 9.8% per year between 2011 and 2015. During 2011, 2012, 2013 and 2014, manufacturing grew by 12.4%, 11.1%, 9.8%, and 14.5%, respectively. In 2015 manufacturing grew by 1.2%, reaching U.S.\$13,815 million. Manufacturing decreased by 2.1% from U.S.\$6,963 million in the first six months of 2015 to U.S.\$6,814 million in the first six months of 2016. According to reports from the Central Bank, 2011 saw an increase in the amount of credit extended towards manufacturing activities. This led to a substantial growth in the sector, particularly in the production of dairy products, wheat products, beverages, and the processing and conservation of meat, among others, which contributed to the 12.4% increase in that year. The slowdown in growth to 1.2% in 2015, and the decrease in growth of the manufacturing sector were due to the general slowdown of the economy in Ecuador for those periods.

Ecuador's membership in international trade organizations and its status as a party to various multilateral agreements such as ALADI, CELAC, and the Community of Andean Nations have contributed to the opening of new markets for the sale of Ecuadorian goods abroad and challenged domestic manufacturers to operate more competitively. On December 12, 2014, representatives from Ecuador's Ministry of Foreign Commerce signed a trade agreement with the European Union. For more information, see "Balance of Payments and Foreign Trade – Foreign Trade – Trade Policy." By the end of 2015, 27% of Ecuador's non-petroleum exports were sold in the European Union, and 15.1% of all of Ecuador's exports were sold in the European Union.

### **Construction**

The construction sector accounted for 10.53% of GDP in 2013, 10.67% in 2012, and 10.23% in 2011. In 2015, the construction sector accounted for 10.70% of GDP, compared to 10.63% in 2014. For the first six months of 2016, the construction sector accounted for 9.92% of GDP compared to 10.89% for the first six months of 2015.

In 2014, construction activity continued to increase in real terms, growing by 7.3%, compared to 8.3% in 2013 and 12.2% in 2012. In 2015, construction activity decreased by 0.6% in real terms compared with 2014, and for the first six months of 2016, construction activity decreased by 10.2% in real terms compared with the corresponding period in 2015. These decreases in construction activity were due to a decrease in public construction projects. In 2014, approximately U.S.\$1,029 million worth of raw materials used for construction were imported, an increase from 2013 when U.S.\$928 million worth of raw materials used for construction were imported. In 2015, U.S.\$611 million worth of raw materials used for construction were imported, a decrease from 2014. The steady increase in construction and the large percentage of GDP that it represents is a result of the construction activity in connection with the nation's infrastructure projects, particularly the development of new oil fields, and the hydroelectric and flood control projects of the past seven years.

### **Science and Technology**

The Government has begun development of a very large education and research center north of Quito, known as "Yachay-the City of Knowledge" ("Yachay"). Construction of Yachay began in 2012 and is expected to be completed in 2028. Yachay is a 18-square-mile planned community that is expected to house a large university and a dozen technology and innovation parks. The university opened its doors to 187 enrolled students in April 2014.

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

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

### **Tourism**

Ecuador's tourism industry has steadily grown over the past five years. In 2011, 1.14 million tourists visited the country. The figure increased to 1.27 million in 2012, 1.36 million in 2013, and 1.56 million in each 2014 and 2015. In 2015, the largest population of tourists came from Colombia, followed by the United States, and then Peru. There is also a significant number of U.S. expatriates and retirees who currently reside in the country.

The steady increase in tourism over the last five years is in large part due to promotional campaigns instituted by the Ministry of Tourism. In 2010, the "Ecuador loves life" campaign was launched in England, Germany, France and the United States. A second campaign, the "I discovered" campaign, was launched in 2011, and a third campaign, the "All you need is Ecuador" campaign, was launched in 2014. As part of this campaign, Ecuador became the first government to advertise during the Super Bowl, airing a thirty second spot during the 2015 event. The Ministry also provides financing and logistics advice to local businesses that cater to tourists such as tours and adventure companies. The 2015 annual budget allocated U.S.\$110.7 million to the Ministry of Tourism for tourism promotional campaigns and other initiatives to promote tourism.

### **Transportation**

In 2015, the Government invested a total of U.S.\$1,119 million in roads and highways, a decrease of 20% from the previous year, when total investment was U.S.\$1,400 million. The most significant road projects in Ecuador are the Manta (Ecuador)-Manaus (Brazil) road network, linking the Pacific Ocean with the Atlantic and the Troncal-Amazonica road, which runs from north to south, linking the Colombian and Peruvian borders. The Troncal-Amazonica road was completed in early 2016 with the construction of the El Tigre bridge and a portion of the Manta-Manaus road network. The Manta-Manaus road-network is currently under construction, although there is

no definitive completion date. Both projects are not toll roads and were financed by oil revenues and financing from CAF.

The 2016 budget allocates U.S.\$681 million for all Government transportation projects including airport, road, and various municipal construction and maintenance projects. Two recent significant projects have recently been financed along with the municipality of Quito. In February of 2013, a new international airport opened in the suburbs of Quito. The airport cost was U.S.\$700 million and was financed by Quiport S.A., an international consortium led by AECON Construction Group and HAS Development Corporation. The new airport features the largest control tower and the longest runway of any international airport in Latin America. Phase 2 of the airport, which includes the expansion of the passenger terminal, new jet bridges, and the expansion of the shopping areas was financed by Quiport S.A. and cost U.S.\$70.5 million. Construction of Phase 2 of the airport was completed in 2015, and began operating as a passenger terminal in May of that year. A new road and bridge to reduce congestion from the previous single bridge and highway that led to the airport have been completed. Construction of a subway system in Quito based on the Metro of Madrid has been underway since 2012. This metro system is expected to connect the northern business and resident areas of Quito to Quito's historic city center. The project is budgeted to cost U.S.\$1,680 million through completion and is expected to commence operations in 2019. This project was financed, in part, by a U.S.\$205 million loan from the World Bank, a U.S.\$259 million loan from the European Investment bank, which was increased by U.S.\$44,152,000 in November 2016, a U.S.\$200 million loan from the IDB and a U.S.\$200 million loan from CAF. In February 2014, the municipality of Cuenca began construction of the *Tranvía Cuatro Ríos*, a 21.4-kilometer tram system with 27 stations. The project is planned to connect the airport and city-center to the outlying suburbs of the city. The project is estimated to cost U.S.\$232 million and was financed, in part, by a 15-year loan executed in January 2013, pursuant to the French government's Emerging Country Reserve Loan program.

### Employment and Wages

The National Council on Wages sets the minimum wage for workers in the private sector on an annual basis. The monthly minimum wage for a job in the private sector has increased from U.S.\$264 for 2011 to U.S.\$354 for 2015. The announcement of the minimum wage applicable for 2016 was made in December of 2015 and was set at U.S.\$366 per month. Public sector employee wages are based on the wage scale determined by the *Ministerio de Relaciones Laborales* ("Ministry of Labor Relations"). The following table shows the increase in minimum wage from 2011 to 2016.

Monthly Minimum Wage <sup>(1)</sup>					
(in U.S.\$)					
2011	2012	2013	2014	2015	2016
264	292	318	340	354	366

Source: Ministry of Labor Relations.

(1) Minimum wages set at the beginning of each year.

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

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

<b>Labor Force and Employment</b> (in thousands of persons, except percentages)							
	<b>For the year ended December 31,</b>					<b>As of September 30,</b>	
	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2015</b>	<b>2016</b>
Total Population <sup>(1)</sup> .....	15,266	15,520	15,775	16,027	16,279	16,215	16,466
Labor Force <sup>(2)</sup> .....	10,533	10,864	11,200	11,159	11,399	11,318	11,639
Labor Force Participation <sup>(3)</sup> .....	6,582	6,701	6,953	7,195	7,499	7,600	8,057
Labor Force Participation Rate.....	62.49%	61.68%	62.08%	64.47%	65.78%	67.15%	69.22%
Employed Labor Force .....	6,305	6,425	6,664	6,921	7,141	7,274	7,638
Unemployed Labor Force .....	277	276	289	273	357	325	419
Unemployment Rate <sup>(4)</sup> .....	4.21%	4.12%	4.15%	3.80%	4.77%	4.28%	5.20%

Source: Based on figures from INEC as of September 2016.

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

(2) Refers to population above minimum working age (15 years old), whether or not they are willing to work.

(3) Also referred to as economically active population.

(4) As a percentage of economically active population.

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

From 2011 to 2015, the unemployment rate increased by 0.56 percentage points. Underemployment, or individuals who are unable to obtain full-time work to receive a salary meeting the official minimum wage, decreased from 49.29% to 48.09% during this time as well. During 2011 and 2012, unemployment decreased to 4.21% and 4.12%, respectively. In 2013, unemployment slightly increased to 4.15%, then decreasing to 3.80% in 2014 due to increased job creation in the services and commerce industries. In 2015, the unemployment rate increased to 4.77% due to a general slowdown of the economy in 2015 that led to job losses in both the private and public sectors. The rate of unemployment increased to 5.20% as of September 30, 2016 due to a continued slowdown of the economy.

The rate of individuals who are unable to obtain full-time work to receive a salary meeting the official minimum wage, or underemployment, also steadily decreased from 49.47% in 2011 to 47.17% and 47.77% in 2012, and 2013, respectively. The underemployment rate continued to decrease to 46.69% in 2014 but increased in 2015 to 48.09%.

The sectors that registered the greatest reduction in employment in the period from 2011 to 2015 were the agriculture sector with 2.89 %, and the commerce sector with 1.52%. The labor force participation rate of the Ecuadorian economy increased by an aggregate of 3.29 percentage points, from 2011 to 2015 while unemployment increased by 0.56%. Underemployment decreased by 1.20% in the same time period.

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

### Wages and Unemployment

	For the Year ended December 31,					As of September 30,	
	2011	2012	2013	2014	2015	2015	2016
Unemployment rate (% of economically active population) <sup>(1)</sup> .....	4.21	4.12	4.15	3.80	4.77	4.28	5.20
Underemployment rate (% of economically active population) <sup>(2)</sup> ....	49.67	47.15	47.77	46.69	48.09	49.2	55.40

Source: Based on figures from INEC as of September 2016.

(1) Refers to population at or above the minimum working age that is not employed and is willing to work (even if not actively seeking work) as a percentage of the total labor force.

(2) Refers to individuals who are unable to obtain full-time work to receive a salary meeting the official minimum wage.

### Average Wages by Economic Sector (Monthly) <sup>(1)</sup>

(in U.S. dollars)

	Average Wage	Oil and Mining	Agriculture <sup>(2)</sup>	Services <sup>(3)</sup>	Manufacturing	Tourism <sup>(4)</sup>
2011 .....	295.70	340.81	263.30	424.05	247.28	326.86
2012 .....	345.50	479.73	302.90	493.10	282.78	372.86
2013 .....	374.90	510.80	340.00	551.21	313.20	398.24
2014 .....	416.5	704.93	373.00	560.00	341.30	424.10
2015 .....	422.80	715.46	398.70	535.10	352.20	446.00

Source: Based on figures from INEC.

(1) These figures include mixed income (wage and non-wage income) by economic sector per month as of the date indicated. Methodology to compute the data is based on all wages earned by individuals in a month. For the purposes of this data, there is no distinction made between full-time and part-time workers.

(2) Represents industrial production of agricultural products.

(3) Services include water and electric.

(4) Tourism includes hotels and restaurants.

### Poverty

In recent years, Ecuador has seen decreases in levels of urban and rural poverty. The urban poverty rate decreased from 17.4% to 15.7% between 2011 and 2015, while the rural poverty rate decreased from 50.9% to 39.3% across the same time frame. Extreme poverty rates have also decreased, from 5.0% of all urban households in 2011 to 4.4% of all urban households in 2015, and from 24.6% of all rural households in 2011 to 17.0% of all rural households in 2015. At the same time, the total extreme poverty rate decreased from 11.6% in 2011 to 8.5% in 2015. The rate of poverty increased from 22.0% as of June 30, 2015 to 23.7% as of June 30, 2016.

The Republic believes this decrease in poverty is partially the result of a significant expansion of the *bono de desarrollo humano* ("BDH"), a cash transfer program for those in the lower 40% of income distribution who are either mothers of children under the age of 16, above the age of 65, or disabled. Currently, the BDH transfers U.S.\$50 a month to qualifying individuals.



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

	Percentage of Households in Poverty								
	Poverty Based on Income <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
December 2011 .....	17.4	50.9	28.6	5.0	24.6	11.6	22.1	73.7	39.4
December 2012 .....	16.1	49.1	27.3	5.0	23.3	11.2	20.1	70.3	37.0
December 2013 .....	17.6	42.0	25.6	4.4	17.4	8.6	25.7	65.7	38.7
December 2014 .....	16.4	35.3	22.5	4.5	14.3	7.7	24.8	57.8	35.4
December 2015 .....	15.7	39.3	23.3	4.4	17.0	8.5	n/a	n/a	n/a
June 2015 .....	14.4	38.0	22.0	3.8	14.9	7.4	n/a	n/a	n/a
June 2016 .....	15.6	40.9	23.7	3.9	18.6	8.6	n/a	n/a	n/a

Source: Based on figures from INEC as of June 2016.

(1) Persons whose income is below the poverty line. As of December 31, 2015, the poverty line, as determined by Ecuador, is U.S.\$83.79/month, per household.

(2) As of December 31, 2015, the extreme poverty line is U.S.\$47.22/month per household.

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

## Social Security

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

Social security benefits are a constitutional right for all workers and their families, designed to protect the insured in case of illness, maternity, unemployment, disability, old age and death. The social security system also provides financing for workers’ housing. Ecuador’s social security system is financed by contributions from the Government, employers and employees. The level of employee contribution is based on an employee’s income. The monthly pension is based on a percentage of the insured’s average monthly earnings in his or her five highest years of earnings. The minimum monthly pension for 2016 is U.S.\$183.

Retirees benefit from the IESS system once they have left employment. As of December 2015, IESS, ISSFA and ISSPOL had 9.2 million, 1.1 million and 0.2 million beneficiaries, respectively. In 2015, total non-financial public sector contributions to social security were U.S.\$5.0 million, or 5.1% of GDP, an increase from U.S.\$4.7 million, or 4.7% of GDP in 2014. IESS’s beneficiaries include 3.1 million affiliates, 0.4 million pensioners, 4.4 million dependents, 1.1 million people covered through rural social security and 0.03 million people that receive benefits related to work related risks. For 2015, IESS’s expenditures totaled approximately U.S.\$6 billion.

Under Article 372 of the 2008 Constitution, the *Banco del Instituto Ecuatoriano de Seguridad Social* (the Social Security Institute Bank of Ecuador or “BIESS”) is responsible for channeling investments and managing public pension funds. Resolution JB-2009-1406 enacted in July 2009 sets the parameters for the types of investments allowed. Investments in real estate are only allowed in the long term (over five years), investments in trusts are not allowed in the short term (less than 3 years), and investments in public sector securities cannot exceed 75% of the market value of the fund. A risk committee must approve all investments. Investments must be rated by an approved rating agency, and no investment may be rated lower than specific thresholds set for that type of investment, as determined by the risk committee. As of December 31, 2015, BIESS is the largest holder of Government securities, with 45.31% of its portfolio investment, or U.S.\$7,631 million, in Government holdings.

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

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

### **Education**

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

The 2016 annual budget allocated U.S.\$4.9 billion for Government education and education initiatives. Education initiatives include the continued construction of Yachay (See "The Ecuadorian Economy – Other Sectors of the Economy – Science and Technology"), the use of outside consultants to improve English education, the granting of scholarships to exceptional students for study in elite foreign universities, the inspection of Ecuador's universities to ensure that they meet a high standard quality, and various other projects administered by individual municipalities.

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

### **Health**

The 2016 annual budget allocated U.S.\$2.4 billion for Ecuador's health sector. Recent reforms include a mandatory increase in hours and pay for medical professionals, and the creation of mobile clinics intended to ensure vaccinations in the most remote areas of the country. The Government has also signed various agreements with private companies to produce generic drugs in the country.

## LEGAL PROCEEDINGS

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

### **Occidental - Breach of Contract Claim**

In May 1999, *Empresa Pública de Hidrocarburos del Ecuador* (“Petroecuador”) and Occidental Exploration and Production Company (“Occidental”) entered into a participation agreement for the exploration and exploitation of hydrocarbons in Block 15, in the Oriente region. On September 15, 2004, Petroecuador sent Occidental a notice of breach alleging various grounds for forfeiture of the participation agreement, including the unauthorized assignment of 40% of Occidental’s rights and obligations thereunder to Canadian oil company Encana. Block 15 is one of Ecuador’s most productive oil fields. In May 2006, the Ministry of Energy and Mines declared the participation agreement with Occidental to be terminated due to its alleged breach of the Hydrocarbons Law. As a result, all of Occidental’s assets were transferred to the Republic. In May 2006, Occidental filed a claim before the International Centre for the Settlement of Investment Disputes (“ICSID”) against Ecuador in an amount of U.S.\$3.3 billion, claiming that the termination of the participation agreement constituted the “equivalent of expropriation,” in violation of the U.S.-Ecuador Bilateral Investment Treaty, and that the forfeiture of the participation agreement was litigated for political reasons rather than due to an illegal assignment.

On October 5, 2012, the ICSID arbitral panel issued an arbitral award in favor of Occidental in the amount of U.S.\$1.7 billion, plus interest, but it also found that Occidental’s assignment to Encana was made in violation of Ecuadorian law. The arbitral panel calculated the amount based on the full value of the contract, with a reduction of 25% due to such violation. On October 9, 2012, Ecuador filed a petition for a stay of the enforcement of the arbitral award until an annulment procedure could be carried out. The petition was registered with ICSID on October 11, 2012. On January 18, 2013, ICSID appointed an ad hoc panel to resolve the petition for the stay and consider a petition for annulment. The first meeting of the panel took place on March 25, 2013. On May 13, 2013, the panel met to consider a February 13, 2013 petition by Occidental to lift the currently effective stay of the arbitral award. In a September 30, 2013 decision, the panel ratified the stay of the award and held that it should continue unconditionally.

On August 12, 2013, Ecuador submitted its brief of annulment. On October 18, 2013, Occidental presented its response, arguing that there was no basis for an annulment. Ecuador presented its reply on January 6, 2014 and Occidental submitted its rejoinder on February 28, 2014. The hearing concerning annulment took place between April 7 and April 10, 2014.

On November 2, 2015, the ad hoc panel partially annulled the October 5, 2012 arbitral award, finding that the unauthorized assignment of 40% of Occidental’s rights under the participation agreement was made in violation of Ecuadorian law and therefore limited the arbitration award to U.S.\$1.06 billion, plus interest. Subsequent to this finding, on November 4, 2015, the U.S. District Court for the Southern District of New York issued an order, at the petition of Occidental, recognizing the award as a final judgment of the court.

In January 2016, Ecuador and Occidental entered into a settlement agreement. As a result, no further actions have been taken in court proceedings in New York to enforce the award. In the settlement agreement, Ecuador agreed to pay a total of U.S.\$980 million to Occidental in a series of installments. In June 2016, Ecuador paid the final installment to Occidental. Occidental agreed to release all claims and accept such payments as a final settlement of all amounts payable pursuant to the arbitral award.

## **Chevron**

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

On July 27, 2012, Chevron filed a claim before the District Court of the District of Columbia (Washington, DC) seeking recognition and enforcement of the arbitral award. On March 25, 2013, Ecuador filed its brief in opposition with the court, and on April 25, 2013, Chevron filed its response. On June 6, 2013 the District Court confirmed the award in favor of Chevron. Ecuador filed an appeal on July 1, 2013, to which Chevron filed an opposition brief on August 19, 2013. On October 9, 2015, the United States Court of Appeals for the District of Columbia Circuit affirmed the District Court decision. Accordingly, the arbitral award granted to Chevron became due and payable in the United States with the same force and effect as a judgment in a judicial action. The total amount due under the award, (U.S.\$96.4 million plus U.S.\$16.4 million in interest) was paid by Ecuador to Chevron in satisfaction of the arbitral award.

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

On a separate matter, in September 2009, Chevron filed a UNCITRAL arbitration claim against Ecuador for an undetermined amount. The claim seeks indemnification for claims brought by indigenous communities in Lago Agrio, Ecuador, against Chevron for environmental damages. In 2011, an Ecuadorian court ruled in favor of the Lago Agrio community, ordering Chevron to pay U.S.\$19 billion in damages. This amount was reduced to U.S.\$9.5 billion in November 2013. Chevron argues that Ecuador and Petroecuador should be solely responsible for any judgments arising from claims resulting from the Lago Agrio litigation because of “hold harmless” provisions of a 1995 settlement agreement (“1995 Settlement”) between Chevron and the Republic and also claims breach of the 1995 Settlement and the U.S.-Ecuador Bilateral Investment Treaty. On the other hand, Ecuador argues that it has not assumed any obligation to indemnify, protect, or defend Chevron from third party claims. On January 25, 2012, the arbitral tribunal issued an interim award that ordered Ecuador to take all available measures to suspend the enforcement or recognition of the claims in the Lago Agrio case in Ecuador and abroad. On February 16, 2012, the tribunal issued a second interim award ordering Chevron to compensate Ecuador for the costs Ecuador incurs in performance of its obligations under the interim awards, and ordered Chevron to post a bond in the amount of U.S.\$50 million to secure payment of the same. The plaintiffs for the Lago Agrio case, in November 2012, obtained the seizure of certain bank accounts of Chevron in Argentina and the seizure of Chevron’s interests in its Argentine subsidiaries. In a third interim award dated February 27, 2012, the arbitral tribunal held that it had jurisdiction to hear the claim. In a fourth interim award dated February 7, 2013, the arbitral tribunal resolved that Ecuador has not complied with the decisions from the previous awards, and that each party shall argue whether Ecuador must

reimburse Chevron for any expenses related to the enforcement proceedings. The arbitration tribunal has divided the merits of the case into three tracks. The first track will decide issues relating to the 1995 Settlement and the obligation of Ecuador to indemnify Chevron from third party claims. The second track will decide issues relating to denial of justice claims by Chevron and the alleged breach of the U.S.-Ecuador Bilateral Investment Treaty. Once tracks 1 and 2 have been decided on the merits, the third track will determine any monetary damages that resulted from the alleged breaches and will assess the monetary value of the environmental damage in the Lago Agrio community. On September 17, 2013 the arbitral tribunal issued a partial track 1 award (track 1A) where it agreed with the Republic in that the 1995 Settlement did not preclude the Lago Agrio plaintiffs from asserting claims “in respect of their own individual rights.” According to the arbitral tribunal, the 1995 Settlement bars claims that Ecuador might raise in the exercise of their own rights, but does not bar to claims by third parties acting independently from the state in the exercise of their individual rights. It also held that the 1995 Settlement did not contain an indemnity provision that required the Republic to be held liable for any costs or any judgment rendered against Chevron. However, the arbitral tribunal held that Chevron was a “released party” under the 1995 Settlement. The arbitration tribunal did not decide on the claims of breach of the 1995 Settlement. In response, on January 7, 2014, Ecuador filed a writ of summons in the District Court of the Hague requesting an order setting aside the September 17, 2013 partial award and of the previous interim awards. The District Court of the Hague held a hearing regarding Ecuador’s writ of summons on November 2015 and rejected Ecuador’s request in a decision issued on January 20, 2016. Ecuador is currently preparing to appeal the decision.

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

On May 9, 2014, Chevron submitted a supplemental brief regarding the second track issue of the alleged violations of the Ecuador-US Bilateral Investment Treaty, explaining the relevance of certain prehearing exhibits.

On November 7, 2014, Ecuador filed a written response to Chevron’s supplemental brief on track 2, to which Chevron replied on January 14, 2015. Ecuador in turn filed a supplemental rejoinder brief on March 17, 2015. A telephone conference regarding procedural matters took place on March 27, 2015. Hearings on the track 2 issues relating to the supplemental briefs took place in Washington, D.C. from April 21 to May 8, 2015. The result of the track 2 hearing is pending. The parties submitted briefs on the final report of a forensic computer expert on August 12, 2016 and August 26, 2016 and presented their positions on the relevance of the August 8, 2016 decision of the Southern District of New York Court of Appeals on the RICO action: *Chevron v. Donziger et. al.* on August 16, 2016 and August 18, 2016. The tribunal has indicated that it will issue a decision with respect to track 2 after the submission of such briefs. The tribunal has not yet issued a decision.

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

### **Windfall Profits Tax Litigation**

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

#### *Burlington Resources, Inc.*

Burlington filed an arbitration claim before ICSID in April 2008 against Ecuador, seeking compensation for alleged modifications to its contracts for the development of Blocks 7 and 21 in Ecuador imposed by Ecuadorian law 42-2006. Burlington argued that such unilateral modification resulted in an expropriation of the blocks that Burlington was operating, although, subsequent to the commencement of the proceedings, Burlington withdrew the

contractual claims and based all claims solely on violations of the U.S.-Ecuador Bilateral Investment Treaty. On September 30, 2011, Ecuador filed two counterclaims against Burlington for environmental damage and failure to maintain the facilities of Blocks 7 and 21, in an approximate amount of U.S.\$2 billion. On December 14, 2012, the tribunal decided the liability issue in favor of Burlington and consequently, on January 28, 2013, Ecuador submitted a petition for reconsideration. The arbitral tribunal was scheduled to meet for a hearing on damages and Ecuador's counterclaims in August 2013, but the hearings were suspended due to the request by Ecuador that one of the arbitrators recuse himself from the decision because of a conflict of interest. Burlington presented its assessment of damages memorandum on June 24, 2013, to which Ecuador responded on May 23, 2014. The tribunal held a hearing regarding damages from March 2 to March 6, 2015 in Paris, after which both parties presented their post-hearing briefs on May 29, 2015. Ecuador and Burlington expect the tribunal to deliver its decision with respect to the hearing on damages in December 2016.

Hearings for the counterclaims took place from June 1 to June 7, 2014 in Paris. The parties presented their post-hearing briefs on October 3, 2014 and, in an effort to assess the validity of the counterclaims, the tribunal visited Blocks 7 and 21 in April 2015. The parties presented their post-visit briefs on July 15, 2015. The result of the hearing regarding the counterclaim is pending.

#### *Perenco Ecuador Limited*

On April 30, 2008, Perenco Ecuador Limited ("Perenco") filed an ICSID arbitration claim against Ecuador seeking compensation of U.S.\$440 million plus costs and interest for alleged changes to its contracts for the development of Blocks 7 and 21 in Ecuador imposed by Ecuadorian law 42-2006. The amount of the claim remains subject to adjustment. Perenco argued that law 42-2006 modified the participation of Perenco under contracts for development of Blocks 7 and 21 in Ecuador and that the unilateral modification of the contracts resulted in an expropriation of the blocks that Perenco was operating. On July 18, 2014, the tribunal decided the claim in favor of Perenco and is currently determining the procedural schedule for the assessment of damages.

On December 5, 2011, Ecuador filed two counterclaims against Perenco for environmental damage and failure to maintain the facilities of Blocks 7 and 21, in an approximate amount of U.S.\$2 billion. On March 13, 2013, the parties presented their respective memoranda to the arbitral tribunal. Hearings took place from September 9 to September 17, 2013. On August 11, 2015, in an interim decision, the tribunal held that contamination exists in Blocks 7 and 21. However, the tribunal held that a third environmental expert is needed in order to determine if the contamination was caused by Perenco. The independent environmental expert appointed by the tribunal expert has not released any findings, but concluded his visit to Blocks 7 and 21 on November 5, 2016.

#### *Murphy Ecuador Oil Company, Ltd.*

Murphy Ecuador Oil Company, Ltd. ("Murphy") has claimed that law 42-2006 modified its contracts for exploration and production of crude oil in Ecuador, resulting in an expropriation and a violation of the U.S.-Ecuador Bilateral Investment Treaty. Murphy filed its ICSID arbitral claim against Ecuador on September 30, 2011. In November 2013, the arbitral tribunal rejected Ecuador's objection to jurisdiction. Ecuador submitted its response to merits and jurisdiction to the arbitral tribunal on May 4, 2014. Hearings on the matter took place from November 17-21, 2014 in Washington, D.C. The post-hearing briefs were submitted by both parties on January 9, 2015. At the request of the arbitral tribunal, both parties submitted their briefs regarding costs on January 15, 2016. A partial final award against Ecuador was rendered on May 6, 2016, ordering the payment of U.S.\$19 million in damages and the arbitration cost of 5 million euros. The tribunal also held that the parties must submit their calculation of the fair market value of Murphy's property in Ecuador for the tribunal's consideration. On July 29, 2016, the parties in the case of Murphy Ecuador Oil Company, Ltd. presented their briefs on the fair market value of Murphy's property in Ecuador. The tribunal informed the parties that no additional briefs may be submitted and that it will issue its decision in September 2016. The tribunal has not yet 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 of Filanbanco S.A, Ecuador's largest bank at the time of its bankruptcy in 2001. Arguing before a U.S. federal court, Ecuador alleged that the defendants embezzled funds and forged financial statements thereby resulting in losses suffered by the *Agencia de Garantía de Depósitos* ("the Deposit Guarantee Agency" or "AGD"), in the amount of U.S.\$661.5 million. On May 30, 2013, the federal court judge granted summary judgment against Ecuador. On August 28, 2013, Ecuador filed for appeal in the U.S. Court of Appeals for the Third Circuit. On July 2, 2014, the Third Circuit ruled in favor of Ecuador, reversing the federal court's decision and finding the defendants liable for the losses of Filanbanco S.A. The defendants petitioned the Third Circuit for a hearing to review the July 2, 2014 decision, which the Third Circuit granted. On August 6, 2014, the defendants submitted their brief in support of their petition, which was denied by the Third Circuit court on September 16, 2014.

Upon remand, the federal court, in an October 15, 2015 decision, held that the ten-year statute of limitations on the action had expired. On November 12, 2015, Ecuador notified the federal court that they would appeal this decision. On November 16, 2015, the defendants filed a motion for costs and fees. On January 11, 2016, the federal court issued an order deferring the decision regarding costs and fees until after the appeal is decided. Ecuador presented its motion to appeal on March 11, 2016. The defendants presented their response to Ecuador's appeal on October 8, 2016. Ecuador was given until January 6, 2017 to file its brief in response.

### **Copper Mesa**

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

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

### **Zamora Gold**

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

### **RSM Production Corporation**

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

### **Merck Sharp & Dohme**

On February 2, 2011, Merck Sharp & Dohme ("Merck") filed a claim against Ecuador alleging denial of justice for not having provided judicial guarantees in a judgment initiated against Merck by the Ecuadorian company NIFA S.A. (currently PROPHAR, S.A.) in violation of the U.S.-Ecuador Bilateral Investment Treaty. The amount of the claim in the international tribunal has not yet been determined. On May 22, 2014, the international tribunal scheduled the hearing in London for March 16 and 20, 2015. The result of the hearing is pending.

On February 5, 2016, Merck filed a petition requesting that the arbitration tribunal set forth certain measures to protect Merck from an unjust final judgment in Ecuador. On May 7, 2016, the arbitration tribunal

accepted Merck's petition and ordered that Ecuador guarantee that a final judgment shall not be enforceable in Ecuador until the arbitration tribunal issues its final decision on the matter.

On August 4, 2016, the National Court of Justice ordered Merck to pay U.S.\$42 million with respect to the judgment initiated against Merck by NIFA S.A. The international tribunal subsequently ordered that the parties submit their briefs regarding the National Court of Justice's order by September 26, 2016 and make themselves available for a hearing in The Hague on October 3, 2016 or October 12, 2016. The parties were ordered to present their post-hearing briefs on November 16, 2016.

#### **Hutchison Port Investments Ltd**

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

#### **Arch Trading Corp.**

On June 26, 2013, Arch Trading Corp. and four other media companies filed a claim against the Republic of Ecuador and two other governmental entities for the alleged seizure of over 200 companies owned by the plaintiffs. The plaintiffs allege that they suffered damages exceeding U.S.\$1 billion dollars and request monetary damages plus interest and attorney's fees. Ecuador was served with notice on March 20, 2014. Ecuador filed a motion to vacate with the U.S District Court for the Southern District of New York on July 3, 2014. Hearings took place on July 31, 2014. On September 5, 2014, Ecuador filed a motion to vacate on the basis of jurisdictional objections, which was granted by the U.S. District Court on May 29, 2015. Arch Trading filed its motion to appeal on August 26, 2015 to which Ecuador presented its reply on September 23, 2015. On January 5, 2016, the Court of Appeals held a hearing regarding Arch Trading's motion to appeal. The result of the hearing is pending.

#### **Ecuador TLC, Cayman International, and Teikoku Oil**

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

#### **GMO Trust**

On December 12, 2014, GMO Trust issued proceedings against the Republic in respect of an alleged U.S.\$15,876,000 holding of the 2030 Bonds. GMO voluntarily withdrew its complaint pursuant to a settlement agreement between the parties. A stipulation dismissing the complaint was filed on March 16, 2015; under that stipulation, the case cannot be re-filed.

