SECOND PARTY OPINION[1]

ON THE SUSTAINABIILITY OF THE SOCIAL BOND OF THE REPUBLIC OF ECUADOR

October 18, 2019

SCOPE

Vigeo Eiris was commissioned to provide an independent opinion ("Second Party Opinion") on the sustainability credentials and responsible management of the Social Bond (the "Bond") proposed to be issued by the Republic of Ecuador ("Ecuador" or the "Issuer").

Our opinion is established according to our Environmental, Social and Governance ("ESG") exclusive assessment methodology and to the International Capital Market Association's Social Bond Principles ("SBP") voluntary guidelines edited in June 2018.

Our opinion is built on the review of the following components:

1) **Issuer:** we have assessed the sustainability performance of the Issuer (*Sovereign Sustainability Rating©*).
2) **Issuance:** we have assessed the coherence between the Bond and the Issuer's sustainability strategy, the contribution of the Bond to sustainability and its alignment with the Social Bond Principles.

Our sources of information are multichannel, combining public information, press content, stakeholder information, information from our ESG rating database; information provided by the Issuer through documents and data, and from interviews with managers of the Government of Ecuador held via a telecommunications system.

We carried out our due diligence assessment from July 9th to October 18th, 2019. We consider that we could access all the appropriate documents and speak with all the interviewees we solicited. We consider that the information provided enables us to establish our opinion with a reasonable level of assurance on its completeness, precision and reliability.

VIGEO EIRIS' OPINION

Vigeo Eiris considers that the Social Bond considered to be issued by the Republic of Ecuador is aligned with the four core components of the Social Bond Principles voluntary guidelines (June 2018).

Vigeo Eiris expresses a reasonable[2] assurance (our highest level of assurance) on the Issuer's commitments and on the contribution of the contemplated Bond to sustainability.

1) **Issuer** (see Part I):
   - According to the latest *Sovereign Sustainability Rating* © published by Vigeo Eiris in June 2019, Ecuador's sustainability performance is considered advanced (64/100). In particular, Ecuador shows an advanced performance in three pillars: Environmental Responsibility 62/100, Social Responsibility and Solidarity 61/100, and Institutional Responsibility 69/100. Ecuador ranks 54th out of 178 qualified countries.
2) **Issuance** (see Part II):

   The Republic of Ecuador has formalized the main characteristics of its Social Bond within a Social Bond Framework[3] (the "Framework"), dated September 30th, 2019, and in the Operational Regulation for the Social and Public Interest Housing Programme (*Reglamento Operativo para el Programa de vivienda de interés social y público* "ROP"), an internal document that was communicated in a transparent manner to Vigeo Eiris. The Issuer has committed to making this document publicly accessible on its website[4] before the Bond issuance, in line with good market practices.

[1] This opinion is to be considered as the "Second Party Opinion" described by the International Capital Market Association (www.icmagroup.org).
[2] Definition of Vigeo Eiris' scales of assessment (as detailed in the Methodology section of this document):
Level of Evaluation: Advanced, Good, Limited, Weak.
Level of Assurance: Reasonable, Moderate, Weak.
[3] The "Social Bond" is to be considered as the bond to be potentially issued, subject to the discretion of the Issuer. The name "Social Bond" has been decided by the Issuer: it does not imply any opinion from Vigeo Eiris.
[4] www.finanzas.gob.ec

Issuance (*continued*):

We are of the opinion that the Social Bond contemplated by Ecuador is coherent with the country's strategic priorities of sustainable development, and that the Bond contributes to the realization of its targets in terms of poverty reduction and its commitment to guarantee access to decent and affordable housing.

Use of Proceeds:

- The net proceeds of the Bond will exclusively finance, in part or in full, eligible mortgage loans (the "Eligible Loans") falling under one Eligible Social Category, which has been formalized in the Framework: Affordable and Decent Housing. We consider that the Eligible Social Category is clearly defined.

  The Eligible Loans are intended to contribute to a social objective, Affordable Housing, which is formalized in the Framework. This objective is considered clearly defined and relevant.

  The Eligible Loans have the potential to provide clear social benefits. The Issuer has evaluated and quantified the expected social impacts of the Eligible Loans. This information is formalized in internal documentation. In addition, the Issuer has committed to evaluate and, where feasible, quantify the real social benefits of the Eligible Loans one year after issuance.

  The target populations that will benefit from the Eligible Loans have been clearly defined in the Framework.

  In addition, Vigeo Eiris considers that the Eligible Loans are likely to contribute to two United Nations Development Goals ("UN SDGs"), namely: SDG 1. No Poverty and SDG 11. Sustainable Cities and Communities.

  The Issuer has transparently communicated that 100% of the Bond proceeds will be used to finance new Loans, in line with best market practices.