#### **Daniel Penades**

On January 30, 2015, Daniel Penades issued proceedings against the Republic in respect of an alleged U.S.\$455,000 holding of the 2030 Bonds in the United States District Court for the Southern District of New York. Ecuador was served with a notification of the claim on September 16, 2015. On January 15, 2016, Ecuador filed a motion to dismiss. On September 30, 2016, the United States District Court for the Southern District of New York granted Ecuador's January 15, 2016 motion to dismiss the Penades complaint and ordered the case closed. On October 27, 2016, Penades filed a notice of appeal with the Southern District of New York to the United States



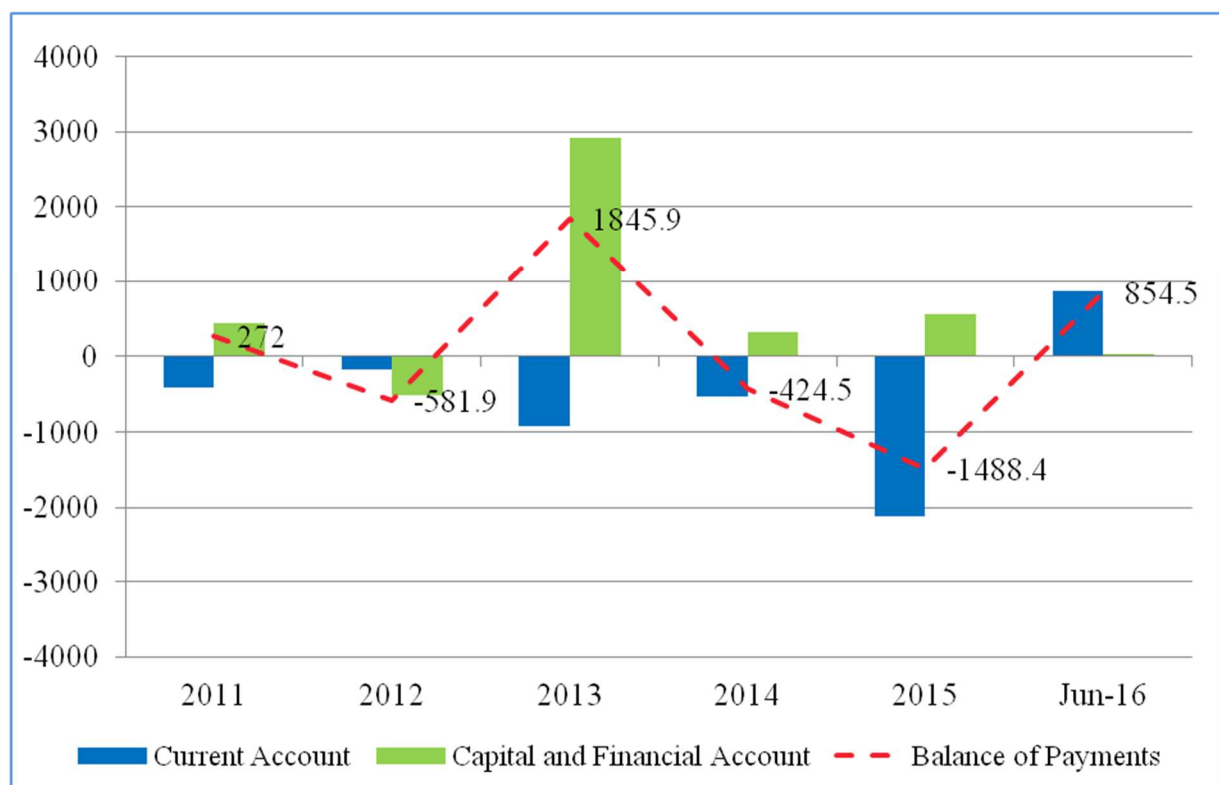
Court of Appeals for the Second Circuit. Thereafter, Penades duly filed the required standard forms to initiate the new appeal case.

On November 29, 2016 the United States Court of Appeals for the Second Circuit issued a notice stating that the appeal had been assigned to the Court's Expedited Appeals Calendar. The Court stated that Appellant's brief (Penades) is due no later than January 3, 2017, 35 days from the date of the notice. Appellee's brief (Ecuador) is due no later than February 7, 2017 or, 35 days from the date Appellant's brief is filed, whichever date is sooner. Absent extraordinary circumstances, the Court stated that it will not grant a motion to extend the time to file a brief.

## BALANCE OF PAYMENTS AND FOREIGN TRADE

### Balance of Payments

Given Ecuador's dollarized economy, the balance of payments is important in determining money supply. A positive balance of payments would increase money supply and a negative balance of payments would decrease money supply. Between 2011 and 2015, Ecuador experienced fluctuations between balance of payment deficits and surpluses. While there were surpluses in 2011 and 2013, there were deficits in 2012, 2014 and 2015. For the quarters ended in June of 2015 and 2016, there were also balance of payment surpluses.



Source: Based on Figures from the Central Bank Balance of Payments Quarterly Bulletin for the Second Quarter of 2016.

The increasing price of petroleum contributed to the U.S.\$272.0 million surplus in the balance of payments in 2011. In 2012, an increase in Government investment contributed to a deficit of U.S.\$581.9 million. In 2013, an improvement in the financial account that was the result of an increase in bilateral debt and corresponding loan disbursements contributed to a balance of payments surplus of U.S.\$1,845.9 million. However, the current account deficit of U.S.\$930.5 million registered in 2013 represents a decrease compared to the U.S.\$165.3 million current

account deficit registered in 2012. This deficit is the result of an increase in imports, particularly with respect to imported capital goods and raw materials.

In 2014, Ecuador had a balance of payment deficit of U.S.\$424.5 million as a result of a decrease in the capital and financial account. The capital and financial account decreased from U.S.\$2,921.7 million in 2013 to U.S.\$326.8 million in 2014 as a result of a decrease in investment for that year. However, the current account improved from a deficit of U.S.\$930.5 million in 2013 to a deficit of U.S.\$526.7 million in 2014. This improvement was due to the improvement in the trade balance from a deficit of U.S.\$528.6 million in 2013 to a deficit of U.S.\$63.5 million in 2014, which was due to an increase in non-petroleum exports in 2014, particularly banana and shrimp exports.

In 2015, Ecuador's balance of payment deficit grew to U.S.\$1,488.4 million as a result of a decrease in the current account. The current account decreased from a deficit of U.S.\$526.7 million in 2014 to a deficit of U.S.\$2,092.1 million in 2015. The expansion of the deficit in the current account was due to an increase in the deficit in the balance of trade from U.S.\$63.5 million in 2014 to a deficit of U.S.\$1,649.8 in 2015. The increase in the deficit was the result of a decline in the price of oil.

For the second quarter of 2016, there was a balance of payment surplus of U.S.\$854.5 million, a reduction of U.S.\$202 million compared to the U.S.\$1,064.7 million balance of payment surplus for the second quarter of 2015. Additionally, in the second quarter of 2016, the current account registered a surplus of U.S.\$865.2 million and the capital and financial account registered a surplus of U.S.\$34.3 million.

In the years from 2011 to 2015, the total balance of payments has heavily depended on petroleum exports. Although non-petroleum exports are increasingly becoming a larger portion of the Republic's GDP, there has been a non-petroleum trade balance deficit for the past from 2011 to 2015. Until the last quarter of 2014, increasing petroleum exports due to the increase in petroleum prices have offset this deficit and resulted in yearly trade balance surpluses or reduced deficits. The time period from 2011 to 2015 has also seen a decrease in remittances from U.S.\$2,672.4 million in 2011 to U.S.\$2,466.9 million in 2012 and U.S.\$2,449.5 million in 2013 to a slight increase to U.S.\$2,461.7 million in 2014 and a decrease to U.S.\$2,377.8 million in 2015. These decreases in remittances are currently continuing due to the recent weakening of the euro against the dollar and the ongoing economic recession in Spain, which represents a quarter of all remittances to Ecuador.

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

**Annual Balance of Payments**  
(in millions of U.S.\$)

	For the Year Ended December 31,				
	2011	2012	2013	2014	2015
<b>Current Account</b> .....	<b>-401.6</b>	<b>-168.4</b>	<b>-926.6</b>	<b>-525.6</b>	<b>-2,122.2</b>
<b>Trade balance</b> .....	<b>-302.6</b>	<b>49.9</b>	<b>-528.6</b>	<b>-63.5</b>	<b>-1,649.8</b>
Exports (FOB) <sup>(1)</sup> .....	23,082.3	24,568.9	25,586.8	26,596.5	19,048.7
Petroleum and derivatives .....	12,944.9	13,792.0	14,107.2	13,275.5	6,660.1
Non-petroleum .....	9,377.5	9,972.8	10,643.7	12,448.9	11,670.6
Non-registered commerce and other exports .....	759.9	804.1	835.9	872.1	718
Imports (FOB) .....	-23,384.9	-24,518.9	-26,115.3	-26,660.0	-20,698.5
<b>Services</b> .....	<b>-1,562.7</b>	<b>-1,394.3</b>	<b>-1,419.6</b>	<b>-1,170.7</b>	<b>-805.2</b>
Rendered services (credit) .....	1,587.5	1,804.0	2,041.4	2,346.3	2,391.3
Transportation .....	398.9	408.7	435.8	437.0	444.3
Travel .....	843.4	1,032.5	1,246.2	1,482.1	1,551.4
Other .....	345.2	362.8	359.4	427.1	395.7
Rendered services (debit) .....	-3,150.2	-3,198.4	-3,460.9	-3,517.0	-3,196.6
Transportation .....	-1,761.7	-1,708.4	-1,708.9	-1,743.9	-1,510.1
Travel .....	-593.7	-610.6	-622.5	-634.6	-638.6
Other .....	-794.9	-879.4	-1,129.5	-1,138.5	-1,047.8
<b>Investment income</b> .....	<b>-1,258.7</b>	<b>-1,304.3</b>	<b>-1,377.4</b>	<b>-1,556.6</b>	<b>-1,744.9</b>
Inflows (credit) .....	84.5	105.3	112.6	120.6	136.9
Outflows (debit) .....	-1,343.2	-1,409.5	-1,490.0	-1,676.2	-1,881.6
Employees' remuneration .....	-7.6	-8.4	-9.8	-11.4	-13.5
Direct investment income .....	-700.9	-677.4	-683.6	-666.2	-601.0
Portfolio investment income .....	-61.5	-64.0	-63.7	-143.2	-230.9
Other .....	-573.2	-659.7	-732.9	-855.4	-1,036.2
<b>Net transfers</b> .....	<b>2,722.4</b>	<b>2,480.2</b>	<b>2,398.8</b>	<b>2,264.1</b>	<b>2,077.8</b>
Emigrant remittances .....	2,672.4	2,466.9	2,449.5	2,461.7	2,377.8
<b>Capital and financial account</b> .....	<b>452.5</b>	<b>-510.9</b>	<b>2,917.9</b>	<b>325.8</b>	<b>598.5</b>
<b>Capital account</b> .....	<b>82.3</b>	<b>121.5</b>	<b>66.1</b>	<b>66.8</b>	<b>-69.1</b>
<b>Financial account</b> .....	<b>370.1</b>	<b>-632.4</b>	<b>2,851.7</b>	<b>259.0</b>	<b>667.7</b>
Direct Investment .....	643.7	567.0	726.5	771.7	1,321.4
Portfolio Investment .....	41.0	66.7	-909.8	1,500.4	1,473.4
Other Investment .....	-314.6	-1,266.1	3,035.1	-2,013.1	-2,127.1
<b>Errors and omissions</b> .....	<b>221.1</b>	<b>97.4</b>	<b>-145.3</b>	<b>-224.6</b>	<b>35.2</b>
<b>Total balance of payments</b> .....	<b>272.0</b>	<b>-581.9</b>	<b>1,845.9</b>	<b>-424.5</b>	<b>-1,488.4</b>
<b>Financing</b> .....	<b>-272.0</b>	<b>581.9</b>	<b>-1,845.9</b>	<b>424.5</b>	<b>1,488.4</b>
International Reserves <sup>(2)</sup> .....	-335.6	475.1	-1,878.0	411.5	1,453.1
IMF loans .....	-	-	-	-	-
Exceptional Financing, net <sup>(3)</sup> .....	63.6	106.8	32.1	13.0	35.3

Source: Based on figures from the Central Bank October 2016 Monthly Bulletin (Table 3.2.1.1).

- (1) Figures differ from "Exports-(FOB)" charts and "Real GDP by Expenditure" chart due to the inclusion of non-registered commerce and "other exports." "Non-registered commerce" includes goods, which for some reason are not registered by customs. Ecuadorian customs may not register commerce under various situations including, but not limited to, delays in the submission of export forms, false declarations, different statistical treatment in the country with which Ecuador has engaged in trade, sales of contraband, and arms trade. "Other exports" includes exports of goods for processing, repair of goods, goods acquired in ports through various transportation means and non-monetary gold.
- (2) Data corresponds to changes in International Reserves. Negative numbers indicate an increase in International Reserves and positive numbers indicate a reduction.
- (3) Data refers to the refinancing of existing debt, financing necessary for repayment of arrears, and loans procured for the purpose of financing the balance of payments.
- (4) Balance of payments data is published by the Central Bank on an annual and quarterly basis.

**Quarterly Balance of Payments<sup>(4)</sup>**  
(in millions of U.S.\$)

	For the Quarter Ended,			
	March 2015	June 2015	March 2016	June 2016
	<i>(in millions of U.S. dollars)</i>			
<b>Current Account</b> .....	<b>-898.8</b>	<b>-272.7</b>	<b>-65.8</b>	<b>865.2</b>
<b>Trade balance</b> .....	<b>-775.4</b>	<b>-192.5</b>	<b>20.3</b>	<b>842.7</b>
Exports (FOB) <sup>(2)</sup> .....	5,063.5	5,116.6	3,786.4	4,460.3
Imports (FOB) .....	-5,838.9	-5,309.2	-3766.0	-3,617.6
<b>Services</b> .....	<b>-246.3</b>	<b>-211.6</b>	<b>-151.6</b>	<b>-148.4</b>
Rendered services (credit) .....	625.4	561.3	565.4	491.0
Transportation .....	102.2	111.9	91.5	102.2
Travel .....	413.4	358.4	391.8	315.3
Other .....	109.8	91.0	82.0	73.5
Rendered services (debit) .....	-871.8	-772.9	-717.0	-639.4
Transportation .....	-420.7	-380.4	-297.8	-283.8
Travel .....	-156.9	-161.0	-162.1	-158.1
Other .....	-294.1	-231.4	-257.0	-197.5
<b>Investment income</b> .....	<b>-379.6</b>	<b>-416.4</b>	<b>-482.1</b>	<b>-473.8</b>
Inflows (credit) .....	32.4	35.2	37.1	36.1
Outflows (debit) .....	-412.0	-451.6	-519.2	-509.9
Employees' remuneration .....	-3.4	-3.5	-3.9	-3.9
Direct investment income.....	-408.6	-448.1	-515.3	-506.0
<b>Net transfers</b> .....	<b>502.6</b>	<b>547.8</b>	<b>547.6</b>	<b>644.8</b>
Emigrant remittances .....	530.4	595.4	594.7	669.5
Other transfers.....	71.2	63.8	65.5	101.3
Outgoing transfers .....	-99.1	-111.3	-112.8	-126.0
<b>Capital and financial account</b> .....	<b>700.0</b>	<b>1,252.2</b>	<b>-136.4</b>	<b>34.3</b>
<b>Capital account</b> .....	<b>18.3</b>	<b>15.9</b>	<b>-535.5</b>	<b>-314.3</b>
<b>Financial account</b> .....	<b>681.7</b>	<b>1,236.4</b>	<b>399.0</b>	<b>348.6</b>
Direct Investment .....	183.2	96.5	167.8	38.3
Portfolio Investment .....	611.2	936.7	-328.1	28.9
Other Investment .....	-112.8	203.2	559.4	281.4
<b>Errors and omissions</b> .....	<b>-93.9</b>	<b>85.2</b>	<b>111.5</b>	<b>-45.0</b>
<b>Total balance of payments</b> .....	<b>-292.7</b>	<b>1,064.7</b>	<b>-90.7</b>	<b>854.5</b>
<b>Financing</b> .....	<b>292.7</b>	<b>-1,064.7</b>	<b>90.7</b>	<b>-854.5</b>
International Reserves <sup>(3)</sup> .....	281.3	-1,071.5	-77.1	-860.7
IMF loans .....	-	-	-	-
Exceptional Financing, net <sup>(4)</sup> .....	11.4	6.7	167.9	6.2

Source: Based on figures from the Central Bank October 2016 Monthly Bulletin (Table 3.2.1.1).

- (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) Data reflects changes in International Reserves, where negative numbers indicate an increase in International Reserves and positive numbers indicate a decrease.
- (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.

## Current Account

Ecuador recorded a current account deficit of U.S.\$401.6 million in 2011. The 74.7% decrease in the deficit in 2011 from 2010 was due to the favorable performance of the balance of goods, particularly the increase in oil exports, which increased by 33.8%. In 2012, the oil exports continued to improve due to the increasing price of petroleum. Exports increased by 6.5% in 2012 and contributed to a reduced deficit of U.S.\$168.4 million, a 58.9% reduction compared to 2011.

In 2013, the current account registered a deficit of U.S.\$926.6 million (0.97% of GDP), which was partly due to the result of lower services and investment income balances and primarily a result of a decrease in the trade balance due to an increase of imports. The current account deficits were financed by external debt, including Chinese bilateral credits. In 2014, the current account improved and registered a deficit of U.S.\$525.6 million (0.51% of GDP), which was the result of an increase in non-petroleum exports. The current account for 2015 resulted in a deficit of U.S.\$2,122.2 million (2.12% of GDP) caused by the decrease in the price of petroleum exports. The current account for the second quarter of 2016 resulted in a surplus of U.S.\$865.2 million (1.79% of GDP) an improvement compared to the U.S.\$272.7 million (0.54% of GDP) deficit in the second quarter of 2015.

Although the levels of imports increased from 2011 to 2014, the rate of increase has declined over this four year period due to the Republic's promotion of domestic production. In 2011, imports increased by 19.1% compared to the previous year, while the rate of increase declined to 4.8% in 2012, increased slightly to 6.5% in 2013 and declined to 2.1% in 2014. In 2015, imports totaled U.S.\$20,698.5 million, compared to U.S.\$26,660 million for 2014 registering the first decrease in the levels of imports in the past five years. This decrease in the level of imports was due to budget adjustments that limited the amount of investment to be used in the purchase of imports.

The trade balance registered a surplus of U.S.\$49.9 million in 2012, an increase from a deficit of U.S.\$302.6 million in 2011. The surplus was due to the increase in petroleum exports coupled with the reduced rate of growth in imports as compared to the previous year. The trade balance registered a deficit of U.S.\$528.6 million in 2013 due to the increase in imports from the previous year. In 2014, the trade balance registered a deficit of U.S.\$63.5 million. Increased shrimp exports for the period contributed to this reduction in the deficit. In 2015, the trade balance registered a deficit of U.S.\$1,649.8 million, which was the result of lower revenues from petroleum exports as a result of the decline in the price of oil. The trade balance for the second quarter of 2016 resulted in a surplus of U.S.\$842.7 million, an improvement compared to the U.S.\$272.7 million deficit in second quarter of 2015.

The services balance registered a deficit of U.S.\$1,394.3 million in 2012, which was a decrease from the deficits of U.S.\$1,562.7 million in 2011. Although there has been a negative services balance from 2011 to 2015, general increases in travel and transportation services have contributed to a decrease in the deficit. The services balance registered a deficit of U.S.\$1,419.6 million in 2013, which is a U.S.\$25.3 million increase from 2012. This increase was the result of an increase in the amount of services that were contracted to work on domestic infrastructure projects. In 2014, the services balance registered a deficit of U.S.\$1,170.7 million. In 2015, the services balance improved to a deficit of U.S.\$805.4 million as a result of an improvement in the rendered services balance. The services balance for the second quarter of 2016 resulted in a deficit of U.S.\$148.4 million, an improvement compared to the U.S.\$192.5 million deficit in the second quarter of 2015.

The investment income balance registered a deficit of U.S.\$1,744.9 million in 2015, which was an increase from the deficits of U.S.\$1,555.6 million, U.S.\$1,377.4 million, U.S.\$1,304.3 million and U.S.\$1,258.7 million in 2014, 2013, 2012 and 2011, respectively. The increase in the investment income deficit is primarily due to the increased outflows as compared to the previous year and year-to-year fluctuations since 2011 generally reflect trends on returns and investment performance experience throughout the global economy. Further, the continued increases from 2011 to 2015 reflect an increase in interest payments related to the increase in bilateral debt and corresponding loan disbursements. For more information regarding the Republic's public debt, see "Public Debt–Debt Obligations." The investment income for the second quarter of 2016 resulted in a deficit of U.S.\$473.8 million, a decrease compared to the U.S.\$416.4 million deficit in the second quarter of 2015.

Remittances, which are primarily denominated in U.S dollars and Euros, are an important source of net transfers to Ecuador's current account. In 2011, remittances increased by 3.1%, but decreased by 7.7% and 0.7%, in 2012 and 2013, respectively. Remittances increased by 0.4% to U.S.\$2,461.7 million in 2014 and decreased by 3.4% to U.S.\$2,377.8 million in 2015. The year on year fluctuation in aggregate remittance levels reflect the economic situation of those countries from where the remittances are generated. In 2015, the majority of remittances came from the United States, Spain and Italy with 56.0%, 25.7% and 6.2%, respectively. The decrease in remittances for 2015 is primarily attributable to the economic situation in each of these countries as well as the depreciation of the euro relative to the dollar during this period. For the second quarter of 2016, remittances totaled U.S.\$669.5 million, an increase compared to the U.S.\$595.4 million total for the second quarter of 2015.

### **Capital and Financial Account**

The capital and financial account measures valuations in Ecuador's assets and liabilities against those of the rest of the world (other than valuations from exceptional financings). In 2011, the capital and financial account showed a surplus of U.S.\$452.5 million. This surplus is due to the increase in direct investment explained below. In 2012, the capital and financial account registered a deficit of U.S.\$510.9 million due to the net flows of other investments such as trade credits, currency, and deposits. In 2013, the capital and financial account registered a large surplus of U.S.\$2,917.9 million primarily due to the net proceeds from the 2024 Bonds. In 2015, the capital and financial account registered U.S.\$598.5 million, an increase from a surplus of U.S.\$325.8 million in 2014. This increase was the result of increased foreign investment in 2015. The capital and financial account for the second quarter of 2016 resulted in a surplus of U.S.\$34.3 million, a decrease compared to the U.S.\$1,252.2 million surplus in the second quarter of 2015.

Direct investment totaled U.S.\$643.7 million in 2011 and decreased to U.S.\$567.0 million in 2012. Although this represents a decrease from 2011 Ecuador experienced an increase in direct investment for 2013, where direct investment totaled U.S.\$726.5 million, which represents a 28.1% increase from 2012. This increase was due to continuing investment in Ecuador's infrastructure, in particular, its electricity and water sector. In 2014 and 2015, total direct investment continued to increase to U.S.\$771.7 million and U.S.\$1,321.4 million, respectively. These increases were principally due to an increase in investment in the mining sector. For the second quarter of 2016, direct investment totaled U.S.\$38.3 million, a decrease compared to the U.S.\$96.5 million total for the second quarter of 2015.

The investment portfolio showed a surplus of U.S.\$41.0 million and U.S.\$66.7 million for the years 2011 and 2012, respectively. In 2013, the investment portfolio showed a deficit of U.S.\$909.8 million. In 2014 and 2015, the investment portfolio registered a surplus of U.S.\$1,500.4 million and U.S.\$1,473.4 million, respectively. The investment portfolio for the second quarter of 2016 registered a surplus of U.S.\$28.9 million, a decrease compared to the U.S.\$96.5 million registered in the second quarter of 2015.

### **International Reserves**

Ecuador's International Reserves (defined herein), include, among other items, cash in foreign currency, gold reserves, reserves in international institutions, and deposits from Ecuador's financial institutions and non-financial public sector institutions. In 2011, 2012 and 2013, Ecuador's International Reserves totaled U.S.\$2,957.6 million, U.S.\$2,482.5 million and U.S.\$4,360.5 million, respectively. In 2015, Ecuador's International Reserves totaled U.S.\$2,496.0 million, a decrease from 2014, when International Reserves totaled U.S.\$3,949.1 million. This decrease was due to transfers to the Liquidity Fund for the purpose of strengthening the financial safety net.

As of October 31, 2016, Ecuador's International Reserves totaled U.S.\$4,274.6 million, an increase from October 31, 2015, when International Reserves totaled U.S.\$3,308.4 million. This increase was primarily due to foreign investment in the private sector.

On May 16, 2014, the Central Bank and Goldman Sachs International ("GSI") entered into a 3-year gold transaction in which the Central Bank transferred an initial amount of approximately 465,619 ounces of gold (valued at the date of the transaction at approximately U.S.\$604 million) and in return received a fixed rate on the value of the gold transferred to GSI. Under this transaction, upon maturity, the Central Bank is entitled to receive the return

of the gold from GSI without payment by the Central Bank, provided that certain credit events relating to the Republic do not occur. Upon the occurrence of any applicable credit event, GSI will retain the gold unless the Central Bank pays its dollar value. In the event the price of gold declines and is worth less than U.S.\$470 million, the Central Bank must deliver an additional amount of gold to make up the difference subject to a limit of a total of approximately 697,619 ounces of gold. Accordingly, the Republic's gold reserves could decrease in the event the price of gold declines or a credit event occurs. In certain limited circumstances some gold can be returned to Ecuador if the price increases above a certain threshold.

## Foreign Trade

### *Merchandise and Services Trade*

Ecuador has historically been an exporter of primary goods, and an importer of raw materials, capital, and intermediate goods, as well as manufactured products. The Republic's main exports are relatively limited in terms of sectors and export markets. Two of Ecuador's principal export markets, the United States and the European Union, have been significantly affected by the global recession that started in 2008-2009. From 2011 to 2015, the United States, the European Union and the Andean Community were the destinations for the majority of Ecuador's exports. Ecuador continues to seek to expand the types of goods it exports as well as its trading partners through engaging with, and obtaining funding from development banks and other strategic initiatives. Since 1972, petroleum and petroleum derivatives have comprised the majority of Ecuadorian export products. According to exports (FOB) data, in 2011, 2012, 2013, 2014 and 2015 exports of petroleum and petroleum derivatives accounted for approximately 58.0%, 58.0%, 57.0%, 51.6% and 36.3% of total exports, respectively. Between 2011 and 2014, non-petroleum exports, which include, among others, flowers, vehicles, manufactured textile products and seafood, increased an average of 10.0% per year, but decreased by 6.3% in 2015. Ecuador's total export trade has grown steadily during the period between 2011 and 2014, but decreased in 2015, due to a decrease in revenues from oil exports caused by the decrease in the price of oil in 2014 and 2015. According to exports (FOB) data, in 2015, total exports decreased to U.S.\$18,331 million, compared to U.S.\$25,724 million in 2014.

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

<b>Overall Balance of Trade <sup>(1)</sup></b>			
(in millions of U.S.\$)			
	<b>Exports</b>	<b>Imports</b>	<b>Balance</b>
Year Ended December 31, 2011 .....	23,082.3	-23,384.9	-302.6
Year Ended December 31, 2012 .....	24,568.9	-24,518.9	49.9
Year Ended December 31, 2013 .....	25,586.8	-26,115.3	-528.6
Year Ended December 31, 2014 .....	26,596.5	-26,660.0	-63.5
Year Ended December 31, 2015 .....	19,048.7	-20,698.5	-1,649.8
First Quarter of 2015 .....	5,063.5	-5,838.9	-775.4
Second Quarter of 2015 .....	5,116.6	-5,309.2	-192.5
First Quarter of 2016 .....	3,786.4	-3,766.0	20.3
Second Quarter of 2016 .....	4,460.3	-3,617.6	842.7

*Source: Based on Figures from the Central Bank Balance of Payments Quarterly Bulletin for the Second Quarter of 2016.*

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

### *Trade Policy*

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

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

In the early 1990s, the Government began to significantly liberalize its foreign trade policy. As a result of those reforms, the tariff structure was simplified and currently consists of a seven-tiered structure (0%, 3%, 5%,

10%, 15%, 20% and 35%), with levels of 5% for most raw materials and capital goods, 10% or 15% for intermediate goods, and 20% for most consumer goods. A small number of products, including planting seeds, are subject to a tariff rate of zero, and the 35% tariff is exclusively applied to the automobile industry. Average tariff levels were reduced from 29% in 1989 to 6% in 2004.

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

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

On December 12, 2014, representatives from Ecuador’s Ministry of Foreign Commerce signed a trade agreement with the European Union, which requires approval of each of the Constitutional Court, the National Assembly, the European Parliament, and the legislatures of the 28 EU member countries in order to be effective. The agreement is intended to provide expanded access to the European market for Ecuadorian exports and lower tariff duties on European imports into the Ecuadorian market. As part of the agreement, Ecuador will be a beneficiary of the European Union’s Generalized Scheme of Preferences Plus program until 2016 or until the trade agreement is in place. This benefit allows Ecuador to not pay tariffs on exports of Ecuadorian products into the European Union.

On January 25, 2015, EPCN and Peru’s Cementos Yura S.A. signed a U.S.\$230 million contract for the construction of a clinker production plant. The plant will be built in the city of Riobamba and will produce an estimated 2,400 tons of clinker per day. As part of the agreement, Cementos Yura S.A. will hold a 63.5% stake in EPCN. The Government has stated that the domestic production of clinker through this agreement will reduce imports of cement products into the Republic.

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

In January 2016, the Committee on Foreign Trade modified certain tariff surcharges set by the March 2015 resolution, from a 45% surcharge to a 40% surcharge. Additionally, on April 29, 2016, the Committee on Foreign Trade delayed the release of the tariff surcharges for an additional year.

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

On November 11, 2016, Ecuador signed a trade agreement with the European Union Council. 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. The



trade agreement requires the approval of each of the National Assembly, the European Parliament, and the legislatures of the 28 EU member countries in order to be effective.

## **Regional Integration**

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

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

## **Composition of Trade**

In 2011, export activity increased, with total exports reaching U.S.\$22,322 million, an increase of 28% over 2010 levels. As in 2010, increases in both oil and non-oil exports resulted in overall export growth. Growth was particularly evident in crude oil (32%), petroleum derivatives (59%), coffee (109%), cacao (35%) and shrimp (39%).

In 2012, exports continued to grow, although at a slower pace than in 2011. Exports increased 6% in 2012, reaching a total of U.S.\$ 23,765 million. Growth in this year was primarily the result of the increase in crude oil exports (8%), shrimp exports (8%) and tuna (and other fish) exports (26%).

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

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

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

In the first nine months of 2016, overall exports decreased to U.S.\$12,160 million, a decrease of 14.6% from U.S.\$14,243 million in the first nine months of 2015 primarily caused by a 32% decrease in crude oil exports.

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 Year Ended December 31,										January 1 - September 30,			
	2011		2012		2013		2014		2015		2015		2016	
	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%
Crude oil .....	11,800	52.9	12,711	53.5	13,412	54.2	13,016	50.6	6,355	34.7	5,241	36.8	3,545	29.2
Bananas and plantains .....	2,246	10.1	2,078	8.7	2,323	9.4	2,577	10.0	2,808	15.3	2,128	14.9	2,039	16.8
Petroleum derivatives .....	1,145	5.1	1,081	4.5	695	2.8	259	1.0	305	1.7	264	1.9	313	2.6
Shrimp .....	1,178	5.3	1,278	5.4	1,784	7.2	2,513	9.8	2,280	12.4	1,689	11.9	1,887	15.5
Cacao .....	474	2.1	345	1.5	423	1.7	576	2.2	693	3.8	463	3.3	389	3.2
Coffee .....	117	0.5	75	0.3	28	0.1	24	0.1	18	0.1	10	0.1	9	0.1
Tuna and other fish .....	257	1.2	324	1.4	265	1.1	281	1.1	231	1.3	187	1.3	178	1.5
Flowers .....	676	3.0	714	3.0	830	3.4	918	3.6	820	4.5	643	4.5	619	5.1
Metal Manufacturing .....	696	3.1	897	3.8	508	2.1	519	2.0	510	2.8	396	2.8	296	2.4
Other products <sup>(2)</sup> .....	3,733	16.7	4,262	17.9	4,483	18.1	5,041	19.6	4,311	23.5	3,222	22.6	2,885	23.7
<b>Total .....</b>	<b>22,322</b>	<b>100</b>	<b>23,765</b>	<b>100</b>	<b>24,751</b>	<b>100</b>	<b>25,724</b>	<b>100</b>	<b>18,331</b>	<b>100</b>	<b>14,243</b>	<b>100</b>	<b>12,160</b>	<b>100</b>

Source: Based on figures from the Central Bank October 2016 Monthly Bulletin (Table 3.1.1).

(1) Total export figures differ with export figures from "Balance of Payments" chart and "Real GDP by Expenditure" chart due to the exclusion of "non-registered commerce" and "other exports" figures in calculation of total exports in this chart. See footnote 1 of "Balance of Payment" chart.

(2) "Other products" consist of non-traditional primary and manufactured products, including canned seafood, vehicles and chemicals.