Process for Project Evaluation and Selection:

- The governance and the process for the evaluation and selection of the Eligible Loans are considered transparent and relevant. They have been clearly defined and formalized in the Framework.

  The process is based on explicit eligibility criteria (selection and exclusion) relevant to the social objectives of the Bond.

  The identification and management of the of material environmental and social risks associated with the Eligible Loans are considered good.

Management of Proceeds:

- The rules established for the management of proceeds are clearly defined. We consider that they would enable a transparent and documented allocation process. The allocation of the Bond funds to Eligible Loans will be verified by an independent external auditor.

Reporting:

- The reporting processes and commitments are considered good.

  The selected indicators cover in a complete and relevant manner the allocation of funds and the environmental benefits (outputs and/or impacts) of the Eligible Loans.

The Issuer has committed to support its Social Bond with the following external reviews:

- A review by a consultant, the present Second Party Opinion ("SPO"), delivered by Vigeo Eiris as an independent consultant, on the Bond's sustainability credentials prior to its first issuance.
- An external verification: performed by an independent auditor, to annually verify that an amount equal to the net proceed of the Bond has been allocated to Eligible Loans, in accordance with the commitments established in the Framework, until full allocation.

This Second Party Opinion is valid for the first Social Bond issuance of the Republic of Ecuador, scheduled for 2019, in accordance with the Social Bond Principles (June 2018).

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DETAILED RESULTS

Part I. ISSUER

Sustainability performance of the Issuer

According to the latest *Sovereign Sustainability Rating* © published by Vigeo Eiris in June 2019, Ecuador's sustainability performance is considered above average (64/100), a tendency that has been stable during the last five years. Ecuador ranks 54th out of 178 qualified countries at the global scale, and 9th out of the 26 member countries of the Interamerican Development Bank[5] of the region of Latin America and the Caribbean, evaluated by Vigeo Eiris in its global index of sovereign issuers[6].

In particular, Ecuador shows an advanced performance in the three evaluated pillars: Environmental Responsibility 62/100, Social Responsibility and Solidarity 61/100, and Institutional Responsibility 69/100.

Pillar	Comments	Performance level
Environmental Responsibility	Ecuador's performance in the Environmental Responsibility pillar is considered advanced (62/100), ranking 57 out of 178 countries evaluated. In the Environmental Responsibility pillar, *Ecuador* is positioned in the first and second quartiles for the majority of indicators evaluated by Vigeo Eiris. At the present date, the country has ratified most relevant international environmental conventions, such as the Paris Agreement, the Kyoto Convention, the United Nations Framework Convention on Climate Change, the Convention on Biological Diversity, and the United Nations Framework Convention to Combat Desertification. Furthermore, Ecuador has demonstrated good management of its water resources. Among Ecuador's areas for improvement are the protection for endangered species, and the transition to green growth. Environmental pollution continues to be a challenge for the country due to intensive deforestation of productive lands, the increase of greenhouse gas emissions principally from the transport sector, the generation of electricity and the use of fuel; and the inadequate monitoring of air pollution. Despite its commitment in the fight against global warming, Ecuador's economy continues to be highly dependent on oil, showing a weak transition towards clean energies (solar, hydroelectric and biomass). Ecuador continues to grant subsidies to fossil fuels (still significant compared to those existing in other countries of the region, like Chile or Mexico).	**Advanced** Good Limited Weak

[5] The Inter-American Development Bank (IBD) is the guarantor of the Government of Ecuador for the issuance of this Social. The 26 member countries of the region: Argentina, Bahamas, Barbados, Belize, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Suriname, Trinidad and Tobago, Uruguay and Venezuela.

[6] Note: The Issuer has not been subject to a review of its ability to mitigate sustainability risks based on the review of stakeholder opinion.

Pillar	Comments	Performance level
Social Responsibility and Solidarity	Ecuador's performance in the Social Responsibility and Solidarity pillar is considered advanced (61/100), ranking 57 out of 178 countries evaluated. Ecuador demonstrates a good performance in the promotion of education (mainly secondary education), the promotion of public health, the reduction of malnutrition, and the promotion of gender equity. Among Ecuador's areas for improvement are the reduction of poverty and inequalities. Although the percentage of Ecuadorians living with less than $1,90 US dollars per day has diminished significantly, going from 28.2% in 2000 to 3.6% in 2016[7], a quarter of the population continues to live below the national poverty line (23.8% in 2018)[8]. In comparison with its peers in the Latinamerican region, Ecuador reports a relatively low unemployment rate (3.9% of the total active labour force in 2018)[9]. Nevertheless, these data should be put into perspective with the reality of a labour market strongly marked by an informal economy. With regards to the unemployed population, only a very small percentage receive social security benefits. On the other hand, the proportion of urban population living in slums, informal settlements or inadequate housing, has increased at least 15% in the decade from 2004 to 2014, situating Ecuador in the lowest performance of the 26 latinamerican members of the IBD[10].	**Advanced** Good Limited Weak
Governance Responsibility	Ecuador's performance in the Governance Responsibility pillar is the most advanced of the three pillars (69/100), although it is considered heterogeneous, ranking 76 out of 178 countries. The country has ratified all the fundamental conventions relating to human rights, children's rights, prevention of corruption and organized crime, and the majority of standards related to workers' rights. Ecuador has demonstrated a strong commitment to the prevention of racial and disability discrimination. However, Ecuador has not signed some standards related to occupational health and work safety, and must demonstrate a greater commitment to fight discrimination against immigrants/refugees and discrimination based on sexual orientation. Ecuador shows low performance in strengthening of the rule of law, and the ability of the government to implement policies and regulations for the promotion and development of the private sector. The control of high-level corruption, the effectiveness of public institutions and the extent to which Ecuadorians can participate in public life, exercise their rights to freedom of expression and freedom of association, and benefit from free communication media, are all below average with respect to their IDB peers. The country has a moderate level of security for the population and the nation ranked 68 out of the 163 countries evaluated in the Global Peace Index[11] in 2018, with a punctuation of 1,98/5.	**Advanced** Good Limited Weak

[7] Data from the World Bank – Poverty headcount ratio at $1.90 a day (2011 PPP) (% of population) https://data.worldbank.org/indicator/SI.POV.DDAY
[8] Data from the World Bank – Poverty headcount ratio at national poverty lines (% of population) https://data.worldbank.org/indicator/SI.POV.NAHC
[9] Unemployment, total (% of total labour force) (modelled ILO estimate) https://data.worldbank.org/indicator/SL.UEM.TOTL.ZS
[10] Sustainable Development Goals (SDG) data regarding the proportion of urban population living in slums, informal settlements or inadequate housing, where Ecuador reports an increase from 21.5% in 2005 to 36% in 2014 http://unstats.un.org/sdgs/indicators/database/?indicator=11.1.1
[11] Information about the Global Peace Index: http://visionofhumanity.org/indexes/global-peace-index/.

Part II. ISSUANCE

Coherence of the issuance

Context:

The fight against poverty and access to essential services for all represents one of the most important challenges of the 21st century. According to the United Nations, currently more than 700 million people continue to live in extreme poverty without being able to meet their basic needs in terms of health, education, access to drinking water and decent housing.

The report "Social Panorama of Latin America" published in 2018 by the Economic Commission for Latin America and the Caribbean (ECLAC) warns that eradicating poverty and reducing inequality remain key challenges for the countries of the region. The increase since 2015 of extreme poverty and of gaps between different socioeconomic groups, has been detrimental not only to economic growth but also to social cohesion, generating political and social tensions and, in some cases, fuelling instability and internal conflicts.

National governments should lead action to reduce poverty through the establishment of public policies and national action plans aimed at promoting social and labour inclusion, redistributive income policies and the creation of opportunities for access to health, education, drinking water and quality housing.

We are of the opinion that the Social Bond contemplated by Ecuador is coherent with the country's strategic priorities of sustainable development, and that the Bond contributes to the realization of its targets in terms of poverty reduction and its commitment to guarantee access to affordable and decent housing.

Ecuador recognizes its key role in facing the previously mentioned challenges, and has formalized several policies and action plans, including Executive Decree No. 371, which declares as the National Government's public policy the adoption of Agenda 2030 for Sustainable Development and the "National Development Plan 2017-2021 A Whole Life", which defines the challenges at country level for the coming years in three main axes: 1) Rights for all throughout life; 2) Economy at the service of society and 3) More society, better State. These axes are developed in 9 national objectives and 149 targets, and are articulated with the international commitments taken on by the country and, in particular, with the Sustainable Development Goals.

In axis 1, rights for all throughout life, Ecuador establishes correctly as a target (1.8) "to guarantee the access to adequate and decent housing, with cultural relevance and a safe environment, which includes the provision and quality of habitat-related public goods and services: land, energy, mobility, transport, water and sanitation, environmental quality, safe public space and recreation".

This target aims to address the housing gap that affects almost half of Ecuadorian households, and among them, the lowest income households (67% in rural areas and 38% in urban areas), which are increasing at a rate of 40.000 households per year, due to, among other things, a creation of new households, resulting from a high demographic growth rate.

For this reason, Ecuador has launched several initiatives, among them the programme "*Casa para Todos*", led by the Ministry of Urban Development and Housing, which offers subsidies for two segments of housing: the Social Interest Housing (VIS in Spanish) segment, for households in conditions of poverty or extreme poverty, and the Public Interest Housing (VIP in Spanish) segment, for households with a low to medium income level, unbanked, with the possibility to access mortgage loan, but not served by the financial sector.