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

### Imports - (CIF)

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

	For the Year Ended December 31,										January - September 30			
	2011		2012		2013		2014		2015		2015		2016	
	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%
<b>Consumer goods</b>														
Non-durable goods .....	2,862	11.7	2,931	11.5	2,997	11.1	3,014	10.9	2,695	12.5	2,021	12.0	1,539	13.1
Durable goods .....	2,144	8.8	2,162	8.5	2,210	8.2	2,230	8.0	1,593	7.4	1,278	7.6	851	7.2
Postal traffic .....	152	0.6	173	0.7	240	0.9	208	0.8	131	0.6	94	0.6	95	0.8
Fuel and combustibles .....	5,369	22.0	5,612	22.0	6,110	22.6	6,617	23.9	4,171	19.4	3,312	19.7	1,880	16.0
<b>Primary Materials</b>														
Agriculture .....	1,011	4.1	1,059	4.2	1,124	4.2	1,351	4.9	1,199	5.6	919	5.5	789	6.7
Industrial .....	5,877	24.1	5,796	22.7	6,198	22.9	6,147	22.2	5,445	25.3	4,269	25.4	3,242	27.6
Construction materials .....	853	3.5	968	3.8	1,010	3.7	1,120	4.0	658	3.1	522	3.1	301	2.6
<b>Capital Goods</b>														
Agriculture .....	108	0.4	121	0.5	125	0.5	128	0.5	144	0.7	110	0.7	86	0.7
Industrial .....	4,209	17.2	4,642	18.2	5,077	18.8	4,898	17.7	3,948	18.3	3,004	17.9	2,192	18.7
Transportation Equipment .....	1,807	7.4	1,969	7.7	1,863	6.9	1,954	7.0	1,471	6.8	1,212	7.2	722	6.1
<b>Other .....</b>	<b>45</b>	<b>0.2</b>	<b>46</b>	<b>0.2</b>	<b>67</b>	<b>0.2</b>	<b>60</b>	<b>0.2</b>	<b>63</b>	<b>0.3</b>	<b>48</b>	<b>0.3</b>	<b>48</b>	<b>0.4</b>
<b>Total .....</b>	<b>24,438</b>	<b>100</b>	<b>25,477</b>	<b>100</b>	<b>27,021</b>	<b>100</b>	<b>27,726</b>	<b>100</b>	<b>21,518</b>	<b>100</b>	<b>16,791</b>	<b>100</b>	<b>11,745</b>	<b>100</b>

*Source: Based on figures from the Central Bank October 2016 Monthly Bulletin (Table 3.1.7).*

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

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

	For the Year Ended December 31,										January – September 30,			
	2011		2012		2013		2014		2015		2015		2016	
	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%
<b>Americas</b>														
United States .....	9,771	43.8	10,617	44.7	11,043	44.6	11,240	43.7	7,226	39.4	5,829	40.9	3,979	32.7
Peru .....	1,766	7.9	1,991	8.4	1,901	7.7	1,582	6.1	934	5.1	729	5.1	654	5.4
Colombia .....	1,026	4.6	1,056	4.4	912	3.7	951	3.7	784	4.3	603	4.2	586	4.8
Chile .....	1,106	5.0	1,991	8.4	2,457	9.9	2,328	9.0	1,138	6.2	923	6.5	787	6.5
Other (Americas) .....	4,058	18.2	2,981	12.5	2,126	8.6	2,951	11.5	1,689	9.2	1,191	8.4	1,287	9.0
Total Americas .....	17,726	79.4	18,636	78.4	18,439	74.5	19,052	74.1	11,771	64.2	9,275	65.1	7,293	60.0
<b>Europe</b>														
European Union (EU) .....	2,690	12.0	2,446	10.3	3,011	12.2	2,981	11.6	2,773	15.1	2,110	14.8	2,124	17.5
Italy .....	582	2.6	487	2.1	416	1.7	431	1.7	326	1.8	249	1.7	333	2.7
United Kingdom .....	139	0.6	164	0.7	170	0.7	176	0.7	166	0.9	132	0.9	105	0.9
Germany .....	493	2.2	377	1.6	411	1.7	526	2.0	549	3.0	417	2.9	408	3.4
Spain .....	468	2.1	442	1.9	777	3.1	525	2.0	484	2.6	387	2.7	412	3.4
Other (EU) .....	1,007	4.5	975	4.1	1,237	5.0	1,323	5.2	1,248	6.8	925	6.5	867	7.1
Rest of Europe .....	923	4.1	947	4.0	1,097	4.4	1,072	4.2	903	5.0	667	4.7	655	5.4
Total Europe .....	3,613	16.2	3,392	14.3	4,108	16.6	4,053	15.8	3,676	20.1	2,776	19.5	2,780	22.9
<b>Asia</b>														
Taiwan .....	11	0.0	6	0.0	8	0.0	7	0.0	6	0.0	5	0.0	5	0.0
Japan .....	349	1.6	657	2.8	572	2.3	326	1.3	331	1.8	283	2.0	215	1.8
China .....	192	0.9	392	1.6	564	2.3	485	1.9	723	3.9	565	4.0	461	3.8
South Korea .....	29	0.1	40	0.2	45	0.2	57	0.2	173	0.9	157	1.1	58	0.5
Other countries .....	304	1.4	483	2.0	864	3.5	1,558	6.1	1,475	8.0	1,047	7.4	1,245	10.2
Total Asia .....	885	4.0	1,578	6.6	2,053	8.3	2,433	9.5	2,708	14.8	2,056	14.4	1,985	16.3
<b>Africa</b> .....	65	0.3	110	0.5	99	0.4	122	0.5	105	0.6	82	0.6	53	0.4
<b>Oceania</b> .....	31	0.1	31	0.1	39	0.2	45	0.2	51	0.3	38	0.3	39	0.3
<b>Other countries</b> .....	3	0.0	17	0.1	13	0.1	19	0.1	20	0.1	16.1	0.1	10.5	0.1
<b>Total</b> .....	<b>22,322</b>	<b>100</b>	<b>23,765</b>	<b>100</b>	<b>24,751</b>	<b>100</b>	<b>25,724</b>	<b>100</b>	<b>18,331</b>	<b>100</b>	<b>14,243</b>	<b>100</b>	<b>12,160</b>	<b>100</b>

Source: 2011 and 2012 figures based on figures from the Central Bank December 2015 Monthly Bulletin (Table 3.1.4); 2013, 2014 and 2015 figures based on figures from the Central Bank October 2016 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.

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

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

	For the Year Ended December 31,					January – September 30,	
	2011	2012	2013	2014	2015	2015	2016
<b>Americas<sup>(1)</sup></b>							
Mexico.....	870	896	963	967	656	524	355
United States.....	6,120	6,802	7,755	8,751	5,806	4,324	3,032
<b>Central America</b>	89	94	107	104	96	77	70
<b>South America and the Caribbean</b>							
Argentina.....	544	480	415	501	235	186	132
Brazil .....	938	929	871	863	712	535	484
Bolivia .....	9	31	110	114	183	147	128
Colombia.....	2,221	2,198	2,288	2,201	1,766	1,366	996
Chile .....	619	628	628	583	551	415	350
Panama .....	-	1,601	1,765	1,442	1,022	911	573
Peru .....	1,142	1,130	1,118	1,024	789	605	502
Rest of Americas and Caribbean.....	3,598	1,091	676	678	520	390	267
<b>TOTAL AMERICA</b> .....	<b>16,150</b>	<b>15,880</b>	<b>16,697</b>	<b>17,227</b>	<b>12,335</b>	<b>9,482</b>	<b>6,888</b>
<b>Europe</b>							
Germany.....	568	592	578	578	497	385	295
Italy .....	284	284	292	326	344	251	205
Spain.....	325	613	738	618	430	337	265
UK.....	145	486	341	151	87	69	36
Rest of EU.....	996	939	961	1,315	1,126	887	577
Rest of Europe .....	295	361	301	302	313	200	253
<b>TOTAL EUROPE</b> .....	<b>2,614</b>	<b>3,275</b>	<b>3,210</b>	<b>3,288</b>	<b>2,796</b>	<b>2,129</b>	<b>1,630</b>
<b>Asia</b>							
China .....	2,290	2,829	3,476	3,613	3,266	2,518	1,811
Japan.....	661	732	599	574	478	390	197
Taiwan.....	195	193	205	213	182	150	93
South Korea.....	930	796	1,008	902	792	677	374
Rest of Asia .....	1,116	1,363	1,442	1,548	1,431	1,265	571
<b>TOTAL ASIA</b> .....	<b>5,191</b>	<b>5,913</b>	<b>6,731</b>	<b>6,851</b>	<b>6,148</b>	<b>5,000</b>	<b>3,045</b>
<b>Postal Traffic and regions excluding the Americas, Europe and Asia</b> .....	483	409	383	360	239	180	181
<b>Total</b> .....	<b>24,438</b>	<b>25,477</b>	<b>27,021</b>	<b>27,726</b>	<b>21,518</b>	<b>16,791</b>	<b>11,745</b>

Source: 2011 and 2012 figures based on figures from the Central Bank December 2015 Monthly Bulletin (Table 3.1.4); 2013, 2014 and 2015 figures based on figures from the Central Bank October 2106 Monthly Bulletin (Table 3.1.9).  
Canada included in Rest of Americas and Caribbean.

## Foreign Direct Investment

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

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

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

Direct foreign investment reached U.S.\$643.7 million, U.S.\$567.0 million, U.S.\$726.5 million, and U.S.\$771.7 million in 2011, 2012, 2013 and 2014, respectively. Direct foreign investment in 2015 reached U.S.\$1,321.4 million, which is the largest amount of direct foreign investment in the last five years. In 2015, the petroleum sector represented the largest percentage of direct foreign investment with 42% of all investment. Manufacturing and services rendered to businesses followed representing 20.0% and 18.4% of direct foreign investment, respectively. In the first six months of 2016, direct foreign investment reached U.S.\$206.1 million, a decrease compared to the U.S.\$279.7 million in the first six months of 2015.

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

**Foreign Investment by Sector**  
(in millions of U.S.\$, and as a % of total foreign investment)

	For the Year Ended December 31,										For January 1-June 30,			
	2011		2012		2013		2014		2015		2015		2016	
	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%
Agriculture, forestry, hunting and fishing .....	0.5	0.1	17.9	3.1	20.8	2.9	38.9	5.0	67.8	5.1	10.8	3.8	10.5	5.1
Commerce <sup>(1)</sup> .....	77.8	12.1	83.3	14.7	110.2	15.2	148.4	19.2	172.8	13.1	109.4	39.1	8.7	4.2
Construction .....	50.1	7.8	31.1	5.5	68.7	9.5	4.3	0.6	6.4	0.5	2.1	0.8	21.0	10.2
Electricity and water ....	-10.8	-1.7	46.4	8.2	29.2	4.0	-4.7	-0.6	61.8	4.7	9.7	3.5	1.1	0.5
Petroleum <sup>(2)</sup> .....	379.2	58.9	224.9	39.7	252.9	34.8	685.6	88.8	559.8	42.4	80.9	28.9	145.8	70.7
Manufacturing .....	121.9	18.9	135.6	23.9	137.9	19.0	107.7	14.0	264.1	20.0	83.0	29.7	10.3	5.0
Social and personal services .....	27.8	4.3	1.7	0.3	-2.3	-0.3	14.1	1.8	-10.8	-0.8	-5.7	-2.0	-6.7	-3.3
Services rendered to businesses .....	44.7	6.9	39.5	7.0	117.7	16.2	24.4	3.2	243.2	18.4	38.4	13.7	12.3	5.9
Transportation, storage and telecommunications .....	-47.4	-7.4	-13.4	-2.4	-8.5	-1.2	-247.0	-32.0	-43.6	-3.3	-49.0	-17.5	3.1	1.5
<b>Total .....</b>	<b>643.7</b>	<b>100</b>	<b>567.0</b>	<b>100</b>	<b>726.5</b>	<b>100</b>	<b>771.7</b>	<b>100</b>	<b>1,321.4</b>	<b>100</b>	<b>279.7</b>	<b>100</b>	<b>206.1</b>	<b>100</b>

Source: Based on Figures from the Central Bank Balance of Payments Quarterly Bulletin for the Second Quarter of 2016.

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

(2) Includes mining and natural gas.

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

## MONETARY SYSTEM

### The Central Bank

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

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

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

On January 16, 2013, the Central Bank named Diego Martínez as its new president. On August 12, 2015, after the Monetary and Financial Law abolished the position of president of the Central Bank, the Central Bank named Diego Martínez as its General Manager. According to the Monetary and Financial Law, the Committee of Monetary and Financial Policy Regulation is comprised of delegates from Ecuador's Ministry of Finance, the Ministry of Production and Industrialization, the National Secretary of Planning and Development, the Ministry of Economic Policy, and a delegate appointed by the President. The Superintendent of Banks and the General Manager of the Central Bank may attend committee meetings but have no right to vote. Under the supervision of this committee, the General Manager oversees operations of the Central Bank, which operates through the office of the Vice General Manager in Quito and two other branches in Cuenca and Guayaquil.

The Monetary and Financial Law also establishes the role and structure of public banks, including the Government-owned *Banco de Desarrollo del Ecuador B.P.* (the "Development Bank"), formerly denominated, *Banco del Estado*. Since 1979, the role of the Development Bank has been to finance Government investment and infrastructure projects through loans to municipalities and provinces and to grant loans to municipalities and provinces. As of September 30, 2016, the Development Bank made a total of U.S.\$257.9 million in disbursements to Ecuador's Autonomous Decentralized Governments.

The Republic is not currently under a structural agreement, such as a stand-by or similar agreement, with the IMF or similar international multilateral institutions. On September 25, 2015, the Executive Board of the IMF concluded its annual Article IV consultation with Ecuador. The consultation took place in Washington D.C. through discussions with officials, and via video and telephone conferences with individuals in the public and private sector in Ecuador. In its published report, the IMF noted the significant improvements in Ecuador's social and economic indicators over the past decade, but also noted that since the fourth quarter of 2014, the economy of Ecuador has been hit by external shocks, including the international decline in oil prices and real exchange rate appreciation. The IMF commended Ecuadorian authorities for adjustment efforts to contain the fiscal debt. The results of the consultation were announced in an October 21, 2015 press release by the IMF which is available on the IMF website.

On January 8, 2016, the Central Bank issued U.S.\$200 million in bonds governed by Ecuadorian law. The bonds were issued to several of Ecuador's municipalities as payment for value added tax amounts owed to the municipalities by the Government.

On November 24, 2016, the Monetary and Financial Policy and Regulation Board (*Junta de Política y Regulación Monetaria y Financiera*) issued Resolution No. 273-2016-F, which increases from 2% to 5% the reserves that financial institutions with more than U.S.\$1 billion in assets are required to hold at the Central Bank. This resolution is expected to reduce the liquidity of these financial institutions' Central Bank deposits by approximately U.S.\$750 million.

## **Financial Sector**

### **Supervision of the Financial System**

The financial sector consists of various financial institutions, insurance companies, and the securities markets, in accordance with the Monetary and Financial Law. In accordance with the Monetary and Financial Law, the Committee of Monetary and Financial Policy Regulation regulates (1) all private sector financial institutions including banks and credit card issuers, (2) public sector and private financial institutions, with respect to their solvency, liquidation, financial prudence and other administrative matters, (3) insurance and re-insurance companies, and (4) the securities markets. In addition, the Committee of Monetary and Financial Policy Regulation provides general oversight and regulation for the financial system, including the Central Bank, the Superintendent of Banks, the COSEDE (defined herein), the Liquidity Fund, and private banks.

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

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

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

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

- the oversight and monitoring of the liquidity requirements of Ecuador's financial system, with the objective of ensuring that liquidity remains above certain levels (to be determined by the Committee of Monetary and Financial Policy Regulation);



- the auditing and supervision of the Central Bank and Superintendent of Banks;
- the establishment of regulations for the Republic's electronic payment system; and
- the oversight of borrowing requirements for private loans.

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

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

- Programs for regulatory on-site audits and periodic reporting requirements. These are published in national newspapers, with the intention to ensure that banks comply with regulatory standards;
- Uniform accounting risks for the financial system;
- Liquidity risk, which derives from the incapacity of financial institutions to cover their liabilities and other obligations when due, in both local and foreign currency;
- Evaluation of market risk based on interest rate risk, which refers to the potential losses of net income or in the capital base, due to the incapacity of the institution to adjust the return on its productive assets (loan portfolio and financial investment) with the fluctuations in the cost of its resources produced by changes in interest rates; and
- Evaluation of credit risk based on a detailed method for classifying financial assets in terms of risk.

This method increased the amounts which financial institutions are required to reserve in order to mitigate potential losses arising from their loans ("Loan-loss Reserve"). With respect to Loan-loss Reserve, current regulations impose reserve requirements based on risk categories and type of financial assets. These requirements have been introduced to bring them in line with international standards, and to increase the average quality of the financial system's loan portfolio. As of September 30, 2016, the majority of banks in Ecuador are in compliance with Basel II, and all banks are expected to be in compliance within two years. Compliance with Basel II is mandatory for all banks by 2017.

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

**Risk Categories and Required Loan-loss Reserve<sup>(1)</sup>**  
(in number of days past due, except for percentages)

Category <sup>(2)</sup>	Commercial <sup>(3)</sup>	Consumer	Mortgage	Small Business <sup>(4)</sup>	Loan-loss Reserve
A	0-30	0-15	0-60	0-15	1%-5%
B	31-90	16-45	61-180	16-45	6%-19%
C	91-180	46-90	181-270	46-90	20%-59%
D	181-360	91-120	271-450	91-120	60%-99%
E	>360	>120	>450	>120	100%

Source: Superintendent of Banks as of November 2016.

- (1) Circular SB-IG-2016-0066-C of the Superintendent of Banks provides for a transitional period before these new risk categories must be reflected in financial statements on June 30, 2016.
- (2) Ecuador subdivides Categories A, B, and C into sub-categories. However, categories in chart are simplified for ease of presentation.
- (3) For commercial loans, in addition to the number of days due, three factors are considered for classification among risk categories: (a) debtor payment capacity and financial situation; (b) experience of payment (risk information from the system, debtor's credit history); and (c) risk of the economic environment.
- (4) Classified, with respect to (a) retail microcredit, as loans up to U.S.\$1,000, (b) microcredit simple accumulation, as loans from U.S.\$ 1,000 to U.S.\$10,000, and (c) microcredit extended accumulation, as loans in excess of U.S.\$10,000. Persons with annual sales equal to or less than U.S.\$100,000, or groups of lenders guaranteeing or financing small scale production or commercialization are eligible for microcredit loans.

The following table sets forth information regarding loans of the banking system by risk category as of August 31, 2016.

**Classification of Aggregate Assets of the Ecuadorian Private Financial System <sup>(1)</sup>**  
(as a % of total loans)

As of August 31, 2016				
Category	Commercial loans	Consumer loans	Mortgage loans	Small business
A	75.89	90.85	96.34	92.42
B	18.84	2.69	2.12	2.18
C	4.48	1.92	0.53	1.73
D	0.36	1.00	0.62	0.73
E	0.44	3.54	0.39	2.95
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: Superintendent of Banks as of November 2016.

(1) Banks must hold 60% of deposits in Ecuador.

### **The Financial Safety Net**

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

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

#### ***Lender of Last Resort***

In accordance with the Financial Safety Net Law, which was designed to strengthen the Liquidity Fund, the Liquidity Fund acts as the lender of last resort for private financial institutions. As of October 31, 2016 the Liquidity Fund consisted of approximately U.S.\$2,350 million, an increase compared to October 31, 2015, when the Liquidity Fund consisted of U.S.\$2,271 million. This increase is due to growth in deposits. The Liquidity Fund is overseen by the Superintendent of the Banks and administered by the Central Bank. The assets of the Liquidity Fund are subject to sovereign immunity and cannot be subject to attachment of any kind.

#### ***Banking Resolution System***

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

#### ***Deposit Insurance***

The third tier of the Financial Safety Law consists of the *Corporación de Seguro de Depósitos* ("Deposit Insurance Corporation" or "COSEDE"). The COSEDE is the successor to the *Agencia de Garantía de Depósitos* ("Deposit Guarantee Agency" or "AGD"), which was previously responsible for insuring the accounts of depositors in Ecuador's banking systems. In December 1998, the AGD was created as a response to the banking crisis by the *Ley de Reordenamiento en Materia Económica en el Área Tributario-Financiera* ("Law Reorganizing Economic Matters in the Tax and Finance Areas"). The AGD had a dual role: to oversee the amounts the Republic deposited with the Central Bank in order to protect depositors, and to help restructure banks in liquidation.

In December 2009, the AGD closed. The net assets of the AGD were then temporarily transferred to the Ministry of Finance and to COSEDE and thereafter transferred to the *Corporación Financiera Nacional* (“CFN”), a separate Government institution. COSEDE had assets of U.S.\$453 million, U.S.\$622 million, U.S.\$796 million, and U.S.\$1,009 million as of December 31, 2011, December 31, 2012, and December 31, 2013, and December 31, 2014, respectively. As of December 31, 2015, COSEDE had assets of U.S.\$1,236 million. As of October 31, 2016, COSEDE had assets of U.S.\$1,392 million, an increase from U.S.\$192 million as of October 31, 2015.

In accordance with the Financial Safety Net Law, and Resolution JB-2009-1280, COSEDE administers the private financial institutions insurance deposit system, which does not include any public banking institution. COSEDE insures deposits of up to U.S.\$32,000 per account, whereas the AGD could only guarantee up to U.S.\$12,000 per account. Pursuant to the Financial Safety Net Law, banks are required to contribute to COSEDE an amount determined annually in accordance with the total amount of deposits held. Under the Monetary and Financial Law, deposits in the COSEDE are subject to sovereign immunity and cannot be subject to attachment of any kind.

### ***Superintendent of Banks***

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

### **The Financial System**

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

**Number of Financial Institutions**

	As of December 31,					As of September 30, 2016 <sup>(2)</sup>	
	2011	2012	2013	2014	2015	2015	2016
Banks	26	26	26	24	22	22	22
National banks .....	25	25	25	23	21	21	21
Private .....	24	24	24	22	20	20	20
Government-owned banks.....	1	1	1	1	1	1	1
Foreign banks .....	1	1	1	1	1	1	1
Other financial entities .....	58	57	57	54	41	41	37
Savings and loans associations <sup>(1)</sup> .....	40	39	39	37	24	24	25
Small lending institutions .....	4	4	4	4	4	4	4
Financial institutions .....	10	10	10	9	10	10	5
Public banks .....	4	4	4	4	3	3	3
Insurance companies	45	44	44	40	39	n/a	n/a
Insurance companies .....	43	42	42	38	37	n/a	n/a
Reinsurance companies .....	2	2	2	2	2	n/a	n/a
Credit-card issuing entities	2	2	2	2	1	1	1
<b>Total.....</b>	<b>131</b>	<b>129</b>	<b>129</b>	<b>120</b>	<b>103</b>	<b>64</b>	<b>60</b>

Source: Superintendent of Banks as of November 2016.

- (1) Savings and Loans Associations include the *Cooperativas de Ahorro y Credito de Primer Piso, del Segmento 1*. On February 13, 2015, the Committee of Monetary and Financial Policy passed Resolution 038-2015-F, which set out parameters for the division of savings and loans associations into five categories, setting the minimum threshold for inclusion in Category 1 at entities with assets above U.S.\$80 million. This threshold will be reviewed by the Committee of Monetary and Financial Policy Regulation on an annual basis.
- (2) Information with respect to Insurance Companies is not available for September 30, 2015 and September 30, 2016 and is not included in the total number of financial institutions as of such dates.



## Banking System

### Overview

As of December 31, 2015, the Ecuadorian banking system had a total of 22 banking institutions, of which one was a foreign-owned bank and one was a state-owned bank. The decrease in the total amount of financial institutions from 120 in 2014 to 103 in 2015 in the above chart reflects a decrease in the number of savings and loans associations included in Category 1, which are entities with assets above U.S.\$80 million. Total assets of the banking system increased from U.S.\$23.9 billion in 2011 to U.S.\$33.6 billion in 2014. As of December 31, 2015, total assets for the banking system totaled U.S.\$30.9 billion, a decrease of 8% since December 31, 2014. This decrease in total assets is due to the decrease in deposits in 2015. Total assets of the banking system increased from U.S.\$30.9 billion as of October 31, 2015 to U.S.\$34.0 billion as of October 31, 2016, an increase of 10%. This increase was principally due to the increase of reserves in the Central Bank and growth in liquidity throughout 2016.

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

### Banking System

	As of December 31,					As of October 31,	
	2011	2012	2013	2014	2015	2015	2016
Total assets (in billions of U.S. dollars) .....	23.9	27.9	30.7	33.6	30.9	30.9	34.0
Non-performing loans <sup>(1)</sup> (as % of total loans).....	0.99%	1.24%	1.18%	1.33%	1.45%	1.82%	1.45%

Source: Superintendent of Banks as of October 2016.

(1) Non-performing loans are classified by economic sector. Commercial non-performing loans are classified as loans 31 days overdue, consumer non-performing loans are classified as loans 16 days overdue, real estate non-performing loans are classified as loans 61 days overdue, and microcredit non-performing loans are classified as loans 16 days overdue.

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

### Private Bank Deposits

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

	Demand Deposits	Time Deposits	Total Time and Demand Deposits <sup>(1)</sup>	Annual growth rate of Time and Demand Deposits
December 31, 2011.....	13,360	5,198	18,558	14%
December 31, 2012.....	15,992	5,921	21,913	18%
December 31, 2013.....	17,619	6,631	24,251	11%
December 31, 2014.....	19,014	7,861	26,875	11%
December 31, 2015.....	15,889	7,402	23,291	-13%
October 31, 2015 .....	15,760	7,532	23,293	-9%
October 31, 2016.....	17,341	8,599	25,940	11%

Source: Superintendent of Banks as of October 2016.

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

Banking deposits, primarily composed of demand deposits and time deposits, constitute the principal source of financing for the banking system. From December 31, 2011 through December 31, 2014, total time and demand deposits increased 44.8%, from U.S.\$18,557.9 million to U.S.\$26,874.5 million. As of December 31, 2015, time and demand deposits totaled U.S.\$23,291.1 million, a decrease of 13% since December 31, 2014. This decrease is due to the decrease in economic activity during this period. The majority of funding for the Ecuadorian banking system is comprised of demand deposits, which increased 42.3% from U.S.\$13,360 million in 2011 to U.S.\$19,013.5 million in 2014. As of December 31, 2015, demand deposits totaled U.S.\$15,888.9 million, a decrease of 16.4% since December 31, 2014. Time deposits increased 51.2% from U.S.\$5,198 million in 2011 to U.S.\$7,861 million in 2014. As of December 31, 2015, time deposits totaled U.S.\$7,402.2 million, a decrease of 5.8% since December 31, 2014. As of October 31, 2016, total time and demand deposits increased to U.S.\$27.1

million, an increase of 11.4% compared to October 31, 2015. This increase was due to the recovery of oil prices and foreign investment which have increased liquidity and resulted in an increase in savings deposits and cash deposits.

Foreign banks and financial institutions are also a source of liquidity in the Ecuadorian banking system. As of December 31, 2015 the balance of foreign liabilities in the banking sector amounted to approximately U.S.\$433.79 million, which is an increase from the balance of foreign liabilities in December 31, 2014, which was U.S.\$557.52 million. As of September 30, 2016 the balance of foreign liabilities in the banking sector amounted to approximately U.S.\$479.47 million, which is an increase from the balance of foreign liabilities in September 30, 2015, which was U.S.\$418.39 million.

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

**Classification of the Main Financing Accounts with Respect to Liabilities**  
(as % of total liabilities)

	Demand deposits	Time deposits	Foreign financing
December 31, 2011 .....	62	24	3
December 31, 2012 .....	63	24	2
December 31, 2013 .....	63	22	2
December 31, 2014 .....	62	26	2
December 31, 2015 .....	58	37	5
September 30, 2015 .....	57	27	4
September 30, 2016 .....	57	28	5

*Source: Superintendent of Banks as of October 2016.*

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

**Allocation of the Principal Asset Accounts with Respect to Total Assets of the Banking System**  
(as a % of total assets)

	Portfolio of current loans	Investments
December 31, 2011 .....	53.9	13.0
December 31, 2012 .....	52.8	11.5
December 31, 2013 .....	52.6	12.7
December 31, 2014 .....	54.7	14.0
December 31, 2015 .....	56.7	14.4
September 30, 2015 .....	58.7	10.7
September 30, 2016 .....	53.0	16.7

*Source: Superintendent of Banks as of October 2016.*

As of December 31, 2015, the banking system represented 92.6 % of the total assets of the private financial system. The banking system, for the year ended December 31, 2015, made a profit of U.S.\$271 million, which according to data from the Superintendent of Banks represented 0.27% of Ecuador's nominal GDP and a decrease compared to U.S.\$334 million as of December 31, 2014. The banking system weakened between 2014 and 2015, and its assets contracted by 8% due to a 13% decrease in time and demand deposits.

As of September 30, 2016, the banking system represented 93.7 % of the total assets of the private financial system. The banking system, for the 9 month period ended September 30, 2016, made a profit of U.S.\$152.1 million, which according to data from the Superintendent of Banks represented a decrease compared to U.S.\$229.6 million as of September 30, 2015. The banking system became stronger between October 31, 2015 and 2016, and its assets increased by 10% due to the increase of reserves in the Central Bank and growth in liquidity throughout 2016 resulting from the recovery in oil prices and foreign investment.

Ecuador's banks use their resources primarily to extend loans. Between 2011 and 2015, the Ecuadorian banking system's total loan portfolio increased by U.S.\$37.26 billion (37.26% and 257.19% as a percentage of capital requirement) and past due loans increased by U.S.\$381.07 million (124.44% and 19.23% as a percentage of capital requirement). Regulations require that banks have a legal lending limit equal to 10% of their net worth for uncollateralized loans and up to 20% of their net worth if the excess over the first 10% is 140% collateralized.

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

### Loans to the Private Sector and Private Bank Deposits

(in millions of U.S.\$)

As of October 31, 2016

Loans		Deposits	
Commercial, Productive and Consumer Loans ...	15,528	Demand Deposits.....	17,340
Microenterprise Loans.....	1,441	Time Deposits.....	8,599
Education Loans.....	428	Guarantee Deposits.....	1
Real Estate and Public Housing Loans.....	1,956	Others.....	1,193
<b>Total.....</b>	<b>19,354</b>	<b>Total .....</b>	<b>27,134</b>

Source: Superintendent of Banks as of October 2016.

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, 2011 .....	13,371	306	13,677	97.8%	2.2%
December 31, 2012 .....	15,332	442	15,774	97.2%	2.8%
December 31, 2013 .....	16,810	448	17,258	97.4%	2.6%
December 31, 2014 .....	19,087	565	19,652	97.1%	2.9%
December 31, 2015 .....	18,086	687	18,773	96.3%	3.7%
September 30, 2015 .....	18,714	784	19,498	96.0%	4.0%
September 30, 2016 .....	18,312	773	19,085	95.9%	4.1%

Source: Superintendent of Banks as of October 2016.

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

The delinquency rate increased to 2.8% in 2012 from 2.2% in 2011 as a result of an increase in consumer past-due loans which increased from U.S.\$175 million in 2011 to U.S.\$293 million in 2012. However the rate decreased to 2.6% in 2013 due to reduction in past-due loans of the commercial sector, which decreased to U.S.\$284 million. In 2014, the delinquency rate increased to 2.9%, as a result of the increase in delinquency rates in consumer credits from 4.7% to 5.5%. In 2015, the delinquency rate increased to 3.7% due to the increase in delinquency rates in commercial credits from 12.7% to 14.3% as well as the decrease in the total loan portfolio. As of October 31, 2015, the delinquency rate for loans from the private banking sector reached 4.2% as a result of the contraction in liquidity that resulted from the reduced price of petroleum and appreciation of the dollar. As of October 31, 2016, the delinquency rate increased to 4.3% despite increased liquidity because the increased liquidity has not yet resulted in a corresponding growth in the loan portfolio and accordingly has not yet led to a growth in non-delinquent loans which growth would decrease the overall delinquency rate.

As of September 30, 2016, 14.7% of all current loans were commercial, 61.5% were consumer, 10.3% were housing, 8.4% were microcredit and 2.6% were education related.

As of September 30, 2016, banking deposits, including guarantee deposits and restricted deposits, totaled U.S.\$26,877 million, an increase from the U.S.\$24,538 million as of September 30, 2015. However, total current loans to the private sector from the private banking sector decreased from U.S.\$18,714 million as of September 30, 2015 to U.S.\$18,312 million as of September 30, 2016.

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

**Past due loans by sector of the economy**  
(in millions of U.S.\$, and as a percentage of past due loans)

	As of December 31,										As of September 30,			
	2011		2012		2013		2014		2015		2015		2016	
	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%
Commercial .....	68	22.3	62	14.0	65	14.5	72	12.7	98	14.3	113	14.4	114	14.7
Consumer .....	175	57.2	293	66.3	284	63.4	383	68.0	438	63.7	501	63.9	476	61.5
Real estate .....	23	7.5	25	5.7	27	6.0	31	5.3	39	5.6	40	5.1	65	8.4
Microcredit .....	39	12.9	62	14.0	72	16.1	79	13.8	90	13.1	100	12.7	99	12.8
Education <sup>(1)</sup> .....	-	-	-	-	-	-	-	-	22	3.2	31	3.9	20	2.6
<b>Total</b>	<b>306</b>	<b>100</b>	<b>442</b>	<b>100</b>	<b>448</b>	<b>100</b>	<b>565</b>	<b>100</b>	<b>687</b>	<b>100</b>	<b>784</b>	<b>100</b>	<b>773</b>	<b>100</b>

Source: Superintendent of Banks as of October 2016.

(1) Productive loans are included with consumer loans for September 30, 2016.

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

## Banking Sector

The first, second and third largest banks in Ecuador are Banco del Pichincha, Banco del Pacífico and Banco de Guayaquil in that order. As of December 31, 2015, the three banks accounted for about 57.69% of the reported combined income and 54.36% of Ecuador's banking assets. Return on equity for these three banks averaged 8.66% for 2015, a decrease of 3.26% compared to 2014, while net profit decreased from U.S.\$179 million in 2014 to U.S.\$142 million in 2015.

Banco del Pacífico is 100% owned by the Republic, having been taken over from private shareholders during the banking crisis in 1999 and its shares transferred to the Central Bank. During 2010 and 2011 there had been discussions relating to the re-privatization of Banco del Pacífico, however, these plans were abandoned in 2011 when ownership was transferred from the Central Bank to CFN. As of December 31, 2015, Banco del Pacífico had approximately U.S.\$4.294 million in assets. Its profits increased in 2015 when compared to 2014 from U.S.\$48.1 million in 2014 to U.S.\$50.86 million in 2015. As of September 30, 2016, Banco del Pacífico had approximately U.S.\$5.025 million in assets. Its profits increased as of September 30, 2016 when compared to U.S.\$40.58 million as of September 30, 2015.

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



As of September 30, 2016, approximately 3.59% of the profits in the banking sector came from Citibank N.A. Ecuador Branch, which is the only foreign bank operating in Ecuador.

In March 2013, Banco Territorial S.A, one of the oldest banks in Ecuador with assets of U.S.\$135 million, entered a liquidation process one week after its operations were suspended. Banco Territorial primarily provided services to small and medium companies in Guayaquil and had approximately 79,000 depositors, with total deposits of approximately U.S.\$122 million, or less than 1% of the total deposits in the private banking sector in Ecuador. As of December 31, 2015, COSEDE paid U.S.\$54.4 million to depositors, which represented the total amount owed to depositors.

In August 2014, the Superintendent of Banks formally announced that Banco Sudamericano S.A. will undergo a forced liquidation process due to a failure to meet adequate solvency and liquidity requirements. As of the date of this Offering Circular, the Superintendent of Banks, along with COSEDE, have not announced a formal restructuring plan for the bank's assets. Banco Sudamericano S.A. owned 0.55% of the total assets in the Ecuadorian banking system. As of December 31, 2015, COSEDE paid U.S.\$1.77 million to depositors and a formal liquidator was appointed.

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

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

### **Cooperative Banks**

In 2008, the Correa administration created the *Programa de Finanzas Populares* (“Program for Public Finance”) to expand lending to smaller financial cooperatives, in order that they could increase lending to small businesses. These cooperatives extend micro-loans to individuals and businesses that could otherwise not attain a loan at commercial banks. In January 2008, co-operative loans were at 11.1% of total non-publicly owned bank lending. As of December 31, 2015, the percentage had increased to 17.2%, or U.S.\$4,301 million.

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

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

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

## Capital Markets

Retail trading of debt and equity securities of private Ecuadorian issuers has remained relatively limited in the five years ending in 2015. Most of the trading on Ecuador's capital markets involves the purchase and sale of bank securities and fixed income Government securities. In the last five years, Ecuador has experienced an increase in the issuance of corporate bonds. They have become an important financing alternative for companies and issuers that want longer terms than those available through bank loans. The Ecuadorian capital markets consist of the Quito Stock Exchange and the Guayaquil Stock Exchange (the "Ecuadorian Stock Exchanges"), both opened in 1969. As of December 31, 2015, the Ecuadorian Stock Exchanges combined listed the securities of approximately 425 issuers. Issuers that subscribe to one exchange automatically become listed on the other exchange.

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

As of December 31, 2015, U.S.\$1,147.5 million worth of securities were traded in the secondary market, representing 23% of the Ecuadorian securities market. Repo trading represented 1.4% of the total market. As of October 31, 2016, U.S.\$1,112.2 million worth of securities were traded in the secondary market, representing 15% of the Ecuadorian securities market. Repo trading represented 0.2% of the total market. The following table shows aggregate amounts of traded securities for the periods listed..

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

	For the Year Ended December 31,					For the 10 Months Ended October 31,	
	2011	2012	2013	2014	2015	2015	2016
Repos .....	42.2	54.1	168.1	203.3	68.9	68.2	14.0
Other <sup>(1)</sup> .....	3,718.7	3,695.6	3,554.2	7,340.8	5,053.3	3,869.7	7,165.3
<b>Total</b> .....	<b>3,760.9</b>	<b>3,749.7</b>	<b>3,722.3</b>	<b>7,544.1</b>	<b>5,122.2</b>	<b>3,937.9</b>	<b>7,179.3</b>

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

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

In 2015, U.S.\$5,053.3 million worth of securities were traded on the Ecuadorian Stock Exchanges, representing a decrease compared to the U.S.\$7,544.1 million of the securities traded in 2014. This decrease is due to a decrease in investment by BIESS. In the first 10 months of 2016 U.S.\$7,179.3 million worth of securities were traded on the Ecuadorian Stock Exchanges, representing an increase compared to the U.S.\$3,937.9 million of the securities traded in the first 10 months of 2015. This increase is due to a higher level of public sector securities issues.

## Interest Rates and Money Supply

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

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

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

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

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

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

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

**Interest Rates**  
(in percentages)

	As of December 31,					As of November 30,	
	2011 <sup>(10)</sup>	2012 <sup>(11)</sup>	2013 <sup>(12)</sup>	2014 <sup>(12)</sup>	2015	2015	2016
Deposit interest rate.....	4.5	4.5	4.5	5.2	5.1	5.1	5.5
Lending interest rate.....	8.2	8.2	8.2	8.2	9.1	9.2	8.4
Corporate productive lending interest rate <sup>(1)</sup> .....	8.2	8.2	8.2	8.2	9.2	8.0	8.8
Maximum corporate productive interest rate .....	9.3	9.3	9.3	9.3	9.3	9.3	9.3
Business productive lending interest rate <sup>(2)</sup> .....	9.5	9.5	9.5	9.6	9.8	9.6	10.2
Maximum business productive interest rate .....	10.2	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	11.2	11.2	11.2	10.3	10.6	11.0
Maximum medium and small business productive interest rate .....	11.8	11.8	11.8	11.8	11.8	11.8	11.8
Ordinary commercial lending interest rate <sup>(4)</sup> .....	n/a	n/a	n/a	n/a	9.0	8.4	9.3
Maximum commercial interest rate .....	n/a	n/a	n/a	n/a	11.8	11.8	11.8
Corporate commercial priority lending interest rate <sup>(1)</sup> .....	n/a	n/a	n/a	n/a	9.1	9.2	8.4
Maximum corporate commercial interest rate.....	n/a	n/a	n/a	n/a	9.3	9.3	9.3
Business commercial priority lending interest rate <sup>(2)</sup> .....	n/a	n/a	n/a	n/a	9.9	9.9	10.0
Maximum business commercial interest rate .....	n/a	n/a	n/a	n/a	10.2	10.2	10.2
Medium and small business commercial priority lending interest rate <sup>(3)</sup> ....	n/a	n/a	n/a	n/a	11.1	10.9	11.4
Maximum medium and small business commercial interest rate .....	n/a	n/a	n/a	n/a	11.8	11.8	11.8
Consumer lending interest rate <sup>(5)</sup> .....	15.9	15.9	15.9	16.0	n/a	n/a	n/a
Maximum consumer interest rate .....	16.3	16.3	16.3	16.3	n/a	n/a	n/a
Ordinary consumer lending interest rate <sup>(5)</sup> .....	n/a	n/a	n/a	n/a	16.2	16.2	16.9
Maximum consumer interest rate .....	n/a	n/a	n/a	n/a	17.3	17.3	17.3
Priority consumer lending interest rate <sup>(5)</sup> .....	n/a	n/a	n/a	n/a	16.0	16.0	16.8
Maximum priority consumer interest rate .....	n/a	n/a	n/a	n/a	17.3	17.3	17.3
Education lending interest rate <sup>(6)</sup> .....	n/a	n/a	n/a	n/a	7.1	7.2	9.5
Maximum education interest rate .....	n/a	n/a	n/a	n/a	9.5	9.5	9.5
Housing lending interest rate.....	10.6	10.6	10.6	10.7	10.9	10.8	10.8
Maximum housing interest rate .....	11.3	11.3	11.3	11.3	11.3	11.3	11.3
Microcredit increased accumulation lending interest rate <sup>(7)</sup> .....	22.4	22.4	22.4	22.3	24.3	24.1	21.4
Maximum microcredit increased accumulation interest rate.....	25.5	25.5	25.5	25.5	25.5	25.5	25.5
Microcredit simple accumulation lending interest rate <sup>(8)</sup> .....	25.2	25.2	25.2	25.2	26.9	27	25.0
Maximum microcredit simple accumulation interest rate .....	27.5	27.5	27.5	27.5	27.5	27.5	27.5
Microcredit subsistence accumulation lending interest rate <sup>(9)</sup> .....	28.8	28.8	28.8	28.6	29.0	29.2	27.2
Maximum microcredit subsistence accumulation interest rate .....	30.5	30.5	30.5	30.5	30.5	30.5	30.5

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

- (1) "Corporate lending rate" is the rate provided to businesses whose annual sales exceed U.S.\$5,000,000.00.
- (2) "Business lending rate" is the rate provided to businesses whose annual sales equal or exceed U.S.\$1,000,000 up to U.S.\$5,000,000.00.
- (3) "Medium and small business lending rate" is the rate provided to businesses whose annual sales equal or exceed U.S.\$1,000,000 up to U.S.\$5,000,000.00.
- (4) "Ordinary commercial lending rate" is the rate provided to businesses whose annual sales exceed U.S.\$100,000.00 that acquire or commercialize light fossil fuel vehicles.
- (5) In 2015 consumer credits were divided into "ordinary consumer credits," for the acquisition or commercialization of light fossil fuel vehicles and "priority consumer credits," dedicated to the purchase of goods or services or expenses not related to productive activity or ordinary commercial activity.
- (6) "Education lending rate" is the rate provided to individuals for development of human capital by accredited institutions.
- (7) "Microcredit increased accumulation lending rate" refers to credit transactions whose amount per trade and balance due to microcredit financial institutions exceed U.S.\$10,000. This is the rate granted to entrepreneurs who register annual sales of less than U.S.\$100,000.
- (8) "Microcredit simple accumulation lending rate" refers to credit transactions whose amount per transaction and balance due to microcredit financial institutions is larger than U.S.\$1,000, but smaller than U.S.\$10,000. This is the rate provided to entrepreneurs who register a sales level or annual income of less than U.S.\$100,000 and to self-employed individuals.
- (9) "Microcredit subsistence accumulation lending rate" refers to credit transactions that are less than or equal to U.S.\$1,000. This is the rate provided to micro entrepreneurs who recorded a level of annual sales less than U.S.\$100,000 and to self-employed, individuals or a group

of borrowers with joint liability.

(10) 2011 deposit and lending interest rates based on Central Bank November 2013 Monthly Bulletin (Table 1.10.1). Other 2011 figures based on Central Bank November 2013 Monthly Bulletin (Table 1.10.2).

(11) 2012 deposit and lending interest rates based on Central Bank September 2014 Monthly Bulletin (Table 1.10.1). Other 2012 figures based on Central Bank September 2014 Monthly Bulletin (Table 1.10.2).

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

Average loan interest rates on short-term and long-term loans increased from 8.2% in 2011 to 9.1% in 2015 primarily due to the effect of the rise in interest rates by the United States Federal Reserve. During the same period, the average interest rates on deposits increased from 4.5% in 2011 to 5.1% in 2015 due to the increase in demand deposits with high interest rates.

With respect to the various sectors, most loan interest rates remained stable during the period from 2011 through 2014 with the corporate productive lending interest rate remaining at 8.2%, and consumer lending rates remained at approximately 15.9% from 2011 to 2013 increasing slightly to 16.0% in 2014.

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

<b>Principal Monetary Indicators</b>							
(in millions of U.S. dollars)							
<b>As of December 31,</b>						<b>As of September 30</b>	
	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2015</b>	<b>2016</b>
Currency in circulation.....	5,290.98	6,326.74	7,367.06	9,539.90	11,753.67	10,840.87	12,366.87
Demand deposits.....	6,718.79	8,100.37	8,818.04	9,068.76	7,200.95	7,500.49	8,338.71
Fractional Currency.....	83.20	84.52	87.33	86.58	86.26	87.19	85.22
M1.....	<b>12,092.97</b>	<b>14,511.62</b>	<b>16,272.43</b>	<b>18,695.32</b>	<b>19,041.49</b>	18,429.31	20,793.70
Savings .....	1,594.78	2,360.24	3,898.14	3,506.05	3,053.45	2,493.17	4,878.66
Term deposits.....	14,464.01	16,393.88	18,778.71	21,409.05	20,608.95	20,575.06	22,456.88
M2 (M1 plus term deposits).....	<b>26,556.98</b>	<b>30,905.50</b>	<b>35,051.14</b>	<b>40,104.37</b>	<b>39,637.72</b>	<b>39,004.37</b>	<b>43,250.58</b>

Source: Based on figures from the Central Bank October 2016 Monthly Bulletin (Table 1.1.1). Figures from 2010 and 2011 based on March 2013 Monthly Bulletin, figures from 2012 based on the March 2014.

In January 2000, following several weeks of severe exchange-rate depreciation, the Republic announced that it would dollarize the economy. On March 1, 2000, the National Assembly approved the Ecuadorian Economic Transformation Law which made the U.S. dollar legal tender in Ecuador. Further, pursuant to the Ecuadorian Economic Transformation Law, all sucre-denominated deposits were converted into U.S. dollars effective January 1, 2000, and the U.S. dollar became the unit of account in the financial system. As a result, U.S. dollar deposits that in prior periods were classified as deposits in foreign currency are for periods from and after January 1, 2000 classified as demand deposits, savings or term deposits, as applicable.

## Inflation

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

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

The restrictions imposed by the Dollarization Program brought this to an end. The inflation rate was 2.7% in 2004, 2.2% in 2005, 2.8% in 2006, 3.3% in 2007 and 8.8% in 2008. The increase in inflation in 2008 was primarily caused by increases in food prices, due to climatic changes that affected the agricultural sector. In addition, international prices of fertilizer and agricultural commodities also increased. As a result of these increases, Ecuador

fixed prices for some of these goods and limited the export of various agricultural products. During 2011, 2012, 2013 and 2014 the inflation rate was 5.4%, 4.2%, 2.7% and 3.7%, respectively. The decrease in the inflation rate from 4.2% in 2012 to 2.7% in 2013 was due to the imposition of price controls intended to curb price speculation on basic foodstuffs including, meats, various fruits and vegetables, and milk.

At the end of 2014, the inflation rate was 3.7%. This increase is due to an increase in the prices of housing, water and electricity services during the period. For the twelve-month period ending December 31, 2015, the inflation rate decreased to 3.4%. This decrease is due to a decrease in the price of certain foods, primarily shrimp and chicken. Inflation decreased from 3.4% for the twelve-month period ended November 30, 2015 to 1.1% for the twelve-month period ended November 30, 2016 due to a decrease in the price of certain foods and non-alcoholic beverages.

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 2011 .....	5.4
December 2012 .....	4.2
December 2013 .....	2.7
December 2014 .....	3.7
December 2015 .....	3.4
November 2015 .....	3.4
November 2016 .....	1.1

*Source: Based on figures from the Central Bank October 2016 Monthly Bulletin Table (4.2.1) and (4.2.1a).*

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

## PUBLIC SECTOR FINANCES

### Overview

#### Budget Process

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

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

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

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

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

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

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

Fund” or “FEIREP”) that was previously created by the 2002 law. FEIREP was replaced by CEREPS. This resulted in an increase in Government investment in social and productive sectors of the economy to strengthen the economic performance while limiting the current expenses.

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

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

- permanent expenditures must be financed by permanent income; expenditures related to health, education and justice will be treated as preferential and may be, under exceptional circumstances, financed by non-permanent income; and
- public debt or income from petroleum products may not be used for current Government expenditures.

Under the 2008 Constitution, each of the following is subject to the National Development Plan:

- policies
- programs and public projects;
- scheduling and execution of the state budget; and
- investment and allocation of public resources.

Pursuant to the Public Planning and Finance Code, each of the following is also subject to the National Development Plan:

- public actions, programs and projects;
- public debt;
- international cooperation;
- scheduling, formulation, approval and execution of the general state budget;
- state banks’ budgets;
- national-level public companies; and
- social security.

At the request of the Ministry of Finance, or on its own, the Office of the Comptroller General can perform an audit of all public sector entities that administer public funds for compliance with proposed budgets and compliance under the law.



## Fiscal Policy

In October 2010, the National Assembly approved the Public Planning and Finance Code, which regulates the state planning process and coordinates planning with fiscal policy. This law establishes guidelines for fiscal management, including rules that:

- allow for more flexibility for the Ministry of Finance to reallocate and reassign expenditures up to 15% of the approved Government budget;
- set an explicit total public debt ceiling of 40% of GDP including Central Government, non-financial public sector and the Autonomous Decentralized Governments;
- allow the Ministry of Finance to issue *Certificados de Tesorería* (“short-term treasury notes” or “CETES”), at its discretion, without having to undergo the same approval process required for long-term internal and external sovereign debt;
- allow for the establishment of citizen committees for financial public policy consultations;
- determine that all excess cash not spent during a fiscal year will be accounted for as initial cash for the following fiscal year; and
- establish the functions and responsibilities of the Debt and Finance Committee. See “Public Debt – General.”

The non-financial public sector deficit is primarily financed by the issuance of CETES and bonds placed with IESS. There is no maximum amount of CETES that may be issued per year nor is there a requirement to place a certain percentage in the public or private sector. However, IESS may only hold 75% of the value of its total portfolio in CETES. Towards the end of 2012, the Government drew on its International Reserves with the Central Bank to cover its liquidity. This led to a decrease in reserve levels in December 2012. As of December 31, 2015, International Reserves (defined herein) cover 9.5% of current account payments. For more information regarding International Reserves, please see “Balance of Payments – International Reserves.” The Government received external funding from FLAR, which in September 2012 disbursed a balance-of-payments back-up credit of U.S.\$514.6 million. The China Development Bank also disbursed U.S.\$500 million. In the first several months of 2013, the Government received U.S.\$1.4 billion from China Development Bank under a new line of credit that was negotiated in December 2012. These funds were used to restore Ecuador’s International Reserves.

## Non-Financial Public Sector Revenues and Expenditures

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

### Summary of Consolidated Non-financial Public Sector Revenues and Expenditures (in millions of U.S.\$ and as a % of GDP)

	For the Year Ended December 31,										January 1 – September 30,	
	2011	% of GDP	2012	% of GDP	2013	% of GDP	2014	% of GDP	2015	% of GDP	2015	2016
<b>Revenue</b>												
<b>Petroleum Revenue</b>												
Exports <sup>(1)</sup> .....	12,935	16.3	12,220	13.9	11,433	12.0	10,906	10.7	6,346	6.3	5,057	3,449
Domestic Sales .....	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total Petroleum Revenue (a) .....</b>	<b>12,935</b>	<b>16.3</b>	<b>12,220</b>	<b>13.9</b>	<b>11,433</b>	<b>12.0</b>	<b>10,906</b>	<b>10.7</b>	<b>6,346</b>	<b>6.3</b>	<b>5,057</b>	<b>3,449</b>
<b>Non-petroleum revenue</b>												
Income Tax .....	3,030	3.8	3,313	3.8	3,847	4.0	4,161	4.1	4,734	4.7	4,028	2,926
Value-added Tax .....	4,200	5.3	5,415	6.2	6,056	6.4	6,376	6.2	6,352	6.3	4,898	3,974
Specific consumption taxes .....	618	0.8	685	0.8	744	0.8	803	0.8	840	0.8	656	566
International trade taxes .....	1,156	1.5	1,261	1.4	1,352	1.4	1,357	1.3	2,026	2.0	1,514	1,237
Social Security Contributions .....	3,971	5.0	4,756	5.4	4,547	4.8	4,718	4.6	5,055	5.0	3,864	3,486
Other <sup>(2)</sup> .....	3,514	4.4	4,353	5.0	6,084	6.4	6,524	6.4	6,935	6.9	5,281	5,716
<b>Total non-petroleum revenue (b).....</b>	<b>16,489</b>	<b>20.8</b>	<b>19,783</b>	<b>22.5</b>	<b>22,630</b>	<b>23.8</b>	<b>23,939</b>	<b>23.4</b>	<b>25,942</b>	<b>25.9</b>	<b>20,241</b>	<b>17,904</b>
<b>Operating Income of Public Companies (c)...</b>	<b>1,766</b>	<b>2.2</b>	<b>2,567</b>	<b>2.9</b>	<b>3,196</b>	<b>3.4</b>	<b>4,187</b>	<b>4.1</b>	<b>1,298</b>	<b>1.3</b>	<b>1,227</b>	<b>445</b>
<b>Total Revenue (a+b+c) .....</b>	<b>31,190</b>	<b>39.3</b>	<b>34,570</b>	<b>39.3</b>	<b>37,260</b>	<b>39.2</b>	<b>39,032</b>	<b>38.2</b>	<b>33,586</b>	<b>33.5</b>	<b>26,524</b>	<b>21,798</b>
<b>Expenses</b>												
<b>Current Expenditures</b>												
Interest .....	502	0.6	652	0.7	971	1.0	1,024	1.0	1,368	1.4	1,018	1,125
Foreign .....	452	0.6	533	0.6	714	0.8	829	0.8	1,143	1.1	862	963
Domestic .....	50	0.1	119	0.1	257	0.3	195	0.2	224	0.2	156	162
Wages and salaries .....	7,265	9.2	8,345	9.5	8,896	9.4	9,478	9.3	9,904	9.9	6,986	7,140
Purchases of goods and services .....	2,543	3.2	3,473	3.9	4,435	4.7	5,328	5.2	5,112	5.1	3,267	2,740
Social Security .....	3,205	4.0	3,335	3.8	3,410	3.6	3,665	3.6	4,215	4.2	3,013	3,308
Others .....	8,428	10.6	8,626	9.8	9,265	9.7	9,497	9.3	6,884	6.9	5,224	3,946
<b>Total Current Expenditure .....</b>	<b>21,943</b>	<b>27.7</b>	<b>24,431</b>	<b>27.8</b>	<b>26,977</b>	<b>28.4</b>	<b>28,992</b>	<b>28.3</b>	<b>27,482</b>	<b>27.4</b>	<b>19,508</b>	<b>18,259</b>
<b>Capital Expenditure and net lending</b>												
Gross capital formation .....	9,014	11.4	10,312	11.7	14,039	14.8	13,980	13.7	10,345	10.3	7,059	6,349
Central Government .....	5,297	6.7	6,191	7.0	8,506	8.9	8,290	8.1	5,542	5.5	3,463	3,311
Public Companies .....	2,152	2.7	2,497	2.8	3,988	4.2	4,218	4.1	3,285	3.3	2,495	1,918
Rest of General Government .....	1,566	2.0	1,624	1.8	1,545	1.6	1,472	1.4	1,518	1.5	1,101	1,120
Other Capital Expenditure .....	334	0.4	650	0.7	592	0.6	1,375	1.3	850	0.8	575	519
<b>Total Capital Expenditure .....</b>	<b>9,348</b>	<b>11.8</b>	<b>10,963</b>	<b>12.5</b>	<b>14,631</b>	<b>15.4</b>	<b>15,354</b>	<b>15.0</b>	<b>11,195</b>	<b>11.2</b>	<b>7,634</b>	<b>6,869</b>
<b>Total Expenditure .....</b>	<b>31,290</b>	<b>39.5</b>	<b>35,394</b>	<b>40.3</b>	<b>41,607</b>	<b>43.7</b>	<b>44,346</b>	<b>43.4</b>	<b>38,676</b>	<b>38.6</b>	<b>27,142</b>	<b>25,128</b>
<b>Surplus/Deficit .....</b>	<b>-100</b>	<b>-0.1</b>	<b>-824</b>	<b>-0.9</b>	<b>-4,348</b>	<b>-4.6</b>	<b>-5,314</b>	<b>-5.2</b>	<b>-5,091</b>	<b>-5.1</b>	<b>-618</b>	<b>-3,330</b>

*Source: Based on figures from the October Central Bank 2016 Monthly Bulletin (Table 2.1 and Table 2.2).*

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

For the five-year period from 2011 to 2015, the amount of total revenues totaled approximately 89% of the budgeted targeted amount. The increase in the year to year deficit from 2011 to 2015 was due to increased Government spending during each year, particularly in wages and salaries and interest payments in connection with debt obligation, and in 2015 was also due to the decline in oil prices.

In 2011, the non-financial public sector registered a deficit of U.S.\$100 million (equivalent to less than 0.1% of GDP). In 2011, total expenditures totaled U.S.\$31,290 million (equivalent to 39.5% of GDP) and total revenues totaled U.S.\$31,190 million (equivalent to 39.3% of GDP).

In 2012, the non-financial public sector registered a deficit of U.S.\$824 million (equivalent to -0.9% of GDP). In 2012, total expenditures totaled U.S.\$35,394 million (equivalent to 40.3% of GDP) and total revenues totaled U.S.\$34,570 million (equivalent to 39.3% of GDP).

In 2013, the non-financial public sector registered a deficit of U.S.\$4,348 million (equivalent to -4.6% of GDP). This deficit was due to an increase in public sector investment, primarily in infrastructure projects financed by bilateral debt. The increase in spending on infrastructure projects is due to a number of projects that had been in the planning or initial stages in previous years and that reached or accelerated the construction phase in 2013 (including the Coca Codo Sinclair hydroelectric project, the Sopladora hydroelectric project, the Minas San Francisco hydroelectric project and the Cañar-Naranjal flood control project) and therefore required increased expenditures as construction began or accelerated. Total expenditures totaled U.S.\$41,607 million (equivalent to 43.9% of GDP) and total revenues totaled U.S.\$37,260 million (equivalent to 39.3% of GDP).

In 2014, the non-financial public sector registered a deficit of U.S.\$5,314 million, equivalent to -5.3% of GDP. This deficit was the result of increases in wages and salaries and current expenses. Total expenditures totaled U.S.\$44,346 million (equivalent to 43.9% of GDP) and total revenues totaled U.S.\$39,032 million (equivalent to 38.7% of GDP) in 2014.

In 2015, the non-financial public sector registered a deficit of U.S.\$5,091 million, equivalent to -5.1% of GDP. This deficit, while smaller than the deficit in 2014, was the result of decreased petroleum revenue. Total expenditures totaled U.S.\$38,676 million (equivalent to 39% of GDP) and total revenues totaled U.S.\$33,586 million (equivalent to 33.9% of GDP) in 2015.

In the first nine months of 2016, the non-financial public sector registered a deficit of U.S.\$3,330 million compared to a deficit of U.S.\$618 million in the first nine months of 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 the first nine months of 2016, total revenues for the non-financial public sector totaled U.S.\$21,798 million, a decrease from U.S.\$26,524 million in the first nine months of 2015. In the first nine months of 2016, total expenditures for the non-financial public sector totaled U.S.\$25,128 million, a decrease compared to U.S.\$27,142 in the first nine months of 2015.

## **Central Government Revenues and Expenditures**

The Government derives its revenues primarily from sales of petroleum, tax collection and import duties, and other revenue, including transfers. The following table shows the actual Central Government revenues and expenditures for the periods presented. The Central Government ("Central Government") includes the Republic's ministries, supervising entities, and other Government entities.

**Consolidated Central Government Sector Revenue and Expenditure**  
(in millions of U.S.\$, and as % of GDP)

	For the Year Ended December 31,										January 1 – September 30,	
	2011	% of GDP	2012	% of GDP	2013	% of GDP	2014	% of GDP	2015	% of GDP	2015	2016
<b>Revenue<sup>(1)</sup></b>												
Petroleum revenue .....	5,971	7.5	6,086	6.9	4,677	4.9	3,765	3.7	2,264	2.3	1,701	1,355
Non-petroleum revenue .....	11,227	14.2	13,437	15.3	15,723	16.5	16,616	16.2	18,081	18.0	14,310	12,467
<b>Tax revenue</b>												
Taxes on goods and services												
Value-added tax .....	4,200	5.3	5,415	6.2	6,056	6.4	6,376	6.2	6,352	6.3	4,898	3,974
Selected excise taxes .....	618	0.8	685	0.8	744	0.8	803	0.8	840	0.8	656	566
Total taxes on goods and services .....	4,818	6.1	6,100	6.9	6,800	7.1	7,179	7.0	7,192	7.2	5,554	4,540
Taxes on income and profits .....	3,030	3.8	3,313	3.8	3,847	4.0	4,161	4.1	4,734	4.7	4,028	2,926
Taxes on International Trade												
Import duties .....	1,156	1.5	1,261	1.4	1,352	1.4	1,357	1.3	2,026	2.0	1,514	1,237
Exit tax <sup>(2)</sup> .....	558	0.7	1,275	1.5	1,322	1.4	1,406	1.4	1,278	1.3	1,008	614
Total taxes on international trade .....	1,714	2.2	2,536	2.9	2,675	2.8	2,763	2.7	3,304	3.3	2,522	1,851
Vehicle tax .....	174	0.2	195	0.2	214	0.2	228	0.2	223	0.2	182	153
Other taxes .....	28	0.0	111	0.1	132	0.1	129	0.1	135	0.1	110	1,162
<b>Total tax revenue .....</b>	<b>9,765</b>	<b>12.3</b>	<b>12,255</b>	<b>13.9</b>	<b>13,668</b>	<b>14.4</b>	<b>14,460</b>	<b>14.1</b>	<b>15,588</b>	<b>15.6</b>	<b>12,397</b>	<b>10,633</b>
<b>Non-tax revenue .....</b>	<b>1,210</b>	<b>1.5</b>	<b>1,128</b>	<b>1.3</b>	<b>1,961</b>	<b>2.1</b>	<b>2,061</b>	<b>2.0</b>	<b>2,021</b>	<b>2.0</b>	<b>1,472</b>	<b>1,585</b>
<b>Transfers .....</b>	<b>252</b>	<b>0.3</b>	<b>54</b>	<b>0.1</b>	<b>95</b>	<b>0.1</b>	<b>95</b>	<b>0.1</b>	<b>471</b>	<b>0.5</b>	<b>442</b>	<b>250</b>
<b>Total revenues .....</b>	<b>17,198</b>	<b>21.7</b>	<b>19,523</b>	<b>22.2</b>	<b>20,400</b>	<b>21.4</b>	<b>20,381</b>	<b>19.9</b>	<b>20,344</b>	<b>20.3</b>	<b>16,011</b>	<b>13,822</b>
<b>Current expenditure</b>												
Interest accrual												
Foreign .....	357	0.5	465	0.5	652	0.7	715	0.7	971	1.0	733	825
Domestic .....	316	0.4	363	0.4	516	0.5	682	0.7	789	0.8	504	519
Total interest accrual .....	673	0.8	828	0.9	1,169	1.2	1,397	1.4	1,759	1.8	1,238	1,344
Wages and salaries .....	6,466	8.2	7,353	8.4	7,897	8.3	8,359	8.2	8,761	8.7	6,174	6,319
Purchase of goods and services .....	1,279	1.6	1,658	1.9	2,035	2.1	2,490	2.4	2,409	2.4	1,684	1,321
Other current expenditures .....	983	1.2	900	1.0	1,696	1.8	998	1.0	691	0.7	529	457
Transfers .....	998	1.3	1,258	1.4	1,511	1.6	1,737	1.7	863	0.9	703	681
<b>Total current expenditure .....</b>	<b>10,399</b>	<b>13.1</b>	<b>11,996</b>	<b>13.6</b>	<b>14,308</b>	<b>15.0</b>	<b>14,981</b>	<b>14.6</b>	<b>14,484</b>	<b>14.5</b>	<b>10,326</b>	<b>10,121</b>
<b>Capital expenditure</b>												
Fixed capital expenditure .....	5,174	6.5	6,191	7.0	8,506	8.9	8,290	8.1	5,542	5.5	3,463	3,311
Other .....	159	0.2	328	0.4	-	-	22	-	16	-	16	272
Capital Transfers .....	2,703	3.4	2,724	3.1	3,048	3.2	3,501	3.4	4,108	4.1	3,098	2,338
<b>Total capital expenditure .....</b>	<b>8,035</b>	<b>10.1</b>	<b>9,244</b>	<b>10.5</b>	<b>11,554</b>	<b>12.1</b>	<b>11,812</b>	<b>11.5</b>	<b>9,665</b>	<b>9.6</b>	<b>6,576</b>	<b>5,922</b>
<b>Total Expenditure<sup>(2)</sup> .....</b>	<b>18,435</b>	<b>23.3</b>	<b>21,240</b>	<b>24.2</b>	<b>25,861</b>	<b>27.2</b>	<b>26,794</b>	<b>26.2</b>	<b>24,149</b>	<b>24.1</b>	<b>16,902</b>	<b>16,043</b>
Adjustment on treasury accounts .....	-	-	-	-	-	-	-	-	-	-	-	-
Overall surplus or deficit .....	-1,236	-1.6	-1,717	-2.0	-5,461	-5.7	-6,413	-6.3	-3,805	-3.8	-892	-2,221

Source: Based on figures from the Central Bank October 2016 Monthly Bulletin (Table 2.2.1 ).

(1) Revenues are cash, expenditures are accrued.

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

## **Taxation and Customs**

In 2011, Central Government revenues totaled U.S.\$17,198 million (equivalent to 21.7% of GDP), of which U.S.\$5,971 million (equivalent to 7.5% of GDP) corresponds to petroleum revenue, U.S.\$9,765 million (equivalent to 12.3% of GDP) corresponds to tax revenue, U.S.\$1,210 million (equivalent to 1.5% of GDP) corresponds to non-tax revenue and U.S.\$252 million (equivalent to approximately 0.3% of GDP) is in respect of transfers received.

In 2012, Central Government revenues totaled U.S.\$19,523 million (equivalent to 22.2% of GDP), of which U.S.\$6,086 million (equivalent to 6.9% of GDP) corresponds to petroleum revenue, U.S.\$12,255 million (equivalent to 13.9% of GDP) corresponds to tax revenue, U.S.\$1,128 million (equivalent to 1.3% of GDP) corresponds to non-tax revenue and U.S.\$54 million (equivalent to approximately 0.1% of GDP) is in respect of transfers received.

In 2013, Central Government revenues totaled U.S.\$20,400 million (equivalent to 21.5% of GDP), of which U.S.\$4,677 million (equivalent to 4.9% of GDP) corresponds to petroleum revenue, U.S.\$13,668 million (equivalent to 14.4% of GDP) corresponds to tax revenue, U.S.\$1,961 million (equivalent to 2.1% of GDP) corresponds to non-tax revenue and U.S.\$95 million (equivalent to approximately 0.1% of GDP) is in respect of transfers received.

In 2014, Central Government revenues totaled U.S.\$20,381 million (equivalent to 20.2% of GDP), of which U.S.\$3,765 million (equivalent to 3.7% of GDP) corresponds to petroleum revenue, U.S.\$14,460 million (equivalent to 14.3% of GDP) corresponds to tax revenue, U.S.\$2,061 million (equivalent to 2.0% of GDP) corresponds to non-tax revenue and U.S.\$95 million (equivalent to approximately 0.1% of GDP) is in respect of transfers received.

In 2015, Central Government revenues totaled U.S.\$20,344 million (equivalent to 20.2% of GDP), of which U.S.\$2,264 million (equivalent to 2.2% of GDP) corresponds to petroleum revenue, U.S.\$15,588 million (equivalent to 15.5% of GDP) corresponds to tax revenue, U.S.\$2,021 million (equivalent to 2.0% of GDP) corresponds to non-tax revenue and U.S.\$471 million (equivalent to approximately 0.5% of GDP) is in respect of transfers received.

Total revenues of the Central Government for the first nine months of 2016 were U.S.\$13,822 million, while total expenditures were U.S.\$16,043 million. This results in a deficit of U.S.\$2,221 million for the first nine months of 2016, an increase compared to the deficit of U.S.\$892 million for the first nine months of 2015. This increase in the deficit is primarily due to decreased petroleum revenue.

The 2008 Constitution grants the National Assembly the authority to create, amend or eliminate taxes by means of the law, without detriment to the attributions granted to Autonomous Decentralized Governments. Pursuant to the 2008 Constitution, only the President may submit bills that levy, amend or eliminate taxes. Municipal governments may also levy taxes. The 2008 Constitution provides that tax policy shall promote redistribution and shall stimulate employment, the production of goods and services, as well as ecologically, socially and economically responsible conduct. Furthermore, the 2008 Constitution expressly prioritizes direct and progressive taxes.

The value added tax applies to most sales of tangible assets as well as most services, except for educational, public transportation, public services, childcare services and others. The value added tax has been the largest component of tax revenues in the past five years, generating U.S.\$6,352 million of total tax revenues in 2015 and steadily increasing since 2011. This increase is not due to an increased rate, which has held steady at 12% for the past eight years. Instead, the increase in revenues is due to the Government's increased capacity to collect this tax due to an improved administrative system and the tax reforms described in further detail below. For the first nine months of 2016 the value added tax generated U.S.\$3,974 million, a decrease from U.S.\$4,898 million generated from the value added tax for the first nine months of 2015.