By issuing this Social Bond for the financing of Affordable and Decent Housing, Ecuador responds coherently to its mentioned national commitments and targets, and addresses the main challenges in terms of sustainable development of national governments.

Beyond the voluntary guidelines of the Social Bond Principles, an area for improvement is that the Issuer assesses and quantifies the contribution of the Bond to Ecuador's national objectives.

Use of Proceeds

The net proceeds from the Bond will exclusively finance, in part or in full, eligible mortgage loans (the "Eligible Loans") falling under one Eligible Social Category, which has been formalized in the Framework: Affordable and Decent Housing. We consider that the Eligible Social Category is clearly defined.

The Eligible Loans are intended to contribute to a social objective, Affordable Housing, which is formalized in the Framework. This objective is considered clearly defined and relevant.

The Eligible Loans have the potential to provide clear social benefits. The Issuer has evaluated and quantified the expected social impacts of the Eligible Loans. This information is formalized in internal documentation. In addition, the Issuer has committed to evaluate and, where feasible, quantify the real social benefits of the Eligible Loans one year after issuance.

The target populations that will benefit from the Eligible Loans have been clearly defined in the Framework.

The Issuer has transparently communicated that 100% of the Bond funds will be used to finance new loans, in line with best market practices.

The Issuer has formalized the main characteristics of the Eligible Loans in the Framework, which have been analysed by Vigeo Eiris in the following table:

Social Bond Framework of the Republic of Ecuador			
Eligible Social Category	**Definition of Eligible Loans**	**Eligibility Criteria**	**Environmental Objectives and Benefits**
Affordable and Decent Housing	- The eligible Social expenditures include the financing of the public policy of affordable and decent housing (Programme "Casa para Todos " or "the Programme") for the financing of Loans for Social Interest Housing (VIS in Spanish) and Public Interest Housing (VIP in Spanish)[12]: - Social Interest Housing (VIS in Spanish) Segment - Public Interest Housing (VIP in Spanish) Segment	**Eligibility criteria applicable to eligible housing:** - The housing must comply with the maximum value established for the concerned segment. - The incentive will be applicable only to new housing. - The incentive will be applicable only for the acquisition of the first and only dwelling. - The dwelling must comply with the technical criteria established by the Ministry of Urban Development and Housing (MIDUVI in Spanish) [13]. - The dwelling must comply with the universal accessibility specifications adopted by the MIDUVI. - The dwelling must receive all the eligible authorizations and permits. **Eligibility criteria applicable to debtors:** - VIS: Consolidation of the Debtors: for dependent debtors: 6,34 Unified Base Wages. For the case of debtors who are not dependent (independent), the value corresponds to the gross margin of the business, i.e. the income of the business discounting the expenses of the economic activity. - VIP: Consolidated Maximum Gross Income of the Debtors: For dependent debtors: 6,34 Unified Base Wages. For the case of debtors who are not dependent (independent), the value corresponds to the gross margin of the business, i.e. the income of the business discounting the expenses of the economic activity.	**Affordable Housing** *Increase access to housing for the low-income population*

[12] The eligibility criteria are determined by the Ministry of Urban Development and Housing (MIDUVI in Spanish) and are described in the Framework on pages 4 and 5.

[13] The criteria are described in the Framework. In order for social and public interest housing to be considered as completed, they must comply with at least the following: (i) comply with the Ecuadorian Norms of Construction (NEC in Spanish); (ii) comply with the Technical Norms of the Ecuadorian Service of Normalisation (INEN in Spanish); and (iii) have at least the following completed: Floor Finishings, Walls, Security and Protection Installations, Kitchen, Closets in bedrooms and Bathrooms (that comply with the minimum technical requirements defined by the MIDIVU).

In addition, Vigeo Eiris considers that the Eligible Loans are likely to contribute to two United Nations Development Goals ("UN SDGs"), namely: SDG 1. No Poverty and SDG 11. Sustainable Cities and Communities.

UN SDG 1 consists in ending poverty in all its forms in the world:

- 1.4 By 2030, ensure that all men and women, in particular the poor and the vulnerable, have equal rights to economic resources, as well as access to basic services, ownership and control over land and other forms of property, inheritance, natural resources, appropriate new technology and financial services, including microfinance

UN SDG 11 consists in making cities inclusive, safe, resilient and sustainable:

- 11.1 By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums

Process for Project Evaluation and Selection

The governance and the process for the evaluation and selection of the Eligible Loans are considered transparent and relevant. They have been clearly defined and formalized in the Framework.

The process for the evaluation and selection of the Eligible Loans is reasonably structured.