The second largest component of tax revenues is income tax, which accounted for U.S.\$4,734 million of tax revenues in 2015. For the first nine months of 2016, income tax revenues accounted for U.S.\$2,927 million, a decrease from U.S.\$4,028 million generated by income taxes for the first nine months of 2015. Effective personal income tax rates for residents and non-residents who file tax returns in Ecuador range from 0% to 35%. The standard corporate tax rate in 2014 was 22%, down from 25% in 2012. However, a tax reform enacted in December 2014 increased the corporate tax rate to 25% for profits on distributions from Ecuadorian entities to residents domiciled in tax havens. Non-resident individuals are also subject to a flat income tax of 22% in 2013 (down from 24% in 2011 and 23% in 2012). The standard corporate tax rate for 2015 was 22% but increased to 25% for 2016 due to the 3% increase established by the Law of Solidarity. However, the standard corporate tax rate is planned to decrease to back to 22% for 2017.

Despite the decrease in revenues due to the fall of the price of oil in 2015 and 2016, revenues from income taxes have also steadily increased in the past six years. This increase is due to several tax reforms implemented during this period.

### **Tax Reforms**

Historically, many individuals and companies did not pay taxes in Ecuador. Upon taking office, President Correa aimed to change this behavior and institute a culture of paying taxes among citizens and companies. To that end, the Ministry of Education established the *Día de la Cultura Tributaria* (“Tax Culture Day”) to be commemorated every April 27 and ran multiple television advertisements concerning the importance of tax payments. Ecuador completed these cultural efforts with legal reforms. Two of the most important reforms include the Reform Act to the Internal Tax Regime Law and the Reform Act for Tax Equity in Ecuador, which were enacted on December 23, 2009 and include the following measures:

- a 1% to 2% Currency Outflow tax, which was subsequently amended in November of 2011 to a 5% Currency Outflow Tax with an exemption, established in 2016, for the first U.S.\$1,098 and U.S.\$5,000 if a debit card or credit card is used (for more information regarding the Currency Outflow Tax, see “Balance of Payments and Foreign Trade – Foreign Trade–Trade Policy”);
- taxation on dividends received by company shareholders as profits;
- changes in the manner in which the *Impuesto a los Consumos Especiales* (“Special Consumer Good Tax” or “ICE”) calculates taxes on certain items for products such as cigarettes, alcoholic beverages and soft drinks. See “The Ecuadorian Economy–Economic and Social Policies– Environmental Improvement and State Resources Optimization Law;”
- incentives for the production sector, such as a proposal to return the value added tax (“VAT”) for certain tourism activities, and exemptions on tax for reinvestment in science and technology; and
- a refund of the 12% VAT (increased to 14% for 2016) for the public sector.

Other measures include the institution of numerous new individual tax deductions that encouraged the participation in payment of taxes. Taxpayers can apply these new deductions prior to the end of the tax year. Ecuador believes that the deductions and the advance payment system encourage participation and decreased the rate of tax evasion in the country. Ecuador has also improved its tax administration system to more easily identify tax evasion. Also, Ecuador believes that the decrease in the corporate tax rate to 22% in 2013, compared to 25% in 2012, has encouraged business growth and allowed for a larger corporate tax base.

In December 2012, the National Assembly enacted the Comprehensive Law of Redistribution of Income for Social Expenditures, which went into effect on January 1, 2013. This law expands the scope of the VAT to certain financial services provided by credit card administrators and private financial entities that were previously exempt.

In August 2014, the Ministry of Production and Industrialization introduced a U.S.\$42 flat tax rate on all international online purchases under U.S.\$400 and up to 4 kilograms. Before the introduction of this tax only international online purchases in excess of \$400 and 4 kilograms were subject to tax. This tax is intended to encourage local market consumption by discouraging small online purchases made outside the country. The tax will be imposed on shipping companies for each package that enters the country. Packages shipped through certain state-owned postal services subject to international treaties will be exempt from the tax. Books for students for educational purposes are also exempt.

### **Foreign Aid**

As of 2012, Ecuador is no longer listed as a country in need of foreign aid based on revenue per capita requirements from the World Bank.

### **Central Government Expenditures**

In 2011, Central Government expenditure as a percentage of GDP was 23.3%. Overall expenses in 2011 constituted U.S.\$18,435 million. Since then, the amount of Central Government expenditures has steadily increased to U.S.\$26,794 million in 2014 before decreasing to U.S.\$24,149 million in 2015. The increases in Central Government spending from 2011 through 2014 can be primarily attributed to increases in (1) wages and salaries, which have increased, in absolute terms, from U.S.\$6,466 million in 2011 (when they constituted 35% of Central Government spending and 8.2% of total GDP) to U.S.\$8,359 million in 2014 (when they constituted 31.2% of Central Government spending and 8.3% of total GDP) and (2) fixed capital expenditures, which have increased from U.S.\$5,174 million in 2011 (when they constituted 28% of Central Government spending and 6.6% of total GDP) to U.S.\$8,290 million in 2014 (when they constituted 31% of Central Government spending and 8.2% of total GDP). The Government increased the amount of investment in infrastructure projects, especially highways, bridges, and hydroelectric plants during this period. For more information see “The Ecuadorian Economy – Strategic Sectors of the Economy.” In 2015, while wages and salaries, increased by 4.8% from 2014 to U.S.\$ 8,761 million (constituting 36% of Central Government spending and 8.7% of total GDP), fixed capital expenditures, decreased by 33.1% from 2014 to U.S.\$ 5,542 million (constituting 23% of Central Government spending and 5.5% of total GDP). This decrease in capital expenditure is primarily due to decreased investment in Government projects as a result of budget adjustment, with the previously budgeted capital expenditure being deferred to later years. For more information, see “The Ecuadorian Economy – Strategic Sectors of the Economy.”

For the first nine months of 2016, overall expenses of the Central Government were U.S.\$16,043 million, compared to U.S.\$16,902 million for the first nine months of 2015.

### **2015, 2016, and 2017 Budgets**

On October 31, 2014, the executive branch presented the 2015 draft budget to the National Assembly, which proposed a budget of U.S.\$36.3 billion for the year, a 5.8% increase from the U.S.\$34.3 billion budget for 2014. The draft budget, as presented, was approved by the National Assembly on November 20, 2014 and became effective on January 1, 2015.

In January 2015, in response to the decline of oil prices in the last quarter of 2014, Ecuador reduced its 2015 budget by U.S.\$1.4 billion, resulting in a modified budget of U.S.\$34.9 billion for 2015. The 2015 budget, as modified in January 2015, assumed an average crude oil price of U.S.\$60 per barrel. The adjustments included a reduction of U.S.\$839.8 million in investment expenditures and U.S.\$580 million in current expenditures. The reductions were made primarily in the following sectors: national treasury (U.S.\$276 million), education (U.S.\$255 million), communications (U.S.\$229 million), health (U.S.\$169 million), agriculture and fishing (U.S.\$100 million).

In August 2015, in response to the continuing decline of oil prices, Ecuador further reduced its 2015 budget by U.S.\$800 million, resulting in a modified budget of U.S.\$34.1 billion. The adjustments reduced current expenses by U.S.\$100 million and investment costs by U.S.\$700 million. According to a statement by the Minister of

Finance on August 19, 2015, the reduction in investment costs were for projects that could be deferred for later years and whose deferment will not affect the growth of the economy.

On October 31, 2015, the executive branch presented the 2016 draft budget to the National Assembly which proposed a budget of U.S.\$29.8 billion for the year, a 17.9% decrease from the U.S.\$36.3 billion originally proposed for the 2015 budget and a 12.4% decrease from the U.S.\$34.1 billion adjusted budget for 2015. It assumes an average crude oil price of U.S.\$35.00 per barrel, which represents a 56% decrease from the U.S.\$79.70 per barrel assumption of the original 2015 budget. The draft budget also estimates that there will be a budget deficit equivalent to 2.4% of GDP and a GDP growth of 1%. Excluding financing, the initial draft budget provides for U.S.\$25.7 billion in expenses, comprised of U.S.\$8.8 billion in salaries and wages, U.S.\$4.7 billion in consumer goods and services, U.S.\$3.4 billion in capital transfers and donations, U.S.\$4.4 billion in other investment expenses and U.S.\$4.5 billion in other expenses. Total revenues under the draft budget are U.S.\$23.2 billion, including U.S.\$17.3 billion in taxes, rates and contributions, U.S.\$4.8 billion in current transfers and donations and U.S.\$1.2 billion in other revenues. The draft budget, as presented, was approved by the National Assembly on November 24, 2015 and became effective on January 1, 2016.

From time to time, the Ministry of Finance revises and adjusts the sources and uses of funds initially provided for in the draft budget. On March 3, 2016, the Minister of Finance announced that the 2016 Budget would be adjusted by approximately U.S.\$800 million. The Minister specified that approximately U.S.\$400 million would be reduced from investment and current expenses and that there would also be reductions to the budgets of the Autonomous Decentralized Governments. As of the date of this Offering Circular, the Ministry of Finance has made reductions in their estimates of revenue forecasts for non-petroleum revenue by U.S.\$780 million, income tax by U.S.\$507 million, value added tax by U.S.\$818 million, and the Currency Outflow Tax by U.S.\$209 million as compared to the original 2016 Budget revenue forecasts. In addition, while making reductions to permanent expenses by U.S.\$203 million and wages and salaries by U.S.\$284 million, the Ministry of Finance has increased its projected expenses for the provision of goods and services by U.S.\$137 million and other non-permanent costs by U.S.\$965 million, both as compared to the original 2016 Budget revenue forecasts. The Ministry of Finance has also increased its estimated projection for financing needs from U.S.\$6,602 million to approximately U.S.\$12,878 million. These adjustments are expected to increase the deficit by approximately U.S.\$982 million.

Pursuant to Article 295 of the 2008 Constitution, during a presidential election year, the national budget is to be presented for National Assembly approval within the first 90 days of the term of the next president. Accordingly, the 2017 budget ("2017 Budget") will be presented for National Assembly approval within the first 90 days of the term of the next president, which is scheduled to begin on May 24, 2017. In the interim period, Article 107 of the Public Planning and Finance Code provides that the total amount of the budget for the preceding year, which in this case is the 2016 Budget, as initially approved by the National Assembly, will be used as the working budget for 2017 until the 2017 Budget is approved. Article 118 of the Public Planning and Finance Code, grants the Ministry of Finance the authority to modify any approved budget in an amount up to 15% of any approved allocation. The Ministry of Finance will have the authority to modify the 2016 Budget while it is being used as the working budget for 2017 and until the 2017 Budget is approved.



## **PUBLIC DEBT**

### **General**

Public sector debt, including internal and external debt of the financial and non-financial public sector and the external Central Bank debt balance, was U.S.\$32,771.2 as of December 31, 2015, compared to U.S.\$30,140.2 million as of December 31, 2014, U.S.\$22,846.7 million as of December 31, 2013, U.S.\$18,652.3 million as of December 31, 2012 and U.S.\$14,561.8 million as of December 31, 2011. The increase in public sector debt in 2015 was mainly due to the issuance of the 2020 Bonds. The ratio of total public sector debt to GDP increased from 29.9% as of December 31, 2014 to 32.5% as of December 31, 2015. Interest payments on all debt obligations represent approximately 1.8% of GDP.

Since President Correa was elected in 2007, Ecuador has changed the focus of its public debt. Ecuador has focused on its relationships with Latin American-based multilateral entities and new bilateral partners, such as China. Ecuador has executed several loan agreements with China in the past five years and continues to collaborate with long-time partners such as Spain and Brazil. In Latin America, Ecuador has strengthened ties with IDB, CAF, and FLAR.

Under the 2008 Constitution, the National Assembly has the power to adopt legislation governing the issuance of public debt and to appropriate funds required for debt service. Acting pursuant to this constitutional mandate, the National Assembly approved the Public Planning and Finance Code, which governs the procedures that must be observed in all public debt matters. The Public Planning and Finance Code rules concerning public debt apply to the Ministry of Finance, which is the only Government institution allowed to contract for the issuance of sovereign debt by the Republic of Ecuador, as well as obligations of the municipalities guaranteed by the Government.

Because all public debt governed by the Public Planning and Finance Code must comply with the public indebtedness policies adopted by the executive branch, the Ministry of Finance must obtain the approval of the Debt and Finance Committee of the Republic of Ecuador before signing any agreement with respect to sovereign debt including the Notes. See “Monetary System – Fiscal Policy.” This requirement is established by Article 289 of the 2008 Constitution and Article 139 of the Public Planning and Finance Code. Approval is not required for any obligation that is less than 0.15% of the General State Budget and does not have a sovereign guarantee. Any contract executed by the Ministry of Finance that required, but did not obtain the approval of the Debt and Finance Committee is null and void and unenforceable and may give rise to civil and criminal liability for the individuals involved. Approval of the Debt and Finance Committee is evidenced by a signed memorandum signed by each member of the Debt and Finance Committee. Once the Ministry of Finance obtains approval of the Debt and Finance Committee, it may sign the agreement incurring debt obligations, provided that the Attorney General of Ecuador has approved any clauses providing for foreign applicable law and/or arbitration in a foreign jurisdiction. Loan proceeds are disbursed to the Ministry of Finance, which in turn, transfers such proceeds to the ultimate borrower.

The use of proceeds for public debt is limited by Article 126 of the Public Planning and Finance Code. Under the Public Planning and Finance Code, proceeds of public debt transactions may only be used to: (1) finance Government programs, (2) finance infrastructure projects that have the capacity to repay the debt obligation and (3) refinance an existing external debt obligation on more favorable terms. The Public Planning and Finance Code prohibits public transactions for the purpose of paying ongoing expenses, with the exception of expenses related to health, education, and justice, under exceptional circumstances as determined by the President.

Although public debt service is the primary responsibility of the entity for whose benefit the loan was received, debt governed by the Public Planning and Finance Code is an obligation of the Government. Accordingly, transfers from the Government to any entity pursuant to the annual budget take into account debt service obligations for the following year.

This external debt process is in place as a mechanism to ensure that Ecuador does not reach the high levels of debt it had incurred before the Correa administration. The system of authorization through the Constitution and

the Debt and Finance Committee, plus the 40% of GDP debt limit and other provisions from the Public Planning and Finance Code seek to maintain a stable external debt and have resulted in a low debt to GDP ratio as compared to other countries. Upon the issuance of the Notes, the ratio of total public sector debt to GDP (including this issuance) will be 35.6%.

## External Debt

The total external debt of the public sector in Ecuador was U.S.\$20.23 billion as of December 31, 2015, compared to U.S.\$17.58 billion as of December 31, 2014, U.S.\$12.92 billion as of December 31, 2013, U.S.\$10.87 billion as of December 31, 2012, and U.S.\$10.06 billion as of December 31, 2011. The increase in public sector external debt since December 31, 2011 was primarily the result of the disbursements of loans to develop various major infrastructure projects, mostly related to hydroelectric energy in Ecuador, to promote energy independence and reduce reliance on non-renewable energy sources, and the issuance of the 2020 and 2024 Bonds. The total external debt of the public sector in Ecuador as of October 31, 2016 was U.S.\$24.6 billion, an increase from U.S.\$20.31 billion as of October 31, 2015.

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

### Public Sector External Debt

(by debtor, in billions of U.S. dollars at the end of the year, except percentages)

	As of December 31,					As of October 31,
	2011	2012	2013	2014 <sup>(1)</sup>	2015 <sup>(2)</sup>	2016
Central Government .....	9.18	9.88	11.86	15.43	18.18	21.94
Public financial and non-financial entities .....	0.88	0.99	1.06	2.15	2.04	2.63
<b>Total</b> .....	<b>10.06</b>	<b>10.87</b>	<b>12.92</b>	<b>17.58</b>	<b>20.23</b>	<b>24.58</b>
External public debt as a percentage of nominal GDP <sup>(3)</sup> ...	12.7%	12.4%	13.6%	17.2%	20.2%	25.5%

Source: Ministry of Finance October 2016 Bulletin.

(1) Includes the 2024 Bonds.

(2) Includes the 2020 Bonds.

(3) Calculated using Central Bank GDP data, except for October 2016 percentage which is calculated using estimates from the Ministry of Finance and the Central Bank.

The following table shows the composition of the Republic's external public debt by type of creditor for the periods presented. Provincial governments and municipalities may incur debt through the Ministry of Finance if they follow certain requirements established by law, and certain provincial and municipal governments have issued external debt, which is included in the table above under the heading of "Public financial and non-financial entities."

### Public Sector External Debt by Type of Creditor

(in billions of U.S. dollars)

	As of December 31,					As of October 31,
	2011	2012	2013	2014	2015	2016
Multilateral .....	5.29	5.87	6.01	6.56	7.93	8.03
Bilateral .....	3.62	3.87	5.75	6.15	6.42	7.86
Commercial and Bonds .....	1.14	1.13	1.16	4.88	5.87	8.68
<b>Total Public Sector External Debt</b> .....	<b>10.06</b>	<b>10.87</b>	<b>12.92</b>	<b>17.58</b>	<b>20.23</b>	<b>24.58</b>

Source: Ministry of Finance October 2016 Bulletin.

The increase in bilateral debt of the Government and public financial and non-financial entities from December 31, 2011 to December 31, 2015 was due mainly to new debt being obtained from bilateral lenders rather than from the international bond markets, following the repurchase by the Government of the 2012 and 2030 Bonds. For more information see “Public Debt – Debt Obligations – 2012 and 2030 Bonds and tender offer.”

Total indebtedness owed to multilateral institutions was U.S.\$7.93 billion as of December 31, 2015 and U.S.\$8.03 million as of October 31, 2016. The Government is current on all its obligations to multilateral institutions.

As of December 31, 2014, the top three bilateral lenders to Ecuador were China, Brazil and Spain, with debt levels of U.S.\$5,074.4 million (63.7% of the total bilateral debt), U.S.\$302.8 million (3.8% of the total bilateral debt) and U.S.\$158.1 million (1.9% of the total bilateral debt), respectively.

As of December 31, 2015, the top three bilateral lenders to Ecuador continued to be China, Brazil and Spain, with debt levels of U.S.\$5,295.4 million (85.4% of the total bilateral debt), U.S.\$295.5 million (4.5% of the total bilateral debt) and U.S.\$140.6 million (2.2% of the total bilateral debt), respectively. The Government is current on all of its obligations to bilateral lenders.

As of October 31, 2015, the top three bilateral lenders to Ecuador were China, Spain and Brazil, with debt levels of U.S.\$ 5,228.3 million (86.6 % of the total bilateral debt), U.S.\$ 139.5 million (2.31 % of the total bilateral debt) and U.S.\$ 311.3 million (5.16 % of the total bilateral debt), respectively. As of October 31, 2016, the top three bilateral lenders to Ecuador were China, Brazil and Spain, with debt levels of U.S.\$ 6,842.0 million (89.3 % of the total bilateral debt), U.S.\$ 249.8 million (3.26 % of the total bilateral debt) and U.S.\$ 132.3 million (1.72 % of the total bilateral debt) respectively.

From 2010 to 2014, Ecuador has entered into three separate loan agreements with China Development Bank totaling U.S.\$5 billion, which are related to a multi-party contractual structure that involves crude oil delivery contracts entered into with PetroChina and Unipetec. Deliveries under these contracts are based upon international spot prices, such as WTI plus or minus a spread, plus a premium paid due to the term of the contracts. The spread is calculated using Argus, a crude oil price assessment publication (“Argus”) and the quality of crude oil as measured by the American Petroleum Institute. Under these agreements, Ecuador is required to invest the loaned amounts in specific infrastructure projects or programs in Ecuador. The first loan agreement, signed in 2010, totaling U.S.\$1 billion, was repaid in its entirety, at the end of its original four-year term. The second loan agreement, signed in 2011, totaling U.S.\$2 billion, has an eight-year term. The third loan agreement, signed in 2012, totaling U.S.\$1 billion, has an eight-year term.

On January 7, 2015, Ecuador entered into a memorandum of understanding with China Development Bank in connection with a loan of up to U.S.\$1.5 billion. The proceeds of the loan under the memorandum of understanding are to be used for eligible infrastructure and development projects in Ecuador.

On April 29, 2016, Ecuador entered into a fourth loan agreement with China Development Bank for U.S.\$2 billion with a maturity of eight years. The agreement was related to a multi-party contractual structure involving a crude oil delivery contract entered into with PetroChina.

The following table lists current material bilateral and multilateral indebtedness by agreement and lender.

#### Material Public External Debt

(in millions U.S.\$)

Creditor	Interest Rate Type	Currency	Date Issued	Maturity	Balance as of October 31, 2016
<b>Multilateral</b>					
IBD.....	Variable	U.S.\$	1966- 2016	2016-2049	4,326.6
CAF.....	Variable	U.S.\$	2005- 2016	2016-2031	3,109.5
FLAR.....	Variable	U.S.\$	2014	2017	308.8
Others <sup>(1)</sup> .....	Fixed, Variable	Euro, U.S.\$	1996- 2016	2016-2051	287.2

<b>Total Multilateral Debt</b> .....					<b>8,032.1</b>
<b>Bilateral</b>					
China.....	Fixed, Variable	RMB, U.S.\$	2010-2016	2019-2036	6,842.0
Brazil.....	Variable	U.S.\$	2000-2013	2018-2023	249.8
Spain.....	Fixed	U.S.\$	1987-2016	2016-2042	132.3
Italy.....	Fixed	Euro	1995-2015	2025-2047	3.9
Japan.....	Fixed, Variable	Yen	1988-2014	2018-2026	45.6
Others <sup>(2)</sup> .....	Fixed, Variable	DEG, Won, Libra, Chf	1985-2015	2016-2053	386.0
<b>Total Bilateral Debt</b> .....					<b>7,659.6</b>
<b>Other Debt</b> <sup>(3) (4)</sup> .....					<b>8,883.7</b>
<b>Total External Debt</b> .....					<b>24,575.5</b>

Source: Ministry of Finance as of November 2016.

- (1) Other multilateral loans include loans with the International Fund for Agricultural Development and the *Banco Internacional de Reconstrucción y Fomento*.
- (2) Includes amounts from loans to Paris Club members.
- (3) Other bilateral lenders include South Korea, Germany, France, and the United States, among others.
- (4) "Other debt" includes commercial debt and amounts owed under the 2030 Bonds, the 2020 Bonds, the 2024 Bonds and the Brady Bonds.

The following table shows the rates of interest applicable to the outstanding principal balance of the Republic's public external debt at the dates indicated.

#### Interest on Public Sector External Debt

	At December 31, 2014		At December 31, 2015		At October 31, 2016	
	Amount	Percent age	Amount	Percentage	Amount	Percentage
	(in millions of U.S. dollars, except percentages)		(in millions of U.S. dollars, except percentages)		(in millions of U.S. dollars, except percentages)	
<b>Fixed Rate</b>						
0-3%.....	697.0	3.9%	844.9	4.2%	928.7	3.8%
3-5%.....	336.7	1.9%	249.0	1.2%	129.8	0.5%
5-8% <sup>(1)</sup> .....	8,063.2	45.9%	8,005.0	39.6%	9,315.9	37.9%
More than 8% <sup>(2)</sup> .....	994.2	5.6%	1,859.2	9.2%	3,874.1	15.8%
<b>Floating Rate</b> .....	7,490.9	42.6%	9,267.1	45.8%	10,327.0	42.0%
<b>Total</b> .....	<b>17,581.3</b>	<b>100%</b>	<b>20,225.2</b>	<b>100%</b>	<b>24,575.5</b>	<b>100%</b>

Source: 2014 Figures from Ministry of Finance December 2014 Bulletin; 2015 Figures from Ministry of Finance December 2015 Bulletin. 2016 Figures from Ministry of Finance October 2016 Bulletin.

- (1) Reflect the amounts under the 2024 Bonds and 2020 Bonds.
- (2) Reflects the amounts under the 2030 and the 2015 Bonds.

The following table sets forth scheduled debt service for the Republic's total public external debt for the periods presented.

#### Public Sector External Debt Service Maturity 2016-2026

(in millions of dollars)

	For the Year Ending December 31,										
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
<b>Central Government</b> .....	<b>3,759.9</b>	<b>3,387.7</b>	<b>3,062.7</b>	<b>4,295.0</b>	<b>2,292.5</b>	<b>4,057.4</b>	<b>1,803.1</b>	<b>3,484.4</b>	<b>1,179.4</b>	<b>858.8</b>	<b>1,232.9</b>
Principal .....	2,424.3	2,127.1	1,896.0	3,300.2	1,466.3	3,409.0	1,329.4	3,153.4	977.6	692.8	1,094.2
Interest .....	1,335.6	1,260.6	1,166.7	994.8	826.3	648.4	473.8	331.0	201.8	166.0	138.7
<b>Rest of Public Sector</b> .....	<b>661.3</b>	<b>688.0</b>	<b>618.4</b>	<b>432.1</b>	<b>261.6</b>	<b>187.6</b>	<b>162.9</b>	<b>144.3</b>	<b>126.5</b>	<b>113.6</b>	<b>91.2</b>

Principal .....	501.2	553.9	517.2	356.9	208.1	142.1	123.1	109.4	96.0	87.3	68.6
Interest .....	160.1	134.0	101.2	75.2	53.4	45.4	39.9	35.0	30.5	26.4	22.5
<b>Total Debt Service .....</b>	<b>4,421.2</b>	<b>4,075.6</b>	<b>3,681.2</b>	<b>4,727.1</b>	<b>2,554.1</b>	<b>4,244.9</b>	<b>1,966.1</b>	<b>3,628.7</b>	<b>1,305.9</b>	<b>972.4</b>	<b>1,324.1</b>

Source: Ministry of Finance as of October 2016

## Internal Debt

The Government's internal debt consists of obligations to both public sector and private entities. Public sector internal debt increased from U.S.\$4.51 billion as of December 31, 2011 to U.S.\$12.55 billion as of December 31, 2015, due primarily to increased issuances of long and short term government notes. As of October 31, 2016, public sector internal debt was U.S.\$12.5 billion, an increase from U.S.\$12.10 billion as of October 31, 2015.

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

<b>Public Sector Internal Debt</b> (in billions of U.S. dollars, except percentage)						<b>As of October 31,</b>
<b>As of December 31,</b>						<b>2016</b>
	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	
Central Government Notes.....	3.66	6.95	9.12	11.78	11.78	11.77
Governmental Entities <sup>(1)</sup> .....	0.85	0.83	0.80	0.78	0.77	0.76
<b>Total .....</b>	<b>4.51</b>	<b>7.78</b>	<b>9.93</b>	<b>12.56</b>	<b>12.55</b>	<b>12.53</b>
Internal public debt as a percentage of nominal GDP <sup>(2)</sup> .....	5.7%	8.8%	10.4%	12.3%	12.5%	13.0%

Source: Ministry of Finance October 2016 Bulletin.

(1) Direct issuances backed by IESS and the Development Bank. Government is the debtor under all internal debt issuances.

(2) Calculated using Central Bank GDP data except September 2016 figure which is based on Ministry of Finance estimate of projected GDP, which differs from look-back data from the Central Bank.

As of December 31, 2015, approximately 93.9% of Ecuador's internal public indebtedness consists of long-term originally issued dollar-denominated notes. Currently, all internal debt obligations are issued through the Ministry of Finance. As of December 31, 2015, approximately 6.5% of Ecuador's internal public indebtedness is held by Governmental Entities, such as IESS and the Development Bank.

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

<b>Public Sector Internal Debt</b> (in millions of U.S.\$, except percentages)										<b>As of October 30,</b>
<b>As of December 31, 2015</b>										<b>2016</b>
	<b>2011</b>		<b>2012</b>		<b>2013</b>		<b>2014</b>		<b>2015</b>	
	<b>U.S.\$</b>	<b>%</b>	<b>U.S.\$</b>	<b>%</b>	<b>U.S.\$</b>	<b>%</b>	<b>U.S.\$</b>	<b>%</b>	<b>U.S.\$</b>	<b>%</b>
Short-term notes .....	—	—	—	—	—	—	—	—	—	—
Long-term notes <sup>(1)</sup> .....	3,525	78.2	6,817	87.6	8,992	90.6	11,779	93.8	11,780	93.9
AGD notes <sup>(2)</sup> .....	133	3.0	133	1.7	133	1.3	—	—	—	—
CFN notes <sup>(3)</sup> .....	—	—	—	—	—	—	—	—	—	—
Total notes .....	3,659	81.2	6,950	89.3	9,125	91.9	11,779	93.8	11,780	93.9
Governmental Entities <sup>(4)</sup> .....	848	18.8	830	10.7	802	8.1	780	6.2	767	6.1
<b>Total internal debt .....</b>	<b>4,507</b>	<b>100</b>	<b>7,781</b>	<b>100</b>	<b>9,927</b>	<b>100</b>	<b>12,558</b>	<b>100</b>	<b>12,546</b>	<b>100</b>

Source: Ministry of Finance October 2016 Bulletin.

(1) Securities placed by Ecuador according to decrees and resolutions issued to finance projects from the state budget and annual investment plan.

(2) Law 98-17 of November 26, 1998, published in Official Gazette No. 78 of December 1, 1998 ("Law 98-17") authorized the

issuance of government bonds as part of the resources for the operations of the Deposit Guarantee Agency. These bonds were issued for a term of 15 years, payment of principal at maturity and annual interest payments at a rate of 12%.

- (3) These bonds issued under Law 98-17 as a capital contribution to the National Finance Corporation. The value of these bonds was U.S.\$424.9 million and they had 7 and 11-year terms with semi-annual payments of principal and interest at Libor plus 180 days margin.

Direct issuances backed by IESS and the Development Bank.

Ecuador has not issued any short-term debt (maturity equal to or less than one year), and it does not intend to issue such debt in the future. Ecuador's medium-term and short-term obligations have generally been issued to finance development projects and to restructure or provide for revenue shortfalls in the Government's budget for a given year. Notes issued for development projects are generally privately held by entities contracted to undertake these development projects. Notes issued for budget restructuring, which generally have a maturity greater than one year, are placed on the Quito and Guayaquil stock exchanges, and are currently held by both public and private holders.

## Decree 1218

On October 25, 2016, pursuant to Article 147, Clause 13 of the 2008 Constitution, President Correa exercised his presidential authority to issue implementing regulations and signed Decree 1218, which modifies Article 135 of the Public Planning and Finance Code. Decree 1218 changes the methodology that the Ministry of Finance uses to calculate the total public debt to GDP ratio for the purpose of establishing whether the total public debt ceiling of 40% established in Article 124 of the Public Planning and Finance Code has been exceeded. Under Decree 1218, the Ministry of Finance will now use the Total Consolidated Public Debt methodology set out in the Manual of Public Finance Statistics of the IMF (the "IMF GFS"). 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. In contrast, the aggregation methodology, which the Ministry of 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 eliminates certain types of debt from the calculation and, by extension, reduces the amount of total public debt taken into account for purposes of the 40% total public debt to GDP ceiling. Following the enactment of Decree 1218, the Ministry of Finance has been in communication with the IMF with respect to methodologies used for measuring public debt.

The total public debt and public debt to GDP ratio information set forth in this Offering Circular is based on the aggregation methodology. The table below sets forth a comparison of the total public debt and total public debt as a percentage of GDP under both the aggregation and consolidation methodologies and reflects that the total public debt and debt to GDP ratio is lower under the consolidation methodology than under the aggregation methodology.

### Debt to GDP Ratio

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

	As of December 31,					As of October 31,	
	2011	2012	2013	2014	2015	2015	2016
Aggregate Total Debt.....	14,561.8	18,652.3	22,846.7	30,140.2	32,771.2	32,415.7	37,108.4
Aggregate Debt to GDP Ratio (%).....	18.4	21.2	24.0	29.5	32.7	32.4	38.6 <sup>(2)</sup>
Consolidated Total Debt.....	10,432.2	11,525.5	13,957.2	18,679.2	21,272.8	21,355.2 <sup>(1)</sup>	25,682.1
Consolidated Debt to GDP Ratio.....	13.2	13.1	14.7	18.3	21.2	21.3 <sup>(1)</sup>	26.7 <sup>(2)</sup>

Source: Ministry of Finance October 2016 Bulletin

(1) Based on Ministry of Finance September 2015 Bulletin.

(2) Based on Ministry of Finance estimate of projected GDP, which differs from look-back data from the Central Bank.

Decree 1218 does not affect external debt because external debt is owed to entities outside of the Ecuadorian government and is, therefore, not affected by the exclusion of intra-governmental debt. Using the aggregation methodology, the total internal debt of Ecuador as of October 31, 2016 was U.S.\$12.53 billion,

compared to U.S.\$12.10 billion as of October 31, 2015. Using the consolidation methodology, the total internal debt of Ecuador, as of October 31, 2016, was U.S.\$1.11 billion compared to U.S.\$1.04 billion as of October 31, 2015. This increase (under both the aggregation and the consolidation methodologies) in internal debt is primarily due to the increased issuance of domestic long term and short term government notes. The U.S.\$11.42 billion under the aggregation methodology figure for October 31, 2016 that is excluded from the equivalent consolidation methodology figure corresponds to obligations owed by the Ecuadorian government to governmental entities such as BIESS and IESS. 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.

According to the Ministry of Finance, following the issuance of the Notes and the application of proceeds, it is estimated that the Republic's total public debt to GDP will be approximately 27.7% under the consolidation methodology and approximately 39.5% under the aggregation methodology.

## **Debt Obligations**

### *Brady Bonds and Eurobonds*

In May 1994, the Government reached an agreement with its commercial bank creditors to restructure the Republic's medium and long-term commercial bank debt (the "Brady Plan"). The Brady Plan offered creditors the opportunity to exchange existing principal for either: (i) 30-year notes of the same face amount (the "Par Notes"), with interest initially fixed at three percent (3%) incrementally increased over the first 10 years up to a rate of five percent (5%) or (ii) 30-year notes with a face amount equal to 55% of the face value of the debt exchanged (the "Discount Notes" together with the Par Notes, the "Brady Bonds") and bearing interest at the London Interbank Offered Rate ("LIBOR") plus 13-16%. The principal of Par Notes and Discount Notes was fully collateralized by 30-year U.S. Treasury notes and interest on those Notes was collateralized on a 12-month rolling basis. The Brady Plan also offered creditors the opportunity to exchange accrued and unpaid interest for two instruments: (i) 20-year notes bearing interest at LIBOR plus 13-16% (the "PDI Notes") and (ii) 10-year notes bearing interest at LIBOR plus 13-16% and representing certain accrued and unpaid past due interest under the Consolidation Agreement (the "IE Notes").

On December 21, 1994, the Republic issued U.S.\$191.0 million of IE Notes. On February 28, 1995, the Republic issued U.S.\$1.9 billion, U.S.\$1.4 billion and U.S.\$2.4 billion of Par Notes, Discount Notes and PDI Notes, respectively. The Republic also agreed to make certain additional cash payments in respect of past due interest.

On April 25, 1997, the Republic issued U.S.\$350 million of its 11.25% Fixed Rate Eurobonds due 2002 and U.S.\$150 million of its Floating Rate Eurobonds due 2004 (together, the "Eurobonds"). In late 1999 and early 2000, the Republic defaulted on its Par Bonds, Discount Bonds, 11.25% Fixed Rate Eurobonds due 2002, Floating Rate Eurobonds due 2004, IE Notes and PDI Notes (together, the "Old Notes"). In June 2000, the Republic launched a global exchange offer whereby it offered U.S. dollar Denominated Global Bonds due 2012 (the "2012 Bonds") and U.S. dollar Denominated Step-Up Global Bonds due 2030 (the "2030 Bonds" together with the 2012 Bonds, the "2012 and 2030 Bonds") together with a cash payment for any and all of the Old Notes.

In December 2005, the Republic successfully launched an issuance of the 2015 Bonds. The use of the proceeds of the 2015 Bonds was to buy back certain of the 2012 Bonds in accordance with their terms. The Republic successfully repaid all principal and interest on the 2015 Bonds on December 15, 2015.

### *2012 and 2030 Bonds and tender offer*

In 2008, Ecuador defaulted on its interest payments for the 2012 and 2030 Bonds in the aggregate amount of approximately U.S.\$157 million and principal payments of approximately U.S.\$3,200 million. The 2012 and 2030 Bonds were originally issued in exchange for prior debt offerings of the Republic in order to extend the maturity dates of those prior obligations. This default followed the publication of a report in 2008 by the Commission of Integral Audit of Public Credit ("CAIC"), a committee composed of representatives from both the Ecuadorian government and private sector organizations and members of civil society. CAIC reviewed Ecuador's

debt obligations from 1976 to 2006 and in its report made a number of findings regarding the legitimacy of Ecuador's debt obligations (including the 2012 and 2030 Bonds), in particular relating to concerns involving the public assumption of private debt, appropriate authorizations, sovereign immunity, and the relevant economic terms of the debt obligations incurred. After the default, which occurred during the first term of President Correa's administration, Ecuador offered to repurchase the 2012 and 2030 Bonds. In April 2009 and November 2009, the Republic launched tender offers, in cash, to holders of the 2012 and 2030 Bonds. Approximately 93.22% of the bonds were tendered in the April 2009 and the November 2009 tender offers and were bought out at 35 cents on the dollar. Although some holders continue to hold the defaulted 2012 and 2030 Bonds, Ecuador has successfully repurchased additional 2012 and 2030 Bonds from remaining holders from 2009 onwards. As of the date hereof, the total aggregate amount of outstanding principal on the 2012 and 2030 Bonds is U.S.\$52.1 million, which represents 1.6% of the original aggregate principal amount of the 2012 and 2030 Bonds.

On December 12, 2014, GMO Trust issued proceedings against the Republic in respect of an alleged U.S.\$15,876,000 holding of the 2030 Bonds. GMO voluntarily withdrew its complaint pursuant to a settlement agreement between the parties. A stipulation dismissing the complaint was filed on March 16, 2015; under that stipulation, the case cannot be re-filed.

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

#### *2024 Bonds*

On June 17, 2014, the Republic successfully issued U.S.\$2 billion of Bonds due June 2024 (the "2024 Bonds") with a coupon of 7.95% at 100% of the purchase price. The most recent interest payment on the 2024 Bonds, which was due on June 20, 2016, was paid by the Republic in accordance with the relevant indenture. The Republic is current on its financial obligations under the 2024 Bonds and intends to make all payments as they become due and payable. The Republic used the proceeds of the 2024 Bonds to finance its various hydroelectric projects and other infrastructure projects contemplated in its National Development Plan.

#### *2020 Bonds*

On March 24, 2015, the Republic successfully issued U.S.\$750 million of Bonds due March 2020 with a coupon of 10.50% (the "Original 2020 Issuance") at 100% of the purchase price. The Republic re-opened the Original 2020 Issuance on May 19, 2015 and successfully issued an additional U.S.\$750 million of Bonds at a price of 107.789%, also due 2020 (together with the Original 2020 Issuance, the "2020 Bonds"). The most recent interest payment on the 2020 Bonds, which was due on September 24, 2016, was paid by the Republic in accordance with the relevant indenture. The Republic is current on its financial obligations under the 2020 Bonds and intends to make all payments as they become due and payable. The Republic used the proceeds of the 2020 Bonds to finance its various hydroelectric projects and other infrastructure projects contemplated in its National Development Plan.

#### *2022 Bonds*

On July 28, 2016, the Republic successfully issued U.S.\$1,000 million of Bonds due 2022 with a coupon of 10.75% (the "Original 2022 Issuance") at 100% of the purchase price. The Republic re-opened the Original 2022 Issuance on September 30, 2016 and successfully issued an additional U.S.\$1,000 million of Bonds at a price of 100%, also due 2022 (together with the Original 2022 Issuance, the "2022 Bonds"). The Republic is current on its financial obligations under the 2022 Bonds and intends to make all payments as they become due and payable. The Republic used the proceeds of the 2022 Bonds to finance its various hydroelectric projects and other infrastructure projects contemplated in its National Development Plan.

#### **Other obligations**



In June 2003, the Republic agreed with its Paris Club creditors to reschedule U.S.\$81 million of bilateral debt. Payments due on official development aid loans were rescheduled over a period of 20 years and those on other credits were rescheduled over a period of eighteen years. As of the date of this Offering Circular, the Republic was in compliance with all of the terms of its Paris Club loans. Further, in recent years, the Republic has launched successful debt exchanges in Germany, Spain and Italy.

On January 7, 2015, Ecuador entered into a memorandum of understanding with China Development Bank in connection with a loan of up to U.S.\$1.5 billion. The proceeds of the loan under the memorandum of understanding were to be used for eligible infrastructure and development projects in Ecuador. On the same date, Ecuador entered into a framework agreement for future cooperation with China Exim Bank. This agreement allows the Ministry of Finance to regularly submit priority lists of projects which it proposes to be financed by China Exim Bank, within three years of the date of the agreement. The initial priority list includes six projects to be financed at a total cost of U.S.\$5.3 billion. The rights and obligations of the parties will be stipulated in relevant loan agreements to finance specific projects.

On February 26, 2015, Ecuador entered into a Foreign Purchase Credit Agreement with Deutsche Bank, Sociedad Anónima Española. The loan is to be used to purchase radar equipment and other equipment for the air defense of Ecuador. This agreement provides for a U.S.\$88 million facility to be repaid in a term of nine years.

On March 31, 2015, Ecuador entered into a thirteen year, U.S.\$85.7 million facility agreement with the Bank of China Limited, Panama Branch (U.S.\$60.0 million commitment) and Deutsche Bank AG, Hong Kong Branch (U.S.\$25.7 million commitment). The proceeds of this facility are to be used for the restoration and improvement of the Sigchos-Chugchilán and Buena Vista-Vega Rivera-Paccha-Zaruma Highways.

In January 2016, Petroecuador entered into a credit agreement for a facility of up to U.S.\$970 million from a consortium of banks led by Industrial and Commercial Bank of China Limited, China Exim Bank, and China Minsheng Banking Corp., Ltd. The first tranche of U.S.\$820 million was disbursed in February 2016. The facility was related to a multi-party contractual structure involving a crude oil delivery contract entered into with PetroChina. The credit has an interest rate of three-month Libor plus 6.2% and has a term of five years.

In February 2016, the Republic entered into a U.S.\$198 million loan agreement with China Exim Bank, to finance the first phase of Yachay. The loan agreement has a 3% interest rate and a term of 20 years.

On April 29, 2016, Ecuador entered into a fourth loan agreement with China Development Bank for U.S.\$2 billion with a maturity of eight years. The agreement was related to a multi-party contractual structure involving a crude oil delivery contract entered into with PetroChina.

On July 15, 2016, Ecuador's Ministry of Finance and the Official Credit Institute of Spain (*Instituto de Crédito Oficial*), acting for Spain, entered into a U.S.\$183.6 million credit agreement for the financing of the supply of rolling stock, auxiliary vehicles, workshop tools and equipment and parts for Quito's first metro line.

On July 28, 2016, IESS entered into two loans for U.S.\$65.0 million and U.S.\$13.3 million, respectively, both with Deutsche Bank, Sociedad Anónima Española, as agent, various other financial institutions, as mandated lead arrangers and Ecuador, acting through its Ministry of Finance, as guarantor. The loans are to be repaid over a term of seven years and are to be used to finance the construction and outfitting of hospitals in the city of Guayaquil and the city of Machala, respectively.

On September 23, 2016, Ecuador entered into a U.S.\$100 million bilateral loan agreement with CAF to finance costs related to damages to infrastructure and housing caused by the Pedernales Earthquake.

On October 31, 2016, the Republic entered into two loans with IDB for U.S.\$160 million and U.S.\$143 million, respectively. The Republic is using the proceeds of the loans to support education and energy programs.

On November 14, 2016, the Republic entered into a U.S.\$175 million loan with the European Investment Bank. The Republic intends to use the proceeds of the loan towards reconstruction efforts in the areas that were affected by the Pedernales Earthquake.

On November 17, 2016, the Republic, acting through its Ministry of Finance, entered into a twenty year, U.S.\$102.6 million loan facility with China Exim Bank to be used to finance the survey, design and construction with respect to the Santa Ana Aqueduct Hydraulic Stage One Project.

On November 29, 2016, the Republic entered into a U.S.\$19.7 million loan facility with a final amortization date of October 15, 2041 with IDB to finance costs related to its emergency response program for reconstruction efforts in the areas that were affected by the Pedernales Earthquake.

## DESCRIPTION OF THE NOTES

*Ecuador will issue Notes (as defined below) under an indenture between Ecuador and The Bank of New York Mellon (the “Trustee”), dated December 13, 2016 (the “Indenture”). The following description summarizes the material provisions of the Notes and the Indenture. This summary does not contain all of the information that may be important to you as a potential investor in the Notes. You should read the Indenture and the forms of Notes before making your investment decision.*

### General

#### *Authorization*

The issue of the Notes was authorized by the Republic's Debt and Finance Committee under Acta Resolutiva No. 029 dated December 8, 2016.

#### *Basic Terms*

The Notes will:

- be general, direct, unsecured, unsubordinated and unconditional obligations of Ecuador, will be backed by the full faith and credit of Ecuador and will rank equally in terms of priority with Ecuador's External Indebtedness (other than Excluded Indebtedness), provided, that, such ranking is in terms of priority only and does not require that Ecuador make ratable payments on the Notes with payments made on its other External Indebtedness;
- be initially issued in an aggregate principal amount of U.S.\$750,000,000 of 9.650% Notes due 2026 (the “Notes”);
- mature at par on December 13, 2026 (subject to any Optional Redemption, prepayment or repurchase);
- be issued in denominations of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof;
- be represented in the form of global notes, without coupons, registered in the nominee name of the common depositary for Euroclear and Clearstream for the accounts of its participants; and
- be redeemable at the option of Ecuador (see “–Optional Redemption”).

#### *Interest*

Interest on the Notes will:

- accrue at the rate of 9.650% per annum;
- accrue from and including the date of issuance or the most recent payment date;
- be payable semi-annually in arrears on June 13 and December 13 of each year, commencing on June 13, 2017;
- be payable to the holders of record at the end of the Business Day immediately preceding the related interest payment date; and
- be computed on the basis of a 360-day year comprised of twelve 30-day months.

## *Payment*

Ecuador will make payments of principal of, interest (including Additional Amounts (as defined below), if any) on and premiums, if any, on the Notes by wire transfer of immediately available funds to the London Paying Agent on the Business Day prior to each scheduled payment date. The London Paying Agent, will apply the amounts it receives from Ecuador towards the payment of principal, interest (including Additional Amounts, if any) and premiums, if any, then due. While the Notes are held in global form, the London Paying Agent will make such payments to Euroclear or Clearstream or its nominee, as the registered owner of the Notes, by check or wire transfer in immediately available funds. Euroclear or Clearstream will distribute the funds it receives from the London Paying Agent to beneficial holders of the Notes having accounts at Euroclear or Clearstream, in accordance with Euroclear's or Clearstream's records and operating procedures. To hold a beneficial interest in the Notes you must hold an account at Euroclear or Clearstream directly or through a financial or other institution that has a direct or indirect account with Euroclear or Clearstream.

None of Clearstream or Euroclear is an agent of Ecuador. The Trustee is a fiduciary of the holders of the Notes and any monies it receives from Ecuador will, pending payment, be held by it in trust for the exclusive benefit of the holders of the Notes. Euroclear and Clearstream are clearing agencies. The manner in which each of Euroclear and Clearstream maintains records of beneficial interest in the Notes and how it distributes payments made by Ecuador on account of such interest are within its sole discretion. None of Ecuador, the Trustee, the London Paying Agent or the initial purchasers shall have any responsibility or liability for any aspect of the records of, or payments made by, Euroclear or Clearstream or their nominees or direct participants, or for any failure on the part of Euroclear or Clearstream or their direct participants in making payments to holders of the Notes from the funds they receive. Ecuador's obligations to make payments of principal of and interest on the Notes shall be satisfied when such payments are received by the Trustee.

If Ecuador issues definitive Notes, the London Paying Agent will make payments by check mailed to the holder's registered address or, upon application by the holder of at least U.S.\$1,000,000 in principal amount of definitive Notes delivered to the Trustee not later than the relevant record date, by wire transfer to an account designated by such holder.

If any date for an interest or principal payment on the Notes is not a Business Day, Ecuador will make the payment on the next Business Day. No interest on the Notes will accrue as a result of this delay in payment.

If any money that Ecuador pays to the London Paying Agent for the purpose of making payments on any Notes is not claimed at the end of two years after the applicable payment was due and payable, then the money will be repaid to Ecuador. Ecuador will hold the money in trust for the relevant holders until six years from the date on which the payment first became due or a shorter period of time provided by law. Before any such repayment, the Trustee may mail or publish in an authorized newspaper notice that such money remains unclaimed. After any such repayment, holders entitled to receive payment from such monies may look only to Ecuador for such payment, and neither the Trustee nor any paying agent will be liable for such payment.

## **Additional Amounts**

Unless otherwise required by law, Ecuador will make all principal and interest payments on the Notes without withholding or deducting any present or future taxes imposed by Ecuador or any of its political subdivisions or taxing authorities. If Ecuador is required by law to deduct or withhold taxes, Ecuador will pay the holders of the Notes such additional amounts as may be necessary to ensure that they receive the same amount as they would have received without any withholding or deduction. Any such amounts to be paid by Ecuador in accordance with this paragraph shall be "Additional Amounts".

Ecuador will not, however, pay any Additional Amounts in respect of any tax, assessment or other Governmental charge that is imposed due to any of the following:

- the holder or beneficial owner has or had some connection with Ecuador other than merely holding the Note or the receipt of any payment of principal of or interest on that Note;

- the holder has failed to present, where presentation is required, its Note for payment within 30 days after the payment first became due or, if the full amount of such payment is not received by the London Paying Agent on or prior to such due date, the date on which notice is given to the holder that such payment has been received and is available to the holder except to the extent that holder thereof would have been entitled to Additional Amounts on presenting the same for payment as on the last day of such period of 30 days;
- the holder or beneficial owner has failed to comply with any certification or other reporting requirement concerning its nationality, residence, identity or connection with Ecuador or any of its political subdivisions or taxing authorities, and Ecuador or any of its political subdivisions or taxing authorities requires compliance with these reporting requirements as a precondition to exemption from all or any portion of any tax withholding or deduction and has notified the holder or beneficial owner, as applicable, in writing at least 60 days prior to the first scheduled payment date for which compliance will be required;
- where the withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC (as amended from time to time) or any other directive implementing the conclusions of the ECOFIN Council meeting of November 26-27, 2002 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- a Note has been presented for payment by or on behalf of a holder who would have been able to avoid the withholding or deduction by presenting the relevant Note to another paying agent in a member state of the European Union.

Ecuador will pay any present or future stamp, court or documentary taxes or any other excise or property taxes, charges or similar levies that arise in Ecuador or any of its political subdivisions or taxing authorities in respect of the creation, issue, execution, delivery or registration of the Notes. Ecuador will also indemnify the holder and the Trustee from and against any stamp, court or documentary taxes or any other excise or property taxes, charges or similar levies in connection with the enforcement of Ecuador's obligations under the Notes following an event of default.

### **Repurchase**

Ecuador may at any time, in accordance with applicable laws, tender for or repurchase the Notes at any price in the open market or otherwise. Any Notes so purchased (including upon any redemption) shall not be re-issued or resold except in compliance with the Securities Act and other applicable law. Ecuador may hold Notes it purchases or may surrender them to the Trustee for cancellation.

### **Optional Redemption**

Ecuador will have the right at its option, upon giving not less than 30 days nor more than 60 days' notice to the holders of the Notes, to redeem the Notes, in whole or in part, at any time or from time to time prior to their maturity, at a redemption price equal to the greater of (i) 100% of the principal amount of such Notes and (ii) the sum of the present value of each remaining scheduled payment of principal and interest thereon (exclusive of interest accrued to the date of redemption) discounted to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate (as defined below) plus 50 basis points (the "Make-Whole Amount"), plus in each case accrued and unpaid interest to the redemption date on the Notes to be redeemed on such date (an "Optional Redemption").

On and after the redemption date, unless there is a default in the payment of amounts due, interest will cease to accrue on the Notes or any portion of the Notes called for redemption. If less than all of the Notes are to be redeemed, the Notes to be redeemed shall be selected on a *pro rata* basis, selected by lot or by such method as the Trustee shall deem fair and appropriate (subject to the procedures of Euroclear and Clearstream).

“Comparable Treasury Issue” means the United States of America Treasury security or securities selected by an Independent Investment Banker (as defined below) as having an actual or interpolated maturity comparable to the period from the redemption date to the maturity date of the Notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of comparable debt securities of a comparable maturity to the period from the redemption date to the maturity date of such Notes.

“Comparable Treasury Price” means, with respect to any redemption date, (i) the average of the Reference Treasury Dealer Quotations (as defined below) for such redemption date, after excluding the highest and lowest such Reference Treasury Dealer Quotations or (ii) if Ecuador obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such quotations. When obtaining a Comparable Treasury Price, Ecuador must consult at least three Reference Treasury Dealers.

“Independent Investment Banker” means one of the Reference Treasury Dealers (as defined below) appointed by Ecuador.

“Reference Treasury Dealer” means a dealer selected by Ecuador that is a primary United States government securities dealer.

“Reference Treasury Dealer Quotation” means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Independent Investment Banker (after consultation with the Republic), of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to Ecuador by such Reference Treasury Dealer at 3:30 p.m., New York time on the third Business Day preceding such redemption date.

“Treasury Rate” means, with respect to any redemption date, the rate per annum equal to the semi-annual equivalent yield to maturity or interpolated maturity of the Comparable Treasury Issue (as defined below), assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

### **Certain Covenants**

Ecuador has agreed that as long as any of the Notes remain outstanding or any amount payable by Ecuador under the Indenture remains unpaid, Ecuador will:

1. obtain and maintain in full force and effect all Ecuadorian Authorizations, necessary under the laws of Ecuador for the execution and delivery of, and performance by Ecuador under, the Notes and the Indenture or for their validity or enforceability, and take all necessary and appropriate Governmental and administrative action in Ecuador in order to be able to make all payments to be made by it under the Notes and the Indenture;
2. ensure that at all times its obligations under the Notes are general, direct, unsecured, unsubordinated and unconditional obligations of Ecuador and shall be backed by the full faith and credit of Ecuador and ensure that the Notes shall rank equally in terms of priority with Ecuador's External Indebtedness (other than Excluded Indebtedness), provided, that, such ranking is in terms of priority only and does not require that Ecuador make ratable payments on the Notes with payments made on its other External Indebtedness;
3. use its reasonable best efforts to list and thereafter to maintain the listing of the Notes on the Luxembourg Stock Exchange; and
4. not create or suffer to exist, or permit the Central Bank to create or suffer to exist, any Lien upon any of its present or future assets or revenues to secure or otherwise provide for the payment of any External Indebtedness of Ecuador or the Central Bank unless, on or prior to the date such Lien is created or comes into existence, the obligations of the Republic under the Notes and the Indenture are secured equally and ratably with such External Indebtedness.

Ecuador may, however, create or permit to subsist the following Liens (“Permitted Liens”):

- any Lien on property to secure External Indebtedness arising in the ordinary course of business to finance export, import or other trade transactions, which matures (after giving effect to renewals and refinancings) no more than one year after it was originally incurred;
- any Lien upon property to secure the purchase price of such property or to secure any External Indebtedness incurred solely for the purpose of financing the acquisition of such property;
- any Lien on property arising by operation of law (or pursuant to any agreement establishing a Lien equivalent to one which would otherwise exist under relevant local law), including without limitation any right of set-off with respect to demand or time deposits with financial institutions and bankers' liens with respect to property held by financial institutions (in each case deposited with or delivered to such financial institutions in the ordinary course of the depositor's activities);
- any Lien existing on such property at the time of its acquisition;
- any Lien in existence as of the date of issuance of the Notes;
- any Lien securing External Indebtedness issued upon surrender or cancellation of the principal amount of any of the Excluded Indebtedness, as defined under “—Certain Defined Terms” below, to the extent the Lien is created to secure the External Indebtedness;
- any Lien created in connection with any Project Financing, as defined under “—Certain Defined Terms” below, provided that the properties to which any such Lien applies are solely with respect to (A) properties which are the subject of such Project Financing or (B) revenues or claims which arise from the operation, failure to meet specifications, failure to complete, exploitation, sale or loss of, or damage to, such properties;
- additional Liens created in any calendar year upon assets, revenues or receivables of Ecuador having, when encumbered, a fair market value not exceeding an aggregate amount equal to U.S.\$50,000,000 (or the equivalent in other currencies) to collateralize, or to purchase collateral, guarantees or other credit support in respect of, new borrowings by Ecuador, provided that, to the extent that in any calendar year U.S.\$50,000,000 (or the equivalent in other currencies) exceeds such aggregate fair market value of the assets, revenues or receivables so encumbered during that year, the aggregate fair market value of assets, revenues and receivables which may be encumbered in subsequent calendar years shall be increased by the amount of such excess; provided, however, that the fair market value of the assets, revenues or receivables so encumbered in any calendar year shall in no event exceed U.S.\$150,000,000 (or the equivalent in other currencies); and
- any renewal or extension of any of the Liens described above; provided, that no renewal or extension of any permitted Lien shall (A) extend to or cover any property other than the property then subject to the Lien being extended or renewed or (B) increase the amount of financing secured by that Lien.

#### **Events of Default**

Each of the following is an event of default under the Notes:

1. *Non-Payment*: Ecuador fails, after the applicable payment date, to (i) make any payment of principal or Make-Whole Amount on the Notes (unless such non-payment is due to an administrative or technical error and is remedied within five Business Days of the date when such payment is due) or (ii) make any payment of an interest amount or Additional Amount on the Notes within 30 days of the date when such payment is due;

2. *Breach of Other Obligations:* Ecuador fails to perform or comply with any other obligation under the Notes or under the Indenture and Ecuador does not or cannot cure that failure within 30 days after it receives written notice from the Trustee or holders of at least 25% of the aggregate principal amount of the Notes then outstanding regarding that default;
3. *Cross Default:*
  - Ecuador fails to make any payment in respect of any External Indebtedness (other than Excluded Indebtedness) in an aggregate principal amount in excess of U.S.\$50,000,000 (or its equivalent in any other currency) when due (as such date may be extended by virtue of any applicable grace period or waiver);
  - The holders of at least 25% of the aggregate outstanding principal amount of any External Indebtedness (other than Excluded Indebtedness) having an aggregate principal amount in excess of U.S.\$50,000,000 (or its equivalent in any other currency), accelerate or declare such External Indebtedness to be due and payable, or required to be prepaid (other than by a regularly scheduled prepayment), prior to its stated maturity, as a result of Ecuador's failure to pay the principal or interest on such External Indebtedness, and such acceleration, declaration or prepayment is not annulled or rescinded within 30 days;
4. *Moratorium:* Ecuador, or a court of proper jurisdiction, declares a moratorium with respect to the payment of principal of, or interest on, Ecuador's External Indebtedness (other than Excluded Indebtedness);
5. *Validity:* Ecuador denies, repudiates or contests any of its payment obligations under the Notes or the Indenture in a formal administrative, legislative, judicial or arbitral proceeding; or any constitutional provision, treaty, law, regulation, decree, or other official pronouncement of Ecuador, or any final decision by any court in Ecuador having jurisdiction, renders it unlawful for Ecuador to pay any amount due on the Notes or to perform any of its obligations under the Notes or the Indenture;
6. *IMF Membership:* Ecuador fails to maintain its membership in the IMF or ceases to be eligible to use resources of IMF;
7. *CAF, FLAR, and IDB Membership:* The Republic fails to maintain its membership in, or its eligibility to use the general resources or equivalent of, any of CAF, FLAR and IDB;
8. *Judgment:* There shall have been entered against Ecuador or the Central Bank in a matter related to External Indebtedness (other than Excluded Indebtedness) a final judgment, decree or order by a court of competent jurisdiction from which no appeal may be made, or is made within the time limit for doing so, for the payment of money in excess of U.S.\$50,000,000 (or its equivalent in another currency) and 120 days shall have passed since the entry of any such order without Ecuador having satisfied such judgment; or
9. *Arbitral award:* There shall be made against the Republic or the Central Bank in a matter related to External Indebtedness (other than Excluded Indebtedness) an arbitral award by a tribunal of competent jurisdiction from which no appeal or application to a tribunal or court of competent jurisdiction to set aside may be made, or is made within the time limit for doing so, for the payment of money in excess of U.S.\$50,000,000 (or its equivalent in another currency) and 120 days shall have passed since the making of any such award without the Republic having satisfied the award.

If any of the above events of default occurs and is continuing, the Trustee may, and at the written direction of holders of at least 25% of the aggregate principal amount of the then-outstanding Notes, will declare the principal amount of all the Notes to be immediately due and payable by notifying Ecuador in writing. The Notes will become due and payable on the date such written notice is received by or on behalf of Ecuador, unless prior to such date all



events of default in respect of all of the Notes have been cured or waived by the holders of not less than a majority of the principal amount of the outstanding Notes as provided in the Notes or in the Indenture.

The Trustee will, on behalf of the holders of all of the Notes, by written notice to Ecuador, rescind and annul such declaration of acceleration and its consequences, if:

- all events of default (other than the non-payment of principal that became due solely as a result of such acceleration) have been cured, waived by the holders of not less than a majority of the principal amount of the outstanding Notes or remedied; and
- the Trustee will have been reimbursed or otherwise compensated by Ecuador for all documented costs, expenses and liabilities reasonably incurred by the Trustee as a result of any such event of default.

### **Limitation on Time for Claims**

Claims against Ecuador for the payment of principal of or interest on the Notes (including Additional Amounts and Make-Whole Amounts, if any) must be made within six years after the date on which such payment first became due, or such shorter period provided by applicable law.

### **Modifications – Collective Action**

Any Modification of the Indenture or the terms and conditions of the Notes may be made or given pursuant to a written or other action of the holders of the Notes in accordance with the applicable provisions of the Indenture or the Notes.

The Notes contain collective action clauses regarding future Modifications, as defined under “—Certain Defined Terms” below, of the terms and conditions of the Notes or the Indenture as described below:

In the case of any Modification of the terms and conditions of the Notes or of the Indenture which constitutes a Non-Reserved Matter, as defined under “—Certain Defined Terms” below, such Modification may be made with the consent of Ecuador and of holders of at least 66 2/3% in aggregate principal amount of the Notes then outstanding.

In the case of any Modification of the terms and conditions of the Notes or of the Indenture which constitutes a Reserved Matter, as defined under “—Certain Defined Terms” below, such Modification may be made with the consent of Ecuador and of holders of at least 75% in aggregate principal amount of the Notes then outstanding.

Additionally, the Notes allow Ecuador to make Reserved Matter Modifications affecting two or more series of debt securities.

If the Republic proposes any Reserved Matter Modification (i) to the terms and conditions of the Notes and the terms and conditions of at least one other series of debt securities issued by the Republic, and/or (ii) to the Indenture insofar as it affects the Notes and to any other indenture(s), fiscal agency agreement(s) or similar issuance documentation relating to at least one other series of debt securities insofar as it affects such debt securities, (in each case, containing multiple series modification provisions in substantially the same form as in the Indenture), any modification to the terms and conditions of two or more series may be made, and, in each case, further compliance therewith may be waived, with the consent of the Republic, and (x) the holders of at least 66⅔% of the aggregate principal amount of the outstanding debt securities of all series that would be affected by that reserved matter modification (taken in aggregate); and (y) the holders of more than 50% of the aggregate principal amount of the outstanding debt securities of each affected series (taken individually).

Any such proposed Reserved Matter Modification may be made in respect of some series of debt securities only and may be used for different groups of two or more series of debt securities, containing multiple series modification provisions substantially in the same form as in the Indenture, simultaneously.

If the Republic proposes any Reserved Matter Modification (i) to the terms and conditions of the Notes and the terms and conditions of at least one other series of debt securities issued by the Republic, and/or (ii) to the Indenture insofar as it affects the Notes and to any other indenture(s), fiscal agency agreement(s) or similar issuance documentation relating to at least one other series of debt securities insofar as it affects such debt securities, (in each case, containing multiple series modification provisions in substantially the same form as in the Indenture), any modification to the terms and conditions of two or more series may be made, and, in each case, further compliance therewith may be waived, with the consent of the Republic, and the holders of at least 75% of the aggregate principal amount of the outstanding debt securities of all series that would be affected by that Reserved Matter Modification (taken in aggregate), provided that the Uniformly Applicable condition is satisfied.

Any such proposed Reserved Matter Modification may be made in respect of some series of debt securities only and may be used for different groups of two or more series of debt securities, containing multiple series modification provisions substantially in the same form as in the Indenture, simultaneously.

The “Uniformly Applicable” condition will be satisfied if:

- (a) the holders of all the affected series of debt securities are invited to exchange, convert, or substitute their debt securities, on the same terms, for (i) the same new instrument or other consideration or (ii) a new instrument, new instruments or other consideration from an identical menu of instruments or other consideration; or
- (b) amendments proposed to the terms and conditions of each affected series of debt securities would, following implementation of such amendments, result in the amended instruments having identical provisions (other than provisions which are necessarily different, having regard to different currency of issuance),

and, for the purposes of establishing whether the Uniformly Applicable condition has been satisfied:

- (c) the “same terms” is to be construed as meaning the same offer on principal, the same offer on all interest accrued but unpaid prior to an exchange or event of default and the same offer on past due interest (or other relevant financial features of the applicable debt securities), but any such offer may contain differences as between different series of affected debt securities which are necessary having regard to the currency of denomination; and
- (d) the Republic shall promptly furnish one or more officer's certificate(s) to the Trustee, certifying that the Uniformly Applicable condition has been satisfied, and the Trustee shall be entitled to accept such officer's certificate(s) as conclusive evidence of the facts therein set forth.

Any debt securities owned or controlled, directly or indirectly, by the Republic or any Public Sector Instrumentality, which would be disregarded for the purposes of a vote (or written action) under the series of debt securities of which they form part, shall also be disregarded for the purposes of this calculation.

For the purpose of calculating the par value of the Notes and any affected series of debt securities which are to be aggregated with the Notes, the Republic may appoint a calculation agent (the “Calculation Agent”). The Republic shall, with the approval of the Calculation Agent, promulgate the methodology in accordance with which the par value of the Notes and such affected series of debt securities will be calculated. In any such case where a Calculation Agent is appointed, the same person will be appointed as the Calculation Agent for the Notes and each other affected series of debt securities for these purposes, and the same methodology will be promulgated for each affected series of debt securities. If any series of affected debt securities are denominated in a currency other than U.S. dollars, the Republic shall appoint a single Calculation Agent who shall specify a commercially reasonable method for determining the U.S. dollar equivalent of such debt securities for purposes of voting.

The Republic shall appoint an Aggregation Agent (who may also be the Calculation Agent), which shall be independent of the Issuer, to calculate whether a Reserved Matter Modification has been approved by the required principal amount of the outstanding debt securities of the affected series of debt securities.

If any Reserved Matter Modification is sought in the context of a simultaneous offer to exchange the debt securities of one or more series for new debt instruments of Ecuador or any other person, Ecuador shall ensure that the relevant provisions of the Notes, as amended by such Modification, are no less favorable to the holders of the Notes than the provisions of the new instrument being offered in the exchange, or if more than one debt instrument is offered, no less favorable than the new debt instrument issued having the largest aggregate principal amount.

Ecuador agrees that it will not issue new Notes with the intention of placing such Notes with holders expected to support any Modification proposed by Ecuador (or that Ecuador plans to propose) for approval pursuant to the Modification provisions of the Indenture or of the terms and conditions of the Notes.

Any Modification consented to or approved by the holders of the Notes pursuant to the Modification provisions of the Indenture or of the terms and conditions of the Notes will be conclusive and binding on all holders of the Notes, whether or not they have given such consent or were present at a meeting of holders at which such action was taken, and on all future holders of the Notes (whether or not notation of such Modification is made upon the Notes). Any instrument given by or on behalf of any holder of a Note in connection with any consent to or approval of any such Modification will be conclusive and binding on all subsequent holders of such Note.

Before seeking the consent of any holder of a Note to a Reserved Matter Modification, Ecuador will provide the Trustee (for onward distribution to the holders of the Notes) the following information:

- a description of the economic or financial circumstances that, in Ecuador's view, explain the request for the proposed Reserved Matter Modification;
- if Ecuador has entered into a standby, extended funds or similar program with the IMF, CAF, FLAR, or IDB, a copy of that program (including any related technical memorandum);
- a description of Ecuador's proposed treatment of its other major creditor groups (including, where appropriate, Paris Club creditors, other bilateral creditors and internal debt holders) in connection with Ecuador's efforts to address the situation giving rise to the requested Reserved Matter Modification; and
- if any proposed Reserved Matter Modification contemplates debt securities being aggregated in more than one group of debt securities, a description of the proposed treatment of each such group.

For purposes of determining whether the required percentage of holders has consented to or voted in favor of any Modification, any Notes owned or controlled, directly or indirectly, by Ecuador or any Public Sector Instrumentality, as defined under “—Certain Defined Terms” below, shall be disregarded and deemed not to be outstanding. In determining whether the Trustee shall be protected in relying upon any Modification, only Notes that the Trustee knows to be so owned shall be so disregarded. Upon request of the Trustee, and together with any request for any Modification of the Indenture by Ecuador, Ecuador shall deliver to the Trustee a certificate signed by an authorized representative of Ecuador listing all Notes, if any, known by Ecuador to be owned or held by or for the account of Ecuador or any Public Sector Instrumentality.