The evaluation and selection of the Eligible Loans is carried out by relevant internal and external experts, with well-defined roles and responsibilities:

- Selection process for the Public and Social Interest Housing Loans (VIP and VIS in Spanish) by Intermediary Financial Institutions (EFIs in Spanish):
  - The EFIs are responsible for carrying out an exhaustive analysis of the loan risk. This analysis will evaluate, among others, the solvency, debtor resources, an examination of the property proposed as guarantee, its value, and the evaluation of the environmental risks determined by an independent accredited expert.
  - In addition, the Mortgage Securitization Company (CTH S.A.), the institution of the financial system that will act as the financial and legal structurer of the securitisation mechanism of the mortgages associated with the Eligible Loans, will be responsible for reviewing that the financed loans comply with the applicable eligibility criteria.

Verification and traceability are guaranteed throughout the process.

- The traceability of decisions will be ensured by the creation of loan reports, which must contain all the documents required by the operative regulation, i.e. the necessary declarations from debtors, promotors, property sellers, and evaluators.
- An independent external auditor will verify annually the compliance of the Eligible Loans with the evaluation and selection process, including the eligibility criteria.

The process is based on explicit and relevant eligibility criteria (selection and exclusion).

The eligibility requirements are based on the selection criteria of the loans defined by the Monetary and Financial Policy and Regulation Board and the Executive Decree 681 of February 25, 2019, which are exhaustively described in the Framework and the ROP. These selection criteria are exhaustive and relevant, and cover in particular:

- The resource conditions of the debtor
- The dwelling offered as mortgage: value and technical characteristics
- The loan conditions (preferential interest rate, entry fee, maximum amount of loan, periodicity of interest payments, term of exercise, etc.).
- We consider that the exclusion criteria of the exclusion list are relevant to the expected social benefits, as well as in terms of social and environmental risks associated with programme housing, and that these are in line with best market practices. The Issuer has committed to exclude from the programme mortgage Loans related to housing:
    - That does not comply with the eligibility criteria included in the ROP or the regulations of the Programme.
    - That does not comply with local regulations.
    - Located in areas where previous land use activities could result in localized environmental risks, such as abandoned sanitary landfills or waste areas, industrial production centres, etc.
    - Located on land that presents significant risks of danger to human health, such as contamination of soil or groundwater, or the presence of hazardous gases/materials.
    - Located in environmentally relevant areas: (1) in protected areas (2) in High Value Conservation Areas (HVCA), (3) sites designated by the Ramsar Convention (Convention on Wetlands), (4) areas designated by the Alliance for Zero Extinction, and (5) Important Areas for Bird Conservation (AICAS in Spanish).
    - Located in areas where activities of high risk to the environment are carried out (e.g., storage of hazardous materials, high potential for explosions or fires, gaseous emissions, etc.).
    - Located in areas with existing legal claims on the land acquired, or they are in litigation, or there are claims of social groups that perceive rights of ownership of these lands.
    - Located in areas with existing demands by Indigenous People.
    - Located outside of Ecuadorian territory.

The identification, monitoring and control of environmental and social risks associated with the Eligible Loans are considered good.

The identification, monitoring and control of risks associated with the Eligible Loans is structured in three separate levels, as follows:

- The identification and control of environmental and social risks associated with the Programme and the dwellings, under the supervision of the IDB.
- The identification and control of social and governance risks associated with the EFIs.
- The identification and control of social risks associated with the debtors.

<u>Environmental Risks:</u>

Identification and control of the environmental risks associated with the housing financed by the Programme "Casa para Todos"

The IDB conducted due diligence during the bond preparation stage to identify environmental and social risks and implement mitigation measures. The Environmental and Social Management report covers the main environmental risks that could be associated with the programme, including risks to biodiversity, pollution, and location of the housing in areas with risks of natural disaster, which has enabled a good identification of the environmental risks. In addition, the IDB report confirmed that the environmental risks associated with the Eligible Loans are low.

In order to manage these environmental risks, an exclusion list and a number of relevant eligibility criteria have been developed including technical characteristics in terms of construction and location, as well as compliance with legal requirements (see pages 6 and 8).

In addition, a System of Administration of Environmental and Social Risks (SARAS in Spanish) has been developed to monitor these risks. The Ministry of Economy and Finance (MEF) will be responsible for the correct implementation of SARAS and will have to present an Annual Report on the Compliance of Socioenvironmental Risks Management, with information on the financed Loans (and the associated housing), the identified risks and their environmental and social mitigation measures, and the compliance status of the programme with the ROP. The IDB will be responsible for overseeing the performance of SARAS with the support, as needed, of an IDB specialist or an external consultant contracted by the IDB.

In addition, before each loan decision, the EFI will be responsible for verifying that the housing has been subject to an environmental evaluation by an accredited external expert, whose findings must be attached to the Loan application report, and that it meets the eligibility and exclusion criteria mentioned above.

Social Risks

Identification and control of social risks associated with the Programme and the housing.