Ecuador and the Trustee may, without the vote or consent of any holder of the Notes, amend the Notes or the Indenture for the purpose of:

- adding to Ecuador's covenants for the benefit of the holders of the Notes;
- surrendering any of Ecuador's rights or powers;
- securing the Notes pursuant to the requirements of the Notes or otherwise;

- curing any ambiguity, or curing, correcting or supplementing any proven error in the terms and conditions of the Notes or in the Indenture;
- making any formal, minor or technical change; or
- amending the terms and conditions of the Notes or the Indenture in any manner which Ecuador and the Trustee may determine shall not adversely affect the interests of any holder of the Notes.

The Notes will clear and settle through Euroclear and Clearstream and will be issued in global book-entry form and registered in the nominee name of a common depositary for Euroclear and Clearstream. Beneficial interests in the Notes may be held through Euroclear and Clearstream and their direct and indirect participants. See “Settlement and Clearance” for a description of the procedures applicable to book-entry securities.

The Trustee shall not be required to sign any amendment that adversely affects its rights, duties, liabilities or immunities.

### **Definitive Notes**

Ecuador will issue Notes in definitive form (i.e. not in book-entry but physical form) only if:

- the depositary notifies Ecuador that it is unwilling or unable to continue as depositary, is ineligible to act as depositary or, ceases to be a clearing agency registered under the US Securities Exchange Act of 1934, as amended and Ecuador does not appoint a successor depositary or clearing agency within 90 days;
- Ecuador decides that it no longer wishes to have all or part of the Notes represented by global notes;
- the Trustee has instituted or been directed in writing by the requisite holders to institute any judicial proceeding to enforce the rights of the holders under the Notes and has been advised by its legal counsel that it should obtain possession of the Notes for purposes of the proceeding;
- an event of default has occurred and is continuing and (A) any holder requests the Trustee to exchange its interest in the Note in the form of a Global Note for a Definitive Note, or (B) 25% of all outstanding holders direct the Trustee to exchange all of Notes represented by global notes for Notes in definitive form; or
- certain other events provided in the Indenture occur.

In the event Ecuador issues Notes in definitive form, the beneficial owners receiving those Notes should review their terms and conditions, and in particular the restrictions on transfers of the Notes, set forth in the Note certificates.

### **Trustee, London Paying Agent, Luxembourg Listing Agent, Transfer Agents; Registrar**

The Bank of New York Mellon, London Branch will serve as the London paying agent and the Trustee will serve as the transfer agent and registrar for the benefit of the holders of Notes. The Republic, acting for the exclusive benefit of the holders of the Notes, may also appoint, one or more paying agents in London, England for the purpose of facilitating Ecuador's payment of amounts due on the Notes. Ecuador may at any time instruct the Trustee to terminate the appointment of any paying agent and instruct the Trustee to appoint other paying agents. So long as any of the Notes remain outstanding, there shall be maintained, at Ecuador's expense, (1) in London, England in an office or agency where the Notes may be presented for payment, (2) in New York, New York in an office or agency where the Notes may be presented for exchange, transfer and registration of transfer as provided in the Indenture and, (3) in New York, New York in an office or agency where notices and demands in respect of the Notes or the Indenture may be served. A paying agent will also be maintained in a Member State of the European Union that is not obliged to deduct or withhold tax pursuant to European Council Directive 2003/48/EC (as amended from time to time) or any other European Council Directive implementing the conclusions of the ECOFIN Council

meeting of November 26-27, 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to, conform to such Directive. In addition, so long as the Notes are listed on the Luxembourg Stock Exchange and trade on the Euro MTF Market, and the rules of such exchange so require, a paying agent and a transfer agent will be maintained in Luxembourg. Ecuador will provide prompt notice of the termination, appointment or change in the office of any paying agent, transfer agent or registrar acting in connection with the Notes.

## **Notices**

All notices to the holders of Notes will be published, at the expense of Ecuador, in the Wall Street Journal of New York, New York, the Financial Times of London, England, and, if and so long as the Notes are listed on the Luxembourg Stock Exchange (and, if applicable, traded on the Euro MTF Market of the Luxembourg Stock Exchange), the Luxemburger Wort of Luxembourg. If any of such newspapers shall cease to be published, the Trustee upon consultation with Ecuador, will substitute for it another newspaper customarily published in New York, London or Luxembourg, as the case may be. If, because of temporary suspension of publication or general circulation of any newspaper or for any other reason, it is impossible to make any publication of any notice in the manner provided above, any other publication or other notice which is acceptable to the Trustee shall constitute a sufficient publication of such notice. Notices will also be published on the website of the Luxembourg Stock Exchange. Notices shall be deemed to have been given on the date of publication or, if published on different dates, on the date of the first such publication. Notices will also be delivered to holders at their registered addresses or sent in accordance with the clearing system's then applicable procedures. Notices to holders of Global Notes shall be given in accordance with the Depositary procedures.

So long as a clearing system, or its nominee, is the registered holder of a global note, each person owning a beneficial interest in that global note must rely on the procedures of that clearing system to receive notices in connection with the Notes. Each person owning a beneficial interest in a global note who is not a direct participant in a clearing system must rely on the procedures of the participant through which the person owns its interest in the global note to receive notices provided to the clearing system. Ecuador will consider mailed notice to have been given three Business Days after it has been sent.

## **Further Issues of Securities**

Ecuador may, from time to time, without the consent of the holders of the Notes, create and issue additional Notes with the same terms and conditions as the Notes in all respects (or in all respects except for the amount of the first interest payment and the issue price) so long as the additional Notes are consolidated and form a single series with the outstanding Notes, provided that such additional Notes do not have, for purposes of US federal income taxation, a greater amount of original issue discount than the outstanding Notes have as of the date of the issue of such additional Notes (regardless of whether any holders of such Notes are subject to US federal income taxation).

## **Submission to Arbitration**

- (a) Any dispute, controversy or claim of any nature arising out of, relating to or having any connection with the Indenture, including any dispute as to the existence, validity, interpretation, performance, breach, termination or consequences of the nullity of the Indenture (a "Dispute") where the Republic is either a party, claimant, respondent or otherwise is necessary thereto, will not be referred to a court of any jurisdiction and will instead be referred to and finally resolved by arbitration under the Rules of the LCIA ("LCIA Rules") as at present in force as modified by the Indenture, which LCIA Rules are deemed to be incorporated by reference. In particular:
  - (i) There will be three arbitrators.
  - (ii) Each arbitrator will be an English or New York qualified lawyer of at least 15 years' standing with experience in relation to international banking or capital markets disputes. At least one of those arbitrators will be a lawyer qualified in New York.

- (iii) If there are two parties to the Dispute, each party will be entitled to nominate one arbitrator. If there are multiple claimants and/or multiple respondents, all claimants and/or all respondents shall attempt to agree upon their respective nomination(s) such that the claimants shall together be entitled to nominate one arbitrator and the respondents will together be entitled to nominate one arbitrator. If any such party or multiple parties fail to nominate an arbitrator within thirty (30) days from and including the date of receipt of the relevant request for arbitration, an arbitrator will be appointed on their behalf by the LCIA Court in accordance with the LCIA Rules and applying the criteria at clause (ii) above. In such circumstances, any existing nomination or confirmation of the arbitrator chosen by the party or parties on the other side of the proposed arbitration will be unaffected, and the remaining arbitrator(s) will be appointed in accordance with the LCIA Rules.
- (b) The third arbitrator and chairman of the arbitral tribunal will be appointed by the LCIA Court in accordance with the LCIA Rules and applying the criteria at clause (ii) above.
- (c) The seat, or legal place, of arbitration will be London, England.
- (d) The language to be used in the arbitration shall be English. The arbitration provisions of the Indenture shall be governed by English law.
- (e) Without prejudice to any other mode of service allowed by law, the Republic hereby appoints Law Debenture Corporate Services Limited, with its registered office at 5/F, 100 Wood Street, EC2V 7EX, London, England (the “Process Agent”) as its agent under the Indenture for service of process in relation to any proceedings before the English courts in relation to any arbitration contemplated by the Indenture or in relation to recognition or enforcement of any such arbitral award obtained in accordance with the Indenture.

If the Process Agent is unable to act as the Republic's agent under the Indenture for the service of process, the Republic must immediately (and in any event within ten (10) days of the event taking place) appoint another agent (a “Replacement Agent”) on terms acceptable to the Trustee.

The Republic agrees that failure by the Process Agent or, as applicable, a Replacement Agent, to notify the Republic of the process will not invalidate the proceedings concerned.

Any Dispute where the Republic is not a party, claimant, respondent or otherwise is necessary thereto, will be subject to the non-exclusive jurisdiction of any New York state or United States federal court sitting in the Borough of Manhattan, the City of New York, and any appellate court from any thereof, in any action or proceeding arising out of or relating to the Indenture (except actions or proceedings arising under or in connection with U.S. federal and state securities laws), and the Trustee and the holders of the Notes hereby irrevocably submit to such jurisdiction and agree that all claims in respect of such Dispute may be heard and determined in such New York state or United States federal court.

### **Sovereign Immunity**

The execution and delivery of the Indenture by the Republic constitutes, and the Republic's performance of and compliance with its obligations will constitute an act of commercial public credit as provided under the laws of the Republic. To the extent permitted by law, the Republic irrevocably and unconditionally agrees that:

- (a) the Republic submits to the jurisdiction of any Ecuadorian court and to any legal process in the Republic's courts (other than attachment proceedings prior to recognition or enforcement of an arbitral award), in connection with the enforcement of an arbitral award obtained in accordance with the Indenture, except with respect to the Immune Property, which shall be entitled to immunity from enforcement in accordance with mandatory provisions of the laws of Ecuador;

- (b) the Republic submits to the jurisdiction of any court outside the Republic and to any legal process, orders or other measures in courts outside the Republic, whether through service or notice, attachment in aid of execution, execution against property of any sort, actions in rem or the grant of injunctions or specific performance, in connection with the enforcement of an arbitral award obtained in accordance with the Indenture, except with respect to the Immune Property, which shall be immune to the fullest extent;
- (c) the Republic undertakes not to invoke any defense on the basis of any kind of immunity, for itself and/or its assets which do not constitute Immune Property in respect of any of the foregoing legal actions or proceedings; and
- (d) the Republic submits to the jurisdiction of the English courts in connection with any proceeding invoking the supervisory jurisdiction of those courts in relation to an arbitration conducted pursuant to the Indenture.

The levy of execution on assets of the Republic within the territory of the Republic shall be carried out in accordance with and under the laws of the Republic.

The Republic irrevocably waives, to the fullest extent permitted by law, any requirement or provision of law that requires the posting of a bond or other security as a condition to the institution, prosecution or completion of any action or proceeding.

An arbitral award obtained in accordance with the Indenture will be conclusive and may be enforced in any jurisdiction in accordance with the New York Convention or in any other manner provided for by law.

“Immune Property,” in accordance with the provisions of the law of Ecuador, means:

- (a) any property which is used or designated for use in the performance of the functions of the diplomatic mission of Ecuador or its consular posts;
- (b) aircraft, naval vessels and other property of a military character or used or designated for use in the performance of military functions;
- (c) property forming part of the cultural heritage of Ecuador or part of its archives;
- (d) unexploited natural non-renewable resources in Ecuador;
- (e) funds managed in the national Treasury Account;
- (f) assets and resources comprising available monetary reserves of Ecuador;
- (g) public domain assets used for providing public services in Ecuador;
- (h) national assets located in the territory of Ecuador and belonging to the Republic, such as streets, bridges, roads, squares, beaches, sea and land located over 4,500 meters above sea level.
- (i) accounts of the Central Bank, whether they are held abroad or locally; and
- (j) public entities’ deposits with the Central Bank, whether they are maintained abroad or locally.

“New York Convention” means the New York Convention on the Recognition and Enforcement of Arbitral Awards 1958.

## **Indemnity**

The Republic will indemnify the holders of the Notes and pay the Trustee on demand for the benefit of the holders of the Notes any attached amounts plus any accrued amounts to the date of payment at the interest rate set forth in the Notes in the event the Trustee or Paying Agent fails (without negligence or willful misconduct) to pay some or all of those amounts to the depositary for credit to the holders of the Notes because those funds are attached by one or more holders of Excluded Indebtedness prior to the receipt of such funds by the depositary or because any Trustee or Paying Agent is otherwise restrained or prevented from transferring the funds to the depositary as a result of legal action taken by one or more holders of Excluded Indebtedness.

## **Transfer Restrictions**

The Notes have not been and will not be registered under the Securities Act, and will be subject to restrictions on transferability and resale. See “Transfer Restrictions”.

## **Governing Law**

The Notes and the Indenture will be governed by the laws of the State of New York, except for those parts concerning submissions to arbitration, which shall be governed by English law.

## **Judgment Currency**

U.S. dollars are the sole currency of account and payment for all sums due and payable by Ecuador under the Indenture and the Notes. If, for the purpose of obtaining judgment in any court, it is necessary to convert a sum due hereunder in U.S. dollars into another currency, Ecuador will agree, to the fullest extent that they may legally and effectively do so, that the rate of exchange used shall be that at which in accordance with normal banking procedures a person could purchase U.S. dollars with such other currency in New York, New York, on the Business Day immediately preceding the day on which final judgment is given.

The obligation of Ecuador in respect of any sum due to any noteholder or the Trustee in U.S. dollars shall, to the extent permitted by applicable law, notwithstanding any judgment in a currency other than U.S. dollars, be discharged only to the extent that on the Business Day following receipt of any sum adjudged to be so due in the judgment currency such noteholder or Trustee may in accordance with normal banking procedures purchase U.S. dollars in the amount originally due to such person with the judgment currency. If the amount of U.S. dollars so purchased is less than the sum originally due to such person, Ecuador agrees, as a separate obligation and notwithstanding any such judgment, to indemnify such person against the resulting loss; and if the amount of U.S. dollars so purchased is greater than the sum originally due to such person, such person will, by accepting a Note, be deemed to have agreed to repay such excess.

## **Certain Defined Terms**

The following are certain definitions used in the Notes:

- “Business Day” means any day except a Saturday, Sunday or other day on which commercial banks in London, the City of New York or Quito, Ecuador are required or authorized by law to be closed.
- “Ecuadorian Authorization” means any approval, authorization, permit, consent, exemption or license or other action of or by, and any notice to or filing with, any Governmental authority, agency, regulatory or administrative body of Ecuador or of any Ecuadorian political subdivision.
- “Excluded Indebtedness” means the following series of securities issued by the Republic:
  - (i) the 12 percent U.S. dollar Denominated Global Bonds due 2012; and



(ii) the U.S. dollar Denominated Step-up Global Bonds due 2030.

- “External Indebtedness” means all Indebtedness (other than the Notes) that is not (i) issued pursuant to agreements or evidenced by instruments that expressly submit the resolution of all disputes to the exclusive jurisdiction of the courts of Ecuador or (ii) governed by Ecuadorian law.
- “Indebtedness” means for any person (a) all indebtedness of or guaranteed by such person for or in connection with borrowed money, and (b) all obligations of or guaranteed by such person (other than those specified in clause (a) above) evidenced by debt securities, debentures, notes or other similar instruments; provided that Indebtedness shall not include commercial agreements not having the commercial effect of a borrowing.
- “Lien” means any lien, pledge, mortgage, security interest, deed of trust, charge or other encumbrance or other preferential arrangement having the practical effect of constituting a security interest.
- “Majority” means greater than 50%.
- “Modification” means any modification, amendment, supplement, request, demand, authorization, direction, notice, consent, waiver (other than a waiver of an event of default that is waived by the majority of the holders as set forth under “—Events of Default” above), or other action provided by the Indenture or the terms and conditions of the Notes.
- “Non-Reserved Matter” means any Modification other than a Modification constituting a Reserved Matter.
- “Project Financing” means any financing of all or part of the costs of the acquisition, construction or development of any properties in connection with a project if the person or persons providing such financing expressly agree to look to the properties financed and the revenues to be generated by the operation of, or loss of or damage to, such properties as the principal source of repayment for the moneys advanced.
- “Public Sector Instrumentality” means the Central Bank, any department, ministry or agency of the Government or any corporation, trust, financial institution or other entity owned or controlled by the Government or any of the foregoing. For purposes of the foregoing, “control” means the power, directly or indirectly, through the ownership of voting securities or other ownership interest or otherwise, to direct the management of or elect or appoint a Majority of the board of directors or other persons performing similar functions in lieu of, or in addition to, the board of directors of a corporation, trust, financial institution or other entity.
- “Reserved Matter” means any Modification that would:
  - A. change the due date for the payment of the principal of (or premium, if any) or any installment of interest on the Notes;
  - B. reduce the principal amount of the Notes, the portion of such principal amount which is payable upon acceleration of the maturity of the Notes, the interest rate on the Notes or the premium payable upon redemption of the Notes;
  - C. change the coin or currency in which payment of interest, premium or principal in respect of the Notes is payable and the place where such payment must be made;
  - D. reduce the proportion of the principal amount of the Notes the vote or consent of the holders of which is necessary to make any Modification to or with respect to the terms and conditions of the debt securities of one or more series or the Indenture, or change the definition of “Outstanding” under the Notes;
  - E. change Ecuador's obligation to pay Additional Amounts on the Notes;

- F. change the governing law provision of the Notes;
- G. change the arbitral forum to which the Republic has submitted, the Republic's waiver of immunity, the scope of the Republic's indemnities in the Indenture or the Republic's appointment of the process agent without appointing a substitute process agent in London, in respect of actions or proceedings brought by any holder based upon the Notes;
- H. change the seniority of the Notes;
- I. authorize and/or instruct the Trustee, on behalf of all holders, to exchange or substitute all their Notes for, or convert all their Notes into, other obligations or securities of Ecuador or any other person; or
- J. change the definition of "Uniformly Applicable" or "Reserved Matter."

### **Registration and Book-Entry System**

Ecuador may issue the Notes in whole or in part in the form of one or more global notes, the ownership and transfer of which are recorded in computerized book-entry accounts, eliminating the need for physical movement of Notes. Ecuador refers to the intangible Notes represented by a global Note as "book-entry" Notes.

Ecuador will deposit any global Note it issues with the common depositary of the clearing system. The global Note will be registered in the name of the nominee of the common depositary. Unless a global Note is exchanged for definitive Notes, discussed above under "—Definitive Notes," it may not be transferred, except among the clearing system, its nominees or common depositaries and their successors. Clearing systems include Euroclear and Clearstream in Europe.

Clearing systems process the clearance and settlement of book-entry securities for their direct participants. A "direct participant" is a bank or financial institution that has an account with a clearing system. The clearing systems act only on behalf of their direct participants, who in turn act on behalf of indirect participants. An "indirect participant" is a bank or financial institution that gains access to a clearing system by clearing through or maintaining a relationship with a direct participant.

Euroclear and Clearstream are connected to each other by a direct link.

Ecuador, the Trustee and any Paying Agent will treat the registered holder of a global note as the absolute owner of the note for all purposes. The legal obligations of Ecuador, the Trustee, and any agent run only to the registered owner of a global note, which will be the relevant clearing system or the nominee of the common depositary. For example, once Ecuador arranges for payments to be made to the registered holder, Ecuador will no longer be liable for the amounts so paid on the note. In addition, if you own a beneficial interest in a global note, you must rely on the procedures of the institutions through which you hold your interests in the note (including Euroclear, Clearstream, and their participants) to exercise any of the rights granted to the holder of the note. Under existing industry practice, if you desire to take any action that the holder of a note is entitled to take, then the registered holder would authorize the clearing system participant through which you own your beneficial interest to take the action, and the participant would then either authorize you to take the action or act for you on your instructions.

## **SUBSCRIPTION AND SALE**

Citigroup Global Markets Limited is acting as the Lead Manager (the “Lead Manager”) of this offering. Subject to the terms and conditions in the purchase agreement dated the date of this Offering Circular (the “Purchase Agreement”), the Lead Manager will agree to purchase and the Republic will agree to sell to the Lead Manager, the total principal amount of the Notes.

The Purchase Agreement provides that the obligations of the Lead Manager to purchase the Notes are subject to approval of legal matters by counsel and to other conditions. The Lead Manager must purchase all the Notes if it purchases any of the Notes.

The Republic has been advised that the Lead Manager proposes to resell the Notes at the offering price set forth on the cover page of this Offering Circular within the United States to qualified institutional buyers (as defined in Rule 144A) in reliance on Rule 144A and outside the United States in reliance on Regulation S. See “Transfer Restrictions.” The price at which the Notes are offered may be changed at any time without notice.

The Notes have not been and will not be registered under the Securities Act or any state securities law and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except in transactions exempt from, or not subject to, the registration requirements of the Securities Act. See “Transfer Restrictions.”

Accordingly, the Lead Manager has agreed that, except as permitted by the Purchase Agreement and set forth in “Transfer Restrictions,” it will not offer or sell the Notes within the United States or to, or for the account or benefit of, U.S. persons as part of the distribution of the Notes.

In addition, until 40 days after the commencement of this offering, an offer or sale of Notes within the United States by a dealer that is not participating in this offering may violate the registration requirements of the Securities Act if that offer or sale is made otherwise than in accordance with Rule 144A.

Although application has been made to list the Notes on the Official List of the Luxembourg Stock Exchange and to have the Notes trade on the Euro MTF Market, the listing does not assure that a trading market for the Notes will develop. The Lead Manager intends to make a secondary market for the Notes. However, it is not obligated to do so and may discontinue making a secondary market for the Notes at any time without notice. No assurance can be given as to how liquid the trading market for the Notes will be. The Republic cannot provide any assurances that the prices at which the Notes will trade in the market after this offering will not be lower than the initial offering price or that an active trading market for the Notes will develop and continue after this offering.

The Republic estimates that its portion of the total expenses of this offering, including underwriter's fees, will be U.S.\$3.74 million.

In connection with the offering, the Lead Manager may purchase and sell Notes in the open market. Purchases and sales in the open market may include short sales, purchases to cover short positions and stabilizing purchases.

- Short sales involve secondary market sales by the Lead Manager of a greater number of Notes than it is required to purchase in the offering.
- Covering transactions involve purchases of Notes in the open market after the distribution has been completed in order to cover short positions.
- Stabilizing transactions involve bids to purchase Notes so long as the stabilizing bids do not exceed a specified maximum.

Purchases to cover short positions and stabilizing purchases, as well as other purchases by the Lead Manager for its own account, may have the effect of preventing or retarding a decline in the market price of the Notes. They may also cause the price of the Notes to be higher than the price that would otherwise exist in the open

market in the absence of these transactions. The Lead Manager may conduct these transactions in the over-the-counter market or otherwise. If the Lead Manager commences any of these transactions, it may discontinue them at any time.

The Lead Manager is a full service financial institution engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. The Lead Manager and its respective affiliates have in the past performed commercial banking, investment banking and advisory services for the Republic from time to time for which they have received customary fees and reimbursement of expenses and may, from time to time, engage in transactions with and perform services for the Republic in the ordinary course of their business for which they may receive customary fees and reimbursement of expenses. In the ordinary course of its various business activities, the Lead Manager and its respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own accounts and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve the Republic's securities and instruments.

The Republic has agreed to indemnify the Lead Manager against certain liabilities, including liabilities under the Securities Act, or to contribute to payments that the Lead Manager may be required to make because of any of those liabilities.

## **Selling Restrictions**

### **United States of America**

#### ***No registration under Securities Act***

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and in compliance with any applicable state securities laws. Accordingly, the Notes are being offered, sold or delivered only: (a) outside the United States in offshore transactions in reliance on Regulation S and (b) in the United States only to QIBs in connection with resales by the Lead Manager, in reliance on, and in compliance with, Rule 144A. In addition, until 40 days after the commencement of the offering, an offer or sale of any of the Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if the offer or sale is made otherwise than in accordance with Rule 144A.

### **Canada**

The distribution of the Notes in Canada is being made only on a private placement basis exempt from the requirement that the Republic prepare and file a prospectus with the applicable securities regulatory authorities. The Republic is not a reporting issuer in any province or territory in Canada and its Notes are not listed on any stock exchange in Canada and there is currently no public market for the Notes in Canada. The Republic currently has no intention of becoming a reporting issuer in Canada, filing a prospectus with any securities regulatory authority in Canada to qualify the resale of the Notes to the public, or listing its securities on any stock exchange in Canada. Accordingly, to be made in accordance with securities laws, any resale of the Notes in Canada must be made under available statutory exemptions from registration and prospectus requirements or under a discretionary exemption granted by the applicable Canadian securities regulatory authority. Canadian purchasers are advised to seek legal advice prior to any resale of the Notes.

Each Canadian purchaser who purchases Notes on a private placement basis pursuant to this Canadian offering circular will be deemed to have represented to and agreed with the Republic and the Lead Manager that such purchaser: (i) is entitled under applicable securities laws to purchase such Notes without the benefit of a prospectus qualified under such securities laws; (ii) is resident in Canada; (iii) is not a U.S. person as defined in Rule 902 of Regulation S under the U.S. Securities Act of 1933; (iv) is purchasing the Notes with the benefit of the

prospectus exemption provided by Section 2.3 of National Instrument 45-106 – Prospectus and Registration Exemptions (“NI 45-106”) (that is, such purchaser is an “accredited investor” within the meaning of NI 45-106 and is either purchasing Notes as principal for its own account, or is deemed to be purchasing the Notes as principal for its own account in accordance with applicable securities laws); (v) if not an individual, the purchaser was not created or used solely to purchase or hold Notes as an accredited investor under NI 45-106; (vi) is a permitted client within the meaning of National Instrument 31-103 – Registration Requirements, Exemptions and Ongoing Registrant Obligations; and (vii) if required by applicable securities laws or stock exchange rules, the purchaser will execute, deliver and file or assist the Republic in obtaining and filing such reports, undertakings and other documents relating to the purchase of the Notes by the purchaser as may be required by any securities commission, stock exchange or other regulatory authority.

### **United Kingdom**

The Lead Manager has represented, warranted and agreed that:

- (a) **Financial promotion:** it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the “FSMA”) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Republic; and
- (b) **General compliance:** it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

### **Republic of Italy**

The offering of the Notes has not been registered with the Commissione Nazionale per le Società e la Borsa (“CONSOB”) pursuant to Italian securities legislation. The Lead Manager represents and agrees that any offer, sale or delivery of the Notes or distribution of copies of this Offering Circular or any other document relating to the Notes in the Republic of Italy will be effected in accordance with all Italian securities, tax and exchange control and other applicable laws and regulations.

Any such offer, sale or delivery of the Notes or distribution of copies of this Offering Circular or any other document relating to the Notes in the Republic of Italy must be:

- (a) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with Legislative Decree No. 58 of 24 February 1998, CONSOB Regulation No. 16190 of 29 October 2007 and Legislative Decree No. 385 of 1 September 1993 (the “Banking Law”) (in each case as amended from time to time);
- (b) in compliance with Article 129 of the Banking Law and the implementing guidelines of the Bank of Italy, as amended; and
- (c) in compliance with any other applicable laws and regulations or requirement imposed by CONSOB or any other Italian authority.

### **Switzerland**

The Notes may not be publicly offered, sold or advertised, directly or indirectly, in, into or from Switzerland, as such term is used under the Swiss Code of Obligations, and will not be listed on the SIX Swiss Exchange or on any other exchange or regulated trading facility in Switzerland. Neither this Offering Circular nor any other offering or marketing material relating to the Notes constitutes an Offering Circular as such term is understood pursuant to article 652a or article 1156 of the Swiss Code of Obligations or a listing Offering Circular within the meaning of the listing rules of the SIX Swiss Exchange or any other regulated trading facility in

Switzerland and neither this Offering Circular nor any other offering or marketing material relating to the Notes may be publicly distributed or otherwise made publicly available in Switzerland, as such term is used under the Swiss Code of Obligations.

## **Singapore**

This Offering Circular has not been registered as an Offering Circular with the Monetary Authority of Singapore under the Securities and Futures Act, Cap. 289 of Singapore (the “SFA”) and accordingly, the Notes may not be offered or sold, nor may the Notes be the subject of an invitation for subscription or purchase, nor may this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase of the Notes be circulated or distributed, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the SFA) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or (iii) any person pursuant to an offer referred to in Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA or otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased in reliance on an exemption under Sections 274 or 275 of the SFA, the Notes may not be sold within the period of six months from the date of the initial acquisition of them, except to any of the following persons:

- (a) an institutional investor (as defined in Section 4A of the SFA);
- (b) a relevant person (as defined in Section 275(2) of the SFA); or
- (c) any person pursuant to an offer referred to in Section 275(1A) of the SFA,

unless expressly specified otherwise in Section 276(7) of the SFA or Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore (the “SFR”).

Where the Notes are acquired by persons who are relevant persons specified in Section 276 of the SFA, namely:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor; or
- (c) the shares, debentures and units of shares and debentures of that corporation or the beneficiaries’ rights and interest (howsoever described) in that trust shall not be transferred within 6 months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:
  - (1) to an institutional investor (under Section 274 of the SFA) or to a relevant person as defined in Section 275(2) of the SFA, or any person pursuant to an offer that is made on terms that such shares, debentures and units of shares and debentures of that corporation or such rights or interest in that trust are acquired at a consideration of not less than \$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets and further for corporations, in accordance with the conditions specified in Section 275(1A) of the SFA;
  - (2) where no consideration is or will be given for the transfer;

- (3) where the transfer is by operation of law;
- (4) as specified in Section 276(7) of the SFA; or
- (5) as specified in Regulation 32 of the SFR.

## **Hong Kong**

The Lead Manager has represented and agreed that:

- (1) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than (a) to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (“SFO”) and any rules made under the Ordinance; or (b) in other circumstances which do not result in the document being an “Offering Circular” as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and
- (2) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or ready by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the SFO and any rules made under that Ordinance.

## **Japan**

The Notes have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (Law No. 25 of 1948, as amended) and, accordingly, the Lead Manager has undertaken that it will not offer or sell any Notes directly or indirectly, in Japan or to, or for the benefit of, any Japanese Person or to others for re-offering or resale, directly or indirectly, in Japan or to any Japanese Person except under circumstances which will result in compliance with all applicable laws, regulations and guidelines promulgated by the relevant Japanese governmental and regulatory authorities and in effect at the relevant time. For the purposes of this paragraph, “Japanese Person” shall mean any person resident in Japan, including any corporation or other entity organised under the laws of Japan.

## **United Arab Emirates (excluding the Dubai International Financial Centre)**

The Lead Manager has represented and agreed that the Notes have not been and will not be offered, sold or publicly promoted or advertised by it in the United Arab Emirates other than in compliance with any laws applicable in the United Arab Emirates governing the issue, offering and sale of securities.

The Lead Manager has acknowledged that the information contained in this Offering Circular does not constitute a public offer of securities in the United Arab Emirates in accordance with the Commercial Companies Law (Federal Law 8 of 1984 (as amended)) or otherwise and is not intended to be a public offer and the information contained in this Offering Circular is not intended to lead to the conclusion of any contract of whatsoever nature within the territory of the United Arab Emirates.

## **Dubai International Financial Centre**

The Lead Manager has represented and agreed that it has not offered and will not offer the Notes to any person in the Dubai International Financial Centre unless such offer is:

- (a) an “Exempt Offer” in accordance with the Offered Securities Rules of the Dubai Financial Services Authority (the “DFSA”); and

- (b) made only to persons who meet the Professional Client criteria set out in Rule 2.3.2 of the DFSA Conduct of Business Module.

## **Qatar**

The Lead Manager has represented and agreed that it has not offered, sold or delivered and will not offer, sell, or deliver, directly or indirectly, any Notes in Qatar, except: (a) in compliance with all applicable laws and regulations of Qatar; and (b) through persons or corporate entities authorized and licensed to provide investment advice and/or engage in brokerage activity and/or trade in respect of foreign securities in Qatar.

This Offering Circular has not been reviewed or approved by or registered with the Qatar Exchange, the Qatar Central Bank or the Qatar Financial Markets Authority. This Offering Circular is strictly private and confidential and may not be reproduced or used for any other purpose, nor provided to any person other than the recipient thereof.

## **Chile**

Neither the Republic nor the Notes are registered in the Securities Registry (*Registro de Valores*) or the Foreign Securities Registry (*Registro de Valores Extranjeros*) of the Chilean Securities and Insurance Commission (*Superintendencia de Valores y Seguros de Chile*), or SVS, or is subject to the control and supervision of the SVS. As unregistered securities, the Republic is not required to disclose public information about the Notes in Chile. The Notes may not be publicly offered in Chile unless they are registered in the corresponding securities registry. The Notes may only be offered in Chile in circumstances that do not constitute a public offering under Chilean law or in compliance with General Rule No. 336 of the SVS. Pursuant to General Rule No. 336, the Notes may be privately offered in Chile to certain “qualified investors” identified as such therein (which in turn are further described in General Rule No. 216, dated June 12, 2008, of the SVS).

This Offering Circular and other offering materials relating to the offer of the Notes do not constitute a public offer of, or an invitation to subscribe for or purchase, the Notes in the Republic of Chile, other than to individually identified purchasers pursuant to a private offering within the meaning of Article 4 of the Chilean Securities Market Act (*Ley de Mercado de Valores*) (an offer that is not addressed to the public at large or to a certain sector or specific group of the public).

## **General**

No action has been taken by the Republic or by the Lead Manager that would, or is intended to, permit a public offer of the Notes in any country or jurisdiction where any such action for that purpose is required.

Accordingly, the Lead Manager has undertaken that it will not, directly or indirectly offer or sell any Notes or distribute or publish any offering circular, this Offering Circular, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of Notes by it will be made on the same terms.



## **BOOK-ENTRY SETTLEMENT AND CLEARANCE**

### **Global Notes**

The Notes will initially be issued in the form of two registered notes in global form (which Ecuador refers to in this Offering Circular as “Global Notes”), without interest coupons, as follows:

- Notes sold to qualified institutional buyers in reliance on Rule 144A under the Securities Act will be represented by one or more Global Notes (which Ecuador refers to in this Offering Circular as the “Restricted Global Notes”); and
- Notes sold in offshore transactions to non-U.S. persons in reliance on Regulation S will be represented by one or more Global Notes (which Ecuador refers to in this Offering Circular as the “Regulation S Global Notes”).