As mentioned above, the IDB conducted due diligence during the Bond preparation stage to identify environmental and social risks and implement mitigation measures. The Environmental and Social Management report covers the main social risks that could be associated with the program, including risks in terms of human rights (property) and indigenous peoples' rights.

In order to manage these social risks, the exclusion list and eligibility criteria mentioned previously have been implemented. In addition, the definition of a maximum price per meter of construction for Social Interest Housing allows for the optimization of access to property, and maximizes the decent and adequate character of the housing. This limit is not foreseen for public interest housing.

Identification and control of social risks associated with the debtors

The identification and management of risks related to beneficiaries and, in particular, risks related to over-indebtedness, are based on the eligibility criteria applicable to beneficiaries that are included in the ROP (preferential interest rate of the loans, maximum gross income of the debtor, maximum entry fee, maximum amount of Loan). We believe that these criteria would enable to effectively manage the risk of over-indebtedness.

In addition, according to Ecuadorian law, each EFI must have its own financial education program in order to manage the risks associated with over-indebtedness of its clients, and have a client advocate at each financial institution, to which clients can turn for their claims and complaints.

The State has created the Superintendency of Banks, a decentralized public agency with legal status and its own patrimony. The central function of the agency is to verify that banks comply with their legal obligations in terms of respect for the rights of customers and have established mediation mechanisms (Customer Ombudsman).

In order to prevent and impede discrimination in the access to loans or in the terms of loans financed by the program, EFIs must certify that loan applications have been processed without discrimination of age, gender, ethnicity, colour, social origin, language, religion, political affiliation, sexual orientation, disability, or difference of any kind, following the constitutional principle of equality before the law.

Business ethics of EFIs:

Identification and control of risks associated with EFIs

In terms of business ethics of EFIs (prevention of corruption, fraud, misappropriation of funds, financing of terrorism, money laundering, etc.), the ROP has defined selection criteria applicable to EFIs that fully cover the risks associated with the governance of these EFIs. CTH S.A. will be responsible for conducting the due diligence to verify compliance with these selection criteria. Within the audit reviews, both internal and external assessments of good corporate governance of financial institutions are carried out. These reviews must be included in the annual audit plan.

In the event that an EFI violates one of its obligations under the ROP, the Issuer commits to exclude it from the program. One area for improvement is to select the EFIs that demonstrate the best environmental and social performance.

Management of Proceeds

The rules established for the management of proceeds are clearly defined. We consider that they would enable a transparent and documented allocation process. The allocation of the Bond funds to Eligible Loans will be verified by an independent external auditor.

The net proceeds of the Bond will be channelled to eligible housing (VIS and VIP) through a securitization process of the Eligible Loans through the securitization trusts of each participating EFIs (FTC). This process has been clearly defined in the Framework and the ROP.

The processes of allocation and tracking of funds have been clearly defined in the ROP and in the Framework:

- The net amount of the Bond will be deposited, under the responsibility of the Ministry of Economy and Finance (MEF), in a bank account in the Central Bank of Ecuador. The allocation of these resources will be carried out through a Project Coordinating Unit (UCP in Spanish) formed by officials of the MEF responsible for the creation of a Resource Management Trust Fund (FA in Spanish) to administer the Bond funds. In addition, the UDP will be in charge of the control and monitoring of the operation.

- The funds will be distributed from the FA to the FTCs constituted by the EFIs according to the rules determined by the MIDUVI. The Issuer has confirmed that all funds will be allocated within 60 months. Although good market practices mention 24 months for the allocation of resources, in this case the 60-month period is justified by the project lifecycle. The program lifecycle begins with the issuance of the Bond by the Issuer, which provides the banking and construction sectors with the security of the availability of economic resources necessary for the good performance of the programme. Once the economic resources are assured, the construction sector can plan and begin the construction of the housing, a process that can be prolonged for long periods. Finally, the housing portfolio is purchased/mortgaged and securitized.

- Unallocated funds will be invested according to the criteria defined by ROP, namely:
    - During the initial phase, of 18 months, in government bonds issued by the Government of Ecuador or Certificates of Deposit issued by public financial entities.
    - After this initial phase:
        - In cash in the FA account, at the Central Bank of Ecuador (the value necessary to cover the portfolio placement projections of eligible Loans by participating EFIs for the next six months).
        - In Short Term Securities (CETES) issued by the Ministry of Economy and Finance, Government Bonds issued by the Government of Ecuador or Certificates of Deposit issued by public financial entities.

The issuer has committed to not invest in instruments for which it has been declared that the funds will be used to finance greenhouse gas (GHG) intensive activities or environmentally controversial activities.

- If an expense no longer meets the eligibility criteria, the Issuer has committed to remove this expense from the Social Portfolio and to not consider it. Similarly, any changes in the Social Portfolio will be publicly disclosed in the annual reports.