Upon issuance, the Global Notes will be deposited with the common depositary and registered in the nominee name of the common depositary for Euroclear and Clearstream.

Ownership of beneficial interests in each Global Note will be limited to persons who either have accounts with Euroclear (which Ecuador refers to in this Offering Circular as the “Euroclear participants”) or persons who have accounts with Clearstream (which Ecuador refers to in this Offering Circular as the “Clearstream participants”) or to persons who hold interests through Euroclear participants or Clearstream participants. The Republic expects that under procedures established by Euroclear:

- upon deposit of each Global Note with the common depositary, Euroclear or Clearstream will credit portions of the principal amount of the Global Note to the accounts of the Euroclear or Clearstream participants designated by the Lead Manager; and
- ownership of beneficial interests in each Global Note will be shown on, and transfer of ownership of those interests will be effected only through, records maintained by Euroclear (with respect to interests of Euroclear participants) or Clearstream (with respect to interests of Clearstream participants) and the records of Euroclear or Clearstream participants (with respect to other owners of beneficial interests in each Global Note).

Investors may hold their interests in the Regulation S Global Note directly through Euroclear or Clearstream, Luxembourg, if they are participants in those systems, or indirectly through organizations that are participants in those systems. Investors may also hold their interests in the Regulation S Global Note through organizations other than Euroclear or Clearstream, Luxembourg that are Euroclear participants. The Bank of New York Mellon, London Branch will act as the common depositary for the interests in the Regulation S Global Note.

Beneficial interests in the Global Notes may not be exchanged for Notes in physical certificated form except in the limited circumstances described below.

Each Global Note and beneficial interests in each Global Note will be subject to restrictions on transfer as described under “Transfer Restrictions.”

### **Exchanges between the Global Notes**

Beneficial interests in one Global Note may generally be exchanged for interests in another Global Note. Depending on whether the transfer is being made during or after the 40-day restricted period, and to which Global Note the transfer is being made, the Issuer or Trustee may require the seller to provide certain written certifications in the form provided in the Indenture (as defined in “Description of the Notes”).

A beneficial interest in a Global Note that is transferred to a person who takes delivery through another Global Note will, upon transfer, become subject to any transfer restrictions and other procedures applicable to beneficial interests in the other Global Note.

### **Book-Entry Procedures for the Global Notes**

All interests in the Global Notes will be subject to the operations and procedures of Euroclear and, if applicable, Clearstream, Luxembourg. The Republic provides the following summaries of those operations and procedures solely for the convenience of investors. The operations and procedures of each settlement system are controlled by that settlement system and may be changed at any time. None of the Republic, the Trustee, any agent or the Lead Manager is responsible for those operations or procedures.

Euroclear was created to hold securities for its participants and to facilitate the clearance and settlement of securities transactions between its participants through electronic book-entry changes to the accounts of its participants. Euroclear's participants include securities brokers and dealers, including the Lead Manager; banks and trust companies; clearing corporations; and other organizations. Indirect access to Euroclear's system is also available to others such as banks, brokers, dealers and trust companies; these indirect participants clear through or maintain a custodial relationship with a Euroclear participant, either directly or indirectly. Investors who are not Euroclear participants may beneficially own securities held by or on behalf of Euroclear only through Euroclear participants or indirect participants in Euroclear.

So long as the depositary is the registered owner of a Global Note, that depositary will be considered the sole owner or holder of the Notes represented by that Global Note for all purposes under the Indenture. Except as provided below, owners of beneficial interests in a Global Note:

- will not be entitled to have Notes represented by the Global Note registered in their names;
- will not receive or be entitled to receive physical, certificated notes; and
- will not be considered the owners or holders of the Notes under the Indenture for any purpose, including with respect to the giving of any direction, instruction or approval to the Trustee under the Indenture.

As a result, each investor who owns a beneficial interest in a Global Note must rely on the procedures of Euroclear to exercise any rights of a holder of Notes under the Indenture (and, if the investor is not a participant or an indirect participant in Euroclear, on the procedures of the Euroclear participant through which the investor owns its interest in the Notes).

Payments of principal and interest with respect to the Notes represented by a Global Note will be made by the Trustee to the common depositary as the registered holder of the Global Note. Neither the Republic nor the Trustee will have any responsibility or liability for the payment of amounts to owners of beneficial interests in a Global Note, for any aspect of the records relating to or payments made on account of those interests by Euroclear, or for maintaining, supervising or reviewing any records of Euroclear relating to those interests.

Payments by participants and indirect participants in Euroclear to the owners of beneficial interests in a Global Note will be governed by standing instructions and customary industry practice and will be the responsibility of those participants or indirect participants and Euroclear.

Transfers between participants in Euroclear will be effected under Euroclear's procedures and will be settled in same-day funds. Transfers between participants in Clearstream, Luxembourg will be effected in the ordinary way under the rules and operating procedures of those systems.

Cross-market transfers between Euroclear participants, on the one hand, and participants in Clearstream, Luxembourg, on the other hand, will be effected within Euroclear through the Euroclear participants that are acting

as depositaries for Clearstream, Luxembourg. To deliver or receive an interest in a Global Note held in a Clearstream, Luxembourg account, an investor must send transfer instructions to Clearstream, Luxembourg, as the case may be, under the rules and procedures of that system and within the established deadlines of that system. If the transaction meets its settlement requirements, Clearstream, Luxembourg, as the case may be, will send instructions to its Euroclear depositary to take action to effect final settlement by delivering or receiving interests in the relevant Global Notes in Euroclear, and making or receiving payment under normal procedures for same-day funds settlement applicable to Euroclear. Clearstream, Luxembourg participants may not deliver instructions directly to the Euroclear depositaries that are acting for Clearstream, Luxembourg.

Euroclear and Clearstream, Luxembourg have agreed to the above procedures to facilitate transfers of interests in the Global Notes among participants in those settlement systems. However, the settlement systems are not obligated to perform these procedures and may discontinue or change these procedures at any time. Neither the Republic nor the Trustee nor any paying agent will have any responsibility for the performance by, Euroclear or Clearstream, Luxembourg or their participants or indirect participants of their obligations under the rules and procedures governing their operations.

### **Certificated Notes**

Notes in physical, certificated form will be issued and delivered to each person that Euroclear or Clearstream identifies as a beneficial owner of the related Notes only if:

- the depositary notifies the Republic at any time that it is unwilling or unable to continue as depositary for the Global Notes and a successor depositary is not appointed within 90 days;
- Euroclear or Clearstream ceases to be registered as a clearing agency under the U.S. Securities Exchange Act of 1934 and a successor depositary is not appointed within 90 days; or
- the Trustee receives a notice from the registered holder of the Global Note requesting exchange of a specified amount for individual note certificates following a failure to pay at maturity or upon acceleration of any Note.

## TRANSFER RESTRICTIONS

The Notes are subject to the following restrictions on transfer. By purchasing Notes, each prospective investor will be deemed to have made the following acknowledgments, representations to and agreements with the Republic and the Lead Manager:

- (1) Each prospective investor acknowledges that:
  - the Notes have not been registered under the Securities Act or any other securities laws and are being offered for resale in transactions that do not require registration under the Securities Act or any other securities laws; and
  - unless so registered, the Notes may not be offered, sold or otherwise transferred except under an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act or any other applicable securities laws, and in each case in compliance with the conditions for transfer set forth in paragraph (4) below.
- (2) Each prospective investor represents that it is not an affiliate (as defined in Rule 144 under the Securities Act) of the Republic, that it is not acting on the Republic's behalf and that either:
  - it is a qualified institutional buyer (as defined in Rule 144A) and is purchasing Notes for its own account or for the account of another qualified institutional buyer, and it is aware that the Lead Manager is selling the Notes to it in reliance on Rule 144A; or
  - it is not a U.S. person (as defined in Regulation S under the Securities Act) or purchasing for the account or benefit of a U.S. person, other than a distributor, and it is purchasing Notes in an offshore transaction in accordance with Regulation S.
- (3) Each prospective investor acknowledges that neither the Republic nor the Lead Manager nor any person representing the Republic or the Lead Manager has made any representation to such prospective investor with respect to the Republic or the offering of the Notes, other than the information contained in this Offering Circular. Each prospective investor represents that it is relying only on this Offering Circular in making its investment decision with respect to the Notes. Each prospective investor agrees that it has had access to such information concerning the Republic and the Notes as it has deemed necessary in connection with its decision to purchase Notes, including an opportunity to ask questions of and request information from the Republic.
- (4) Each prospective investor represents that it is purchasing Notes for its own account, or for one or more investor accounts for which it is acting as a fiduciary or agent, in each case not with a view to, or for offer or sale in connection with, any distribution of the Notes in violation of the Securities Act, subject to any requirement of law that the disposition of its property or the property of that investor account or accounts be at all times within its or their control and subject to its or their ability to resell the Notes pursuant to Rule 144A or any other available exemption from the registration requirements of the Securities Act. Each prospective investor agrees on its own behalf and on behalf of any investor account for which it is purchasing Notes, and each subsequent holder of the Notes by its acceptance of the Notes will agree, that until the end of the applicable resale restriction period pursuant to Regulation S or Rule 144, the Notes may be offered, sold or otherwise transferred only:
  - (a) to the Republic;
  - (b) under a registration statement that has been declared effective under the Securities Act;
  - (c) for so long as the Notes are eligible for resale under Rule 144A, to a person whom the seller reasonably believes is a qualified institutional buyer that is purchasing for its own account or for the account of another qualified institutional buyer and to whom it has given notice that the transfer is being made in reliance on Rule 144A;

(d) pursuant to Regulation S; or

(e) under any other available exemption from the registration requirements of the Securities Act; subject in each of the above cases to any requirement of law that the disposition of the seller's property or the property of an investor account or accounts be at all times within the seller or such account's control.

Each prospective investor also acknowledges that:

- the Republic and the Trustee reserve the right to require, in connection with any offer, sale or other transfer of Notes before the applicable resale restriction period ends pursuant to Regulation S or Rule 144 under clauses (d) and (e) above, the delivery of an opinion of counsel, certifications and/or other information satisfactory to the Republic and the Trustee;
- Notes (other than those issued outside the United States pursuant to Regulation S) will, until the expiration of one year from the original issuance date of the Notes (or such other date as specified in Rule 144 or as specified in another applicable exemption under the Securities Act), unless otherwise agreed by us and the holder thereof, bear a legend substantially to the following effect:

THIS NOTE (OR ITS PREDECESSOR) WAS ORIGINALLY ISSUED IN A TRANSACTION NOT SUBJECT TO THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND THIS NOTE MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED IN THE ABSENCE OF REGISTRATION OR AN APPLICABLE EXEMPTION THEREFROM. EACH PURCHASER OF THIS NOTE IS HEREBY NOTIFIED THAT THE SELLER OF THIS NOTE MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A THEREUNDER.

THE HOLDER OF THIS NOTE AGREES FOR THE BENEFIT OF THE ISSUER THAT (A) THIS NOTE MAY BE OFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED, ONLY (I) TO THE ISSUER OF THIS NOTE, (II) IN THE UNITED STATES TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (III) OUTSIDE THE UNITED STATES IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 AND RULE 904 UNDER THE SECURITIES ACT, (IV) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE) OR (V) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH OF CASES (II) THROUGH (V) IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES, AND (B) THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER OF THIS NOTE FROM IT OF THE RESALE RESTRICTIONS REFERRED TO IN (A) ABOVE.

BY ACCEPTANCE OF THIS NOTE BEARING THE ABOVE LEGEND, WHETHER UPON ORIGINAL ISSUANCE OR SUBSEQUENT TRANSFER, EACH HOLDER OF THIS NOTE ACKNOWLEDGES THE RESTRICTIONS ON THE TRANSFER OF THESE NOTES SET FORTH ABOVE AND AGREES THAT IT SHALL TRANSFER THIS NOTE ONLY AS PROVIDED HEREIN AND IN THE INDENTURE.

THE FOREGOING LEGEND MAY BE REMOVED FROM THIS NOTE ON SATISFACTION OF THE CONDITIONS SPECIFIED IN THE INDENTURE.

- Notes issued outside the United States pursuant to Regulation S will, unless otherwise agreed by us and the holder thereof, bear a legend substantially to the following effect:

THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY IN ANY JURISDICTION AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD WITHIN

THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT IN ACCORDANCE WITH THE INDENTURE AND PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OR PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT.

Each prospective investor acknowledges that the Republic, the Trustee, any agent, the Lead Manager and others will rely upon the truth and accuracy of the above acknowledgments, representations and agreements. Each prospective investor agrees that if any of the acknowledgments, representations or agreements such prospective investor is deemed to have made by its purchase of Notes is no longer accurate, it will promptly notify the Republic and the Lead Manager. If any prospective investor is purchasing any Notes as a fiduciary or agent for one or more investor accounts, such prospective investor represents that it has sole investment discretion with respect to each of those accounts and that it has full power to make the above acknowledgments, representations and agreements on behalf of each account.

## **TAXATION**

### **Ecuador Taxation**

The following is a general discussion of Ecuadorian tax considerations. The discussion is based upon the tax laws of Ecuador as in effect on the date of this Offering Circular, which are subject to change. Prospective investors should consult their own tax advisers with respect to Ecuadorian tax consequences of the investment. This summary does not discuss the effects of any treaties that may be entered into by, or be effective with respect to, Ecuador.

All payments of principal and interest for the Notes offered for sale pursuant to this Offering Circular and accepted by the Republic, and any gains made by a holder from such sale, will be exempt from any Ecuadorian income tax, including withholding tax, if the holder is a foreign holder, i.e.:

- The holder is an individual and is not resident in the Republic for tax purposes; or
- The holder is a non-Ecuadorian entity that does not hold the Notes through a permanent establishment or fixed base in the Republic.

There are no Ecuadorian stamp, registration or similar taxes payable by a foreign holder in connection with offers or sales of Notes pursuant to this Offering Circular.

### **United States Federal Income Taxation**

#### **Generally**

The following summary of certain material U.S. federal income tax consequences to original purchasers of the Notes of the purchase, ownership and disposition of the Notes is based upon existing U.S. federal income tax laws, which are subject to change, possibly with retroactive effect. No assurances can be given that any changes in these laws or authorities will not affect the accuracy of the discussions set forth in this summary. The Republic has not sought any ruling from the U.S. Internal Revenue Service (the “IRS”) with respect to the statements made and the conclusions reached in this discussion, and there can be no assurance that the IRS will agree with all of such statements and conclusions.

This summary does not purport to discuss all aspects of U.S. federal income taxation that may be relevant to a particular investor in light of that investor’s individual circumstances, such as investors whose functional currency is not the U.S. dollar or certain types of investors subject to special tax rules (*e.g.*, financial institutions, insurance companies, dealers in securities or currencies, certain securities traders, regulated investment companies, pension plans, tax-exempt organizations and investors holding Notes as a position in a “straddle,” “conversion transaction,” or “constructive sale” transaction). In addition, this summary does not discuss any non-U.S., state, or local tax considerations. This summary only applies to investors that hold Notes as “capital assets” (generally, property held for investment) within the meaning of the U.S. Internal Revenue Code of 1986, as amended (the “Code”).

For purposes of this summary, the term “U.S. Holder” means a beneficial owner of a Note who is, for U.S. federal income tax purposes, an individual who is a citizen or resident of the United States, a corporation (including an entity treated as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States, any state of the United States or the District of Columbia, an estate whose income is subject to U.S. federal income tax regardless of its source or a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more “United States persons,” as defined for U.S. federal income tax purposes, have the authority to control all substantial decisions of the trust or the trust was in existence on August 20, 1996 and has in effect a valid election to be treated as a United States person. If a partnership (or other entity treated as a partnership for U.S. federal income tax purposes) holds the Notes, the tax treatment of a partner in such partnership will generally depend upon the status of the partner and the activities of

the partnership. As used herein, the term “non-U.S. Holder” means a beneficial owner of a Note that is not a U.S. Holder for U.S. federal income tax purposes.

**Prospective purchasers of Notes should consult their own tax advisors concerning the U.S. federal income tax consequences of the purchase, ownership and disposition of Notes in light of their particular circumstances, as well as the effect of any relevant state, local, foreign or other tax laws.**

## **U.S. Holders**

### **Payments of Interest and Additional Amounts**

Ecuador expects, and the remainder of this summary assumes, that the Notes will be issued at par or at a discount that is de minimis for U.S. federal income tax purposes. Accordingly, payments of interest on a Note generally will be taxable to a U.S. Holder as ordinary interest income at the time they are received or accrued, depending on the U.S. Holder’s regular method of tax accounting. In addition to interest on a Note, a U.S. Holder will be required to include any tax withheld from the interest payment as ordinary interest income, even though such holder did not in fact receive it, and any Additional Amounts paid in respect of such tax withheld.

Interest (and any Additional Amounts) on the Notes will constitute income from sources outside the United States. Under the foreign tax credit rules, that interest generally will be classified as “passive category income” (or, in certain cases, as “general category income”), which may be relevant in computing the foreign tax credit allowable to a U.S. Holder under the U.S. federal income tax laws.

### **Sale, Exchange, Retirement or Other Taxable Disposition of a Note**

A U.S. Holder generally will recognize gain or loss upon the sale, exchange, retirement or other taxable disposition of a Note (including payments as a result of an acceleration) in an amount equal to the difference between the amount realized upon that sale, exchange, retirement or other taxable disposition (other than amounts representing accrued and unpaid interest, which will be taxed as such to the extent not previously included in income) and the U.S. Holder’s adjusted tax basis in the Note. The amount realized is the sum of cash plus the fair market value of any property received upon the sale, exchange, retirement or other taxable disposition of a Note. A U.S. Holder’s adjusted tax basis in a Note generally will equal the U.S. Holder’s initial investment in the Note. Gain or loss generally will be capital, and will be long-term gain or loss if the Note is held for more than one year. The ability of a U.S. Holder to offset capital losses against ordinary income is limited. Any capital gain or loss recognized on the sale, exchange, retirement or other taxable disposition of a Note generally will be treated as income or loss from sources within the United States for foreign tax credit limitation purposes. Therefore, U.S. Holders may not be able to claim a credit for any Ecuadorian tax imposed upon a disposition of a Note unless (subject to special limits) such holder has other income from foreign sources and certain other requirements are met.

### ***Medicare Tax***

A U.S. Holder that is an individual or estate, or a trust that does not fall into a special class of trusts that is exempt from such tax, will be subject to a 3.8% tax on the lesser of (i) the U.S. Holder’s “net investment income” (or, in the case of an estate or trust, the “undistributed net investment income”) for the relevant taxable year and (ii) the excess of the U.S. Holder’s modified adjusted gross income for the taxable year over a certain threshold (which in the case of individuals will be between U.S.\$125,000 and U.S.\$250,000, depending on the individual’s circumstances). A U.S. Holder’s net investment income generally will include its interest income and its net gains from the disposition of a Note, unless such interest income or net gains are derived in the ordinary course of the conduct of a trade or business (other than a trade or business that consists of certain passive or trading activities).

### ***Information with Respect to Foreign Financial Assets***

Owners of “specified foreign financial assets” with an aggregate value in excess of U.S.\$50,000 on the last day of the taxable year, or U.S.\$75,000 at any time during the taxable year generally will be required to file information reports with respect to such assets with their U.S. federal income tax returns. Depending on the holder’s



circumstances, higher threshold amounts may apply. “Specified foreign financial assets” include any financial accounts maintained by foreign financial institutions, as well as any of the following, but only if they are not held in accounts maintained by certain financial institutions: (i) stocks and securities issued by non-U.S. persons, (ii) financial instruments and contracts held for investment that have non-U.S. issuers or counterparties and (iii) interests in non-U.S. entities. The Notes may be treated as specified foreign financial assets and U.S. Holders may be subject to this information reporting regime. Failure to file information reports may subject U.S. Holders to penalties. U.S. Holders should consult their own tax advisors regarding their obligation to file information reports with respect to the Notes.

## **Non-U.S. Holders**

### ***Payments of Interest and Additional Amounts***

Subject to the discussion below of backup withholding, payments of interest and any Additional Amounts on the Notes generally are not subject to U.S. federal income tax, including withholding tax, if paid to a “non-U.S. Holder,” as defined above, unless the interest is effectively connected with such non-U.S. Holder’s conduct of a trade or business within the United States (and, if an income tax treaty applies, the interest is attributable to a permanent establishment or fixed place of business maintained by such non-U.S. Holder within the United States). In that case, the non-U.S. Holder generally will be subject to U.S. federal income tax in respect of such interest in the same manner as a U.S. Holder, as described above. A non-U.S. Holder that is a corporation may, in certain circumstances, also be subject to an additional “branch profits tax” in respect of any such effectively connected interest income currently imposed at a 30% rate (or, if attributable to a permanent establishment maintained by such non-U.S. Holder within the United States, a lower rate under an applicable tax treaty).

### ***Sale, Exchange, Retirement or Other Taxable Disposition of a Note***

Subject to the discussion below of backup withholding, a non-U.S. Holder generally will not be subject to U.S. federal income or withholding tax on any gain realized on the sale, exchange, retirement or other taxable disposition of a Note unless: (1) the gain is effectively connected with the conduct by such non-U.S. Holder of a trade or business within the United States (or, if an income tax treaty applies, the gain is attributable to a permanent establishment or fixed base in the United States), or (2) such non-U.S. Holder is a nonresident alien individual, who is present in the United States for 183 or more days in the taxable year of the disposition and certain other conditions are met. Non-U.S. Holders who are described under (1) above generally will be subject to U.S. federal income tax on such gain in the same manner as a U.S. Holder and, if the non-U.S. Holder is a foreign corporation, such holder may also be subject to the branch profits tax as described above. Non-U.S. Holders described under (2) above generally will be subject to a flat 30% tax on the gain derived from the sale, exchange, retirement or other taxable disposition of Notes, which may be offset by certain U.S. capital losses (notwithstanding the fact that such holder is not considered a U.S. resident for U.S. federal income tax purposes). Any amount attributable to accrued but unpaid interest on the Notes generally will be treated in the same manner as payments of interest, as described above under “—Payments of Interest and Additional Amounts.”

## **Backup Withholding and Information Reporting**

In general, information reporting requirements will apply to payments of principal of and interest and any Additional Amounts on the Notes to non-corporate U.S. Holders if such payments are made within the United States or by or through a custodian or nominee that is a “U.S. Controlled Person,” as defined below. Backup withholding will apply to such payments if a U.S. Holder fails to provide an accurate taxpayer identification number or, in the case of interest payments and the accrual of interest, fails to certify that it is not subject to backup withholding or is notified by the IRS that it has failed to report all interest and dividends required to be shown on its U.S. federal income tax returns.

Non-U.S. Holders are generally exempt from these withholding and reporting requirements (assuming that the gain or income is otherwise exempt from U.S. federal income tax), but such non-U.S. Holders may be required to comply with certification and identification procedures in order to prove their exemption. If a non-U.S. Holder holds a Note through a foreign partnership, these certification procedures would generally be applied to such holder

as a partner. The payment of proceeds of a sale or redemption of Notes effected at the U.S. office of a broker generally will be subject to the information reporting and backup withholding rules, unless such non-U.S. Holder establishes an exemption. In addition, the information reporting rules will apply to payments of proceeds of a sale or redemption effected at a non-U.S. office of a broker that is a U.S. Controlled Person, as defined below, unless the broker has documentary evidence that the holder or beneficial owner is not a U.S. Holder (and has no actual knowledge or reason to know to the contrary) or the holder or beneficial owner otherwise establishes an exemption.

As used herein, the term “U.S. Controlled Person” means:

- a “United States person;”
- a controlled foreign corporation for U.S. federal income tax purposes;
- a non-U.S. person 50% or more of whose gross income is derived for tax purposes from the conduct of a U.S. trade or business for a specified three-year period; or
- a non-U.S. partnership in which United States persons hold more than 50% of the income or capital interests or which is engaged in the conduct of a U.S. trade or business.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules from a payment to a holder of a Note generally will be allowed as a refund or a credit against the holder’s U.S. federal income tax liability as long as the holder provides the required information to the IRS in a timely manner.

## VALIDITY OF THE NOTES

The validity of the Notes will be passed upon on behalf of the Republic by the *Coordinador General Jurídico* of the Ministry of Finance of the Republic, Ecuadorian counsel to the Republic, and by Hogan Lovells US LLP, U.S. counsel to the Republic. The validity of the Notes will be passed upon on behalf of the Lead Manager by Pérez Bustamante & Ponce, Ecuadorian counsel to the Lead Manager, and by Clifford Chance US LLP, U.S. counsel to the Lead Manager. As to all matters of Ecuadorian law, Hogan Lovells US LLP will rely on the opinion of the *Coordinador General Jurídico* of the Ministry of Finance of the Republic, and Clifford Chance US LLP will rely upon the opinion of Pérez Bustamante & Ponce.

In connection with the issuance of the Notes, the Attorney General will issue a “Pronouncement” in relation to each of the Indenture, the Purchase Agreement and the Notes which will constitute the required authorizations for the Ministry of Finance to be able to agree to the laws of the State of New York as the governing law of the Indenture, the Purchase Agreement and the Notes, as well as the submission to arbitration provisions set out therein.

Local counsel to the Lead Manager has confirmed that the provision of the legal opinion from the *Coordinador General Jurídico* of the Ministry of Finance and the Pronouncement are fully compliant from an Ecuadorian law perspective.

## GENERAL INFORMATION

1. The Regulation S Global Note and the Restricted Global Note have been accepted for clearance and settlement through Euroclear and Clearstream, Luxembourg. The common codes for the Regulation S Global Note and the Restricted Global Note are 153507198 and 153507210, respectively, and the International Securities Identification Numbers for the Regulation S Global Note and the Restricted Global Note are XS1535071986 and XS1535072109, respectively.

2. The Republic has obtained all necessary consents, approvals and authorizations in the Republic of Ecuador in connection with the issue and performance of the Notes. The issue of the Notes was authorized by the Republic's Debt and Finance Committee under Acta Resolutiva No. 029 dated December 8, 2016.

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

4. On April 28, 2016, Moody's Investors Service affirmed the Republic's long-term Government bond ratings at "B3" with a "stable outlook." On August 4, 2016, Standard & Poor's Ratings Services affirmed the Republic's foreign long-term issuer rating at "B" with a "stable outlook." On August 25, 2016, the Republic's long-term foreign currency issuer default rating by Fitch Ratings was affirmed at "B," but the rating outlook was revised from "stable" to "negative."

Ratings are not a recommendation to purchase, hold or sell securities and may be changed, suspended or withdrawn at any time. The Republic's current ratings and the rating outlooks currently assigned to the Republic are dependent upon economic conditions and other factors affecting credit risk that are outside the control of the Republic. Any adverse change in the Republic's credit ratings could adversely affect the trading price for the Notes. Each rating should be evaluated independently of the others. Detailed explanations of the ratings may be obtained from the rating agencies.

5. Application has been made to list the Notes on the Official List of the Luxembourg Stock Exchange and to have the Notes admitted to trading on the Euro MTF Market. So long as any of the Notes are listed on the Luxembourg Stock Exchange, the Republic will maintain a paying agent and transfer agent in Luxembourg.

6. Copies of the following documents may be obtained, free of charge, on any business day (Saturdays, Sundays and public holidays excepted) at the office of the Paying Agent in Luxembourg so long as any of the Notes are listed on the Luxembourg Stock Exchange:

- (a) the Indenture incorporating the forms of Global Notes;
- (b) this Offering Circular;
- (c) copies of the 2008 Constitution, and the Legislative Decrees of the Republic referred to in paragraph 2 above (in Spanish); and
- (d) copies of the Republic's consolidated public sector fiscal accounts for the last calendar year (as and when available in English).

7. Other than as disclosed herein, (including information that has been updated as of September 30, 2016), there has been no material adverse change in the financial condition of the Republic which is material in the context of the issue of the Notes since September 30, 2016.

8. Save as disclosed in "Legal Proceedings," the Republic is not involved in any litigation or arbitration proceeding relating to claims or amounts which are material in the context of the issue of the Notes nor, as far as the Republic is aware, is any litigation pending or threatened.

## Glossary of Defined Terms Glossary of Defined Terms

2008 Constitution .....	1, 39	Creando Oportunidades.....	39
2012 and 2030 Bonds .....	124	Cuenta Única del Tesoro .....	46
2015 Bonds .....	9	Currency Outflow Tax .....	49
2017 Election .....	1, 27	Debt and Finance Committee .....	46
2020 Bonds .....	10, 125	Decree 578 .....	55
2022 Bonds .....	10, 125	Decree 73 .....	60
2024 Bonds .....	9, 125	Development Bank .....	92
AGD .....	76, 95	DFSA .....	148
ALADI .....	42	Discount Notes .....	124
ALBA .....	42	Dollarization Program.....	x
ATP-DEA .....	42	DTC .....	iv
Autonomous Decentralized Governments .....	46	Ecuador .....	1
Banco de Desarrollo del Ecuador B.P.....	92	Ecuadorian Economic Transformation Law .....	x
Banking Law .....	146	EDC .....	61
BDH .....	69	EEA .....	1
BIESS .....	70	Electoral Branch .....	41
bpd.....	3	Electoral Dispute Settlement Court.....	41
Brady Bonds .....	124	Employment Partner Network .....	68
Brady Plan .....	124	Environment Ministry .....	55
BSA .....	101	Environmental Improvement and State Resources Optimization Law.....	49
Burlington.....	31	ETAP .....	95
CAF.....	42	Eurobonds .....	124
CAIC .....	33	Euroclear .....	1
Canacol.....	57	Euroclear participants .....	150
CELAC.....	41, 42	FARC .....	36
Center for Arbitration and Mediation of Quito Chamber of Commerce.....	77	FEIREP .....	109
Central Bank .....	v	Financial Safety Net Law .....	47
Central Government .....	112	First Instance Courts .....	40
CEREPS .....	46	FLAR .....	110
CETES.....	9, 48	FOB .....	v
CFN.....	96	Foreign Commerce and Investment Council .....	85
CIF .....	v	FSMA.....	146
Civil Procedure Code .....	51	GDP .....	2
Clearstream .....	1	Global Notes.....	iv, 150
Clearstream participants .....	150	Government.....	v
CNPC .....	58	GSI.....	83
Committee of Monetary and Financial Policy Regulation.....	6	Home Maker Recognition Law.....	51
Committee on Foreign Trade .....	85	Hutchison .....	77
Community of Andean Nations.....	42	Hydrocarbons Control and Regulation Agency .....	55
Comprehensive Law of Redistribution of Income for Social Expenditures .....	50	Hydrocarbons Law.....	48
CONSEP.....	42	Hydrocarbons Secretariat of Ecuador.....	55
CONSOB .....	146	ICE.....	115
Consolidation Decree .....	55	ICSID.....	41
Constitutional Court .....	40	IDB .....	2
<i>Coordinador General Jurídico of the Ministry of Finance of the Republic .....</i>	160	IEPI.....	74
COSEDE.....	95	IESS .....	70
Counsel of Citizen Participation and Social Control.....	40	IMF .....	2, 41
CPI .....	106	INEC.....	36
		International Reserves.....	14
		IRS .....	156
		ISD.....	49
		ISSFA.....	70

ISSPOL.....	70	Petroamazonas.....	55
ITT.....	3	PetroChina.....	58
Japanese Person.....	148	Private Sector Banks.....	93
Judiciary Council.....	40	Production Code.....	49
KKR.....	57	Program for Finance.....	102
Law for Market Power Control and Regulation.....	49	Prospectus Directive.....	1
Law for the Regulation of Housing and Automobile Loans.....	50	Provincial Courts of Justice.....	40
Law for the Remission of Interest, Penalties and Surcharges.....	51	Public Corporations Law.....	47
Law of Solidarity.....	2	Public Defender.....	40
Law on Incentives for Public-Private Joint Ventures and Foreign Investment.....	52	Public Media and Communications Company of Ecuador.....	4
Law Reforming the Financial Institutions Law and the Restructuring Financial Taxes Law.....	49	Public Planning and Finance Code.....	48
Law Reorganizing Economic Matters in the Tax and Finance Areas.....	95	Purchase Agreement.....	144
Law to Balance Public Finances.....	7, 52	Quito Stock Exchange.....	103
Lead Manager.....	144	RDP.....	11, 60
Legal Proceedings.....	161	Reform Act to the Internal Tax Regime Law and the Reform Act for Tax Equity in Ecuador.....	47
Ley Orgánica de Regulación y Control del Poder de Mercado.....	49	Regulation S.....	iv
Libertador-Atacapi.....	57	Regulation S Global Note.....	iv
Liquidity Fund.....	95	Regulation S Global Notes.....	150
LOREYTF.....	46	Republic.....	1, v
LPG.....	59	Restricted Global Note.....	iv
Merck.....	76	Restricted Global Notes.....	150
MICSE.....	53	Rio Napo.....	57
Mining Law.....	47	Rule 144A.....	iv
Ministry of Hydrocarbons.....	55	Schlumberger.....	57
Ministry of Labor Relations.....	67	Securities Act.....	1, 154
Ministry of Mines.....	55	SENPLADES.....	108
Monetary and Financial Law.....	6, 50	SEPS.....	102
Murphy.....	75	Sertecpet.....	57
National Assembly.....	39	SFA.....	147
National Council on Wages.....	49	SFO.....	148
National Court of Justice.....	40	Shushufindi.....	57
National Decentralized System of Participative Planning.....	48	Shushufindi S.A.....	57
National Electoral Council.....	41	Sinopec.....	58
National Secretary of Planning and Development.....	108	SOTE.....	59
Notes.....	1	Strategic Ecuador.....	55
NYMEX.....	60	SUCRE.....	86
OAS.....	41	Superintendent of Banks.....	40
Old Notes.....	124	Tax Culture Day.....	115
OPEC.....	41	Tecpetrol.....	57
Original 2020 Issuance.....	10, 125	Telecommunications Law.....	51
Original 2022 Issuance.....	10, 125	Transparency and Social Control Branch.....	40
Par Notes.....	124	U.S. Controlled Person.....	159
Pardaliservices S.A.....	57	U.S. dollars.....	v
PDI Notes.....	124	U.S. Holder.....	156
PDVSA Ecuador.....	11, 60	U.S.\$.....	v
Pedernales Earthquake.....	1, 30	UNASUR.....	41
Perenco.....	75	Undersecretary of Public Finance.....	46
		Unipac.....	58
		United States person.....	159
		United States persons.....	156
		VAT.....	115
		WTI.....	60

WTO.....41

Yachay ..... 66

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9.650% Notes due 2026

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Preliminary Offering Circular

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