The traceability and verification of funds are guaranteed throughout the whole process:

- The MEF with the support of MIDUVI will be responsible for the control and monitoring of the use of the resources obtained from the placement of the Bond, as well as the coordination for the implementation of the Housing Program.

- CTH S.A., in its capacity of Master Server (Servido Mestro) of the securitizations, will be responsible for verifying that the securitization process is properly implemented by the EFIs in accordance with the rules defined in the ROP.

- Each FTC, as well as the FA, will have an external auditor who will issue an annual report on the performance of each trust up to the date of its respective liquidation, namely:
    - At the end of the allocation period (5 years) for the FA;

- Once all issued securities are cancelled (in up to 25 years), even beyond the maturity of the Bond.

Publication of Reports

The reporting processes and commitments are considered good. The selected indicators cover in a complete and relevant manner the allocation of funds and the benefits (outputs and/or impacts) of the Eligible Loans.

The process of monitoring, data collection, consolidation and reporting is clearly defined and formalised in the Framework.

This process is based on relevant internal experts:

- The MEF with the support of CTH S.A. will be responsible for collecting the necessary data with the EFIs (and their securitization trust) for the preparation of the reports and will consolidate the relevant information from the MIDUVI to provide the report on the allocation of funds and impact of the Bond.

- The UPC will be responsible for preparing the Bond reports.

The Bond reports will be published on the MEF website.

The Issuer commits to report annually and in a transparent manner on the allocation of the Bond funds and the social benefits (results) of the Programme until full allocation. The selected indicators are relevant.

Use of Proceeds Indicators
- Volume of Loan generated by segment (Amount US$, Number, Average Amount) - Distribution by Originating Financial Entity - Remaining balance of unallocated funds

Social Benefits Indicators
Results: - Number of beneficiaries - Distribution by Housing Value - Distribution by Gender in percentage - Geographical distribution of the Loans by cities in amounts

The Issuer commits to publish, on the maturity date of the Bond, an impact evaluation report, in coordination with the IDB and in accordance with the IDB's own development impact evaluation methodologies, to report on the social impact of the Programme.

METHODOLOGY

In Vigeo Eiris' view, Environmental, Social and Governance/Institution (ESG/I) factors are intertwined and complementary. As such they cannot be separated in the assessment of ESG management in any organisation or activity, including the issuance of bonds. In this sense, Vigeo Eiris writes an opinion on the Issuer's sustainability performance, and on the Issuance's objectives, management and reporting of the expenditures or results and environmental impacts of the projects (re)financed by this transaction.

Part I. ISSUER

Level of the Issuer's sustainability performance

Vigeo Eiris has revised its *Sustainability Sovereign Rating©*, resulting from a continuous improvement process and based on permanent monitoring of international normative developments as well as stakeholder expectations and debates. This enhanced version includes 69 new factors to meet market needs. The 172 indicators are put into perspective with the UN Sustainable Development Goals and are organized into 56 criteria, 17 sub-domains and 3 rating domains. Of note, the new methodology leads to a decrease in the absolute scores of the majority of countries.

Vigeo Eiris' methodology, the *Sustainability Sovereign Rating©*, measures and compares the levels of integration of international public law and soft law frameworks, including for the recent period the Sustainable Development Goals (SDGs), and the action programmes of Agenda 21, adopted by 178 countries at the Rio Earth Summit in 1992. We pay particular attention to the commitments, policies and impacts of public policies in terms of respect of fundamental human rights, access to economic, social, cultural and environmental rights, quality of governance, as well as international solidarity and cooperation. Based on the analysis of a universe composed of 178 countries, the results provide a comparative view of risks and performances, with regard to universally acknowledged sustainability objectives.

The sustainability performance of the Republic of Ecuador was most recently evaluated by Vigeo Eiris in June 2019 based on three rating domains, all equally weighted in the model: Environment (i.e. environmental protection), Social (i.e. social protection and solidarity) and Institutions (i.e. rule of law and governance):

- Commitment indicators: reflecting the state's level of commitment to the goals and principles set by major international agreements: Conventions, recommendations and statements of the ILO; UN Charters and treaties; guiding principles of the OECD; regional instruments (assuming their full compliance with the United Nations Charter); the Universal Declaration of Human Rights and its related protocols and treaties.

- Result indicators: measuring the efficiency of the country's sustainable development actions. Vigeo Eiris gathers information from diversified sources including international organisations such as intergovernmental organisations, international trade unions and NGOs.

Management of ESG controversies

Note: The Issuer has not been subject to a review of its ability to mitigate sustainability risks based on the review of stakeholder opinion.

Part II. ISSUANCE

The Framework has been evaluated by Vigeo Eiris according to the SBP 2018 and on our methodology based on international standards and sector guidelines applying in terms of ESG management and assessment.

Use of Proceeds

The definition of the Eligible Loans and of their sustainable objectives and benefits are a core element of Sustainable Bonds standards. Vigeo Eiris evaluates the definition of the Eligible Categories, as well as the definition and the relevance of the aimed sustainability objectives. We evaluate the definition of the expected benefits in terms of assessment and quantification. In addition, we evaluate the potential contribution of Eligible Loans to the United Nations Sustainable Development Goals' targets.

Process for Evaluation and Selection

The evaluation and selection process has been assessed by Vigeo Eiris regarding its transparency, governance and relevance. The eligibility criteria have been assessed regarding their explicitness and relevance vs. the intended objectives of the Eligible Projects. The identification and management of the ESG risks associated with the Eligible Loans are analysed based on material issues considered in Vigeo Eiris' ESG assessment methodology based on international standards and sector guidelines applying in terms of ESG management and assessment.

Management of Proceeds

The rules for the management of proceeds and the allocation process have been evaluated by Vigeo Eiris regarding their transparency, coherence and efficiency.

Reporting

Monitoring process and commitments, reporting commitments, reporting indicators and methodologies are defined by the Issuer to enable a transparent reporting on the proceeds allocation and tracking, on the sustainable benefits (output and impact indicators) and on the responsible management of the Eligible Loans financed by the issuance. Vigeo Eiris has evaluated the reporting framework regarding its transparency, exhaustiveness and relevance.

VIGEO EIRIS' ASSESSMENT SCALES

Performance evaluation	
Advanced	Advanced commitment; strong evidence of command over the issues dedicated to achieving the objective of social responsibility. Reasonable level of risk management and using innovative methods to anticipate emerging risks.
Good	Convincing commitment; significant and consistent evidence of command over the issues. Reasonable level of risk management.
Limited	Commitment to the objective of social responsibility has been initiated or partially achieved; fragmentary evidence of command over the issues. Limited to weak level of risk management.
Weak	Commitment to social responsibility is non-tangible; no evidence of command over the issues. Level of insurance of risk management is weak to very weak.

Level of assurance	
Reasonable	Able to convincingly conform to the prescribed principles and objectives of the evaluation framework
Moderate	Compatibility or partial convergence with the prescribed principles and objectives of the evaluation framework
Weak	Lack or unawareness of, or incompatibility with the prescribed principles and objectives of the evaluation framework

Vigeo Eiris is an independent international provider of environmental, social and governance (ESG) research and services for investors and public & private organizations. We undertake risk assessments and evaluate the level of integration of sustainability factors within the strategy and operations of organizations.

Vigeo Eiris offers a wide range of services:

- **For investors:** decision making support covering all sustainable and ethical investment approaches (including ratings, databases, sector analyses, portfolio analyses, structured products, indices and more).
- **For companies & organizations:** supporting the integration of ESG criteria into business functions and strategic operations (including sustainable bonds, corporate ratings, CSR evaluations and more).

Vigeo Eiris is committed to delivering client products and services with high added value: a result of research and analysis that adheres to the strictest quality standards. Our methodology is reviewed by an independent scientific council and all our production processes, from information collection to service delivery, are documented and audited. Vigeo Eiris has chosen to certify all its processes to the latest ISO 9 001 standard. Vigeo Eiris is an approved Verifier for CBI (Climate Bond Initiative). Vigeo Eiris' research is referenced in several international scientific publications.

With a team of more than 240 experts of 28 different nationalities, Vigeo Eiris is present in Paris, London, Boston, Brussels, Casablanca, Hong Kong, Milan, Montreal, Rabat, Santiago and Stockholm.

The Vigeo Eiris Global Network, comprising 4 exclusive research partners, is present in Brazil, Germany, Israel and Japan.

For more information: **www.vigeo-eiris.com**

Disclaimer

Transparency on the relation between Vigeo Eiris and the Issuer: Vigeo Eiris has not carried out any audit mission or consultancy activity for the Republic of Ecuador until so far and no established relationship (financial or other) exists between Vigeo Eiris and the Republic of Ecuador.

This opinion aims at providing an independent opinion on the sustainability credentials and management of the Bond, based on the information which has been made available to Vigeo Eiris. Vigeo Eiris has neither interviewed stakeholders out of the Issuer's employees, nor performed an on-site audit nor other test to check the accuracy of the information provided by the Issuer. The accuracy, comprehensiveness and trustworthiness of the information collected are a responsibility of the Issuer. Providing this opinion does not mean that Vigeo Eiris certifies the effectiveness, the excellence or the irreversibility of the assets to be financed by the Bond. The Issuer is fully responsible for attesting the compliance with its commitments defined in its policies, for their implementation and their monitoring. The opinion delivered by Vigeo Eiris neither focuses on the financial performance of the Bond, nor on the effective allocation of its proceeds. Vigeo Eiris is not liable for the induced consequences when third parties use this opinion either to make investments decisions or to make any kind of business transaction.

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