

# Annual Report 2018

## Financial Statements

As of and for the years ended  
December 31, 2018 and 2017



# CORPORACIÓN ANDINA DE FOMENTO (CAF)

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## **Management's Report on the Effectiveness of Internal Control over Financial Reporting**

Corporación Andina de Fomento (“CAF”)’s internal control over financial reporting is a process effected by those in charge of governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America. An entity’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the entity’s assets that could have a material effect on the financial statements.

The Management of CAF is responsible for designing, implementing and maintaining effective internal control over financial reporting. Management has assessed the effectiveness of CAF’s internal control over financial reporting as of December 31, 2018, based on the criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). Based on that assessment, CAF’s Management concluded that CAF’s internal control over financial reporting is effective as of December 31, 2018.


Internal control over financial reporting has inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override. Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements. Also, projections of any assessment of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.



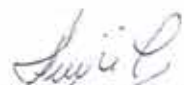
CAF's financial statements as of December 31, 2018, have been audited by an independent accounting firm, which has also issued an independent auditors' report on CAF's internal control over financial reporting. The audit report, which is included in this document, expresses an unmodified opinion on CAF's internal control over financial reporting as of December 31, 2018.



Luis Carranza Ugarte  
Executive President



Elvira Lupo de Velarde  
Vice-President of Administration



Franca Capobianco  
Acting Accounting Director

February 15, 2019



**Lara Marambio & Asociados**

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## **Independent Auditors' Report on Internal Control over Financial Reporting**

To the Board of Directors and Stockholders of  
**Corporación Andina de Fomento (CAF)**

We have audited the internal control over financial reporting of **Corporación Andina de Fomento (CAF)** as of December 31, 2018, based on the criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

### **Management's Responsibility for Internal Control over Financial Reporting**

CAF's management is responsible for designing, implementing, and maintaining effective internal control over financial reporting, and for its assessment about the effectiveness of internal control over financial reporting included in the accompanying Management's Report on the Effectiveness of Internal Control over Financial Reporting.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on the CAF's internal control over financial reporting based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

An audit of internal control over financial reporting involves performing procedures to obtain audit evidence about whether a material weakness exists. The procedures selected depend on the auditor's judgment, including the assessment of the risks that a material weakness exists. An audit includes obtaining an understanding of internal control over financial reporting and testing and evaluating the design and operating effectiveness of internal control over financial reporting based on the assessed risk.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Definition and Inherent Limitations of Internal Control over Financial Reporting**

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America. An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.


Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements. Also, projections of any assessment of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

### **Opinion**

In our opinion, **Corporación Andina de Fomento (CAF)** maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on the criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

### **Report on Financial Statements**

We have also audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of CAF as of and for the years ended December 31, 2018 and 2017, and our report dated February 15, 2019, expressed an unmodified opinion on those financial statements.



February 15, 2019

Caracas - Venezuela

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## **Independent Auditors' Report on Financial Statements**

To the Board of Directors and Stockholders of  
**Corporación Andina de Fomento (CAF)**

We have audited the accompanying financial statements of **Corporación Andina de Fomento (CAF)**, which comprise the balance sheets as of December 31, 2018 and 2017, and the related statements of comprehensive income, stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Corporación Andina de Fomento (CAF)** as of December 31, 2018 and 2017, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Report on Internal Control over Financial Reporting**

We have also audited, in accordance with auditing standards generally accepted in the United States of America, the CAF's internal control over financial reporting as of December 31, 2018, based on the criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 15, 2019, expressed an unmodified opinion on the CAF's internal control over financial reporting.



February 15, 2019

Caracas - Venezuela

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## CORPORACIÓN ANDINA DE FOMENTO (CAF)

### Balance Sheets As of December 31, 2018 and 2017 (In thousands of U.S. dollars)

	NOTES	2018	2017
<b>ASSETS</b>			
Cash and due from banks		127,355	61,294
Deposits with banks		2,594,312	2,001,766
Cash and deposits with banks	3	2,721,667	2,063,060
Marketable securities:			
Trading	4 and 20	9,654,956	9,194,991
Other investments	5	658,750	1,453,869
Loans (US\$ 74,402 and US\$ 49,007 at fair value as of December 31, 2018 and 2017)	6 and 20	25,111,387	23,628,073
Less loan commissions, net of origination costs		102,823	97,530
Less allowance for loan losses	6	64,848	67,225
Loans, net		24,943,716	23,463,318
Accrued interest and commissions receivable		523,098	427,702
Equity investments	7	459,667	433,025
Derivative financial instruments	19 and 20	184,805	532,668
Property and equipment, net	8	106,046	90,415
Other assets	9	761,542	452,518
<b>TOTAL</b>		<b>40,014,247</b>	<b>38,111,566</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
<b>LIABILITIES:</b>			
Deposits	10	3,210,545	2,950,143
Commercial paper	11	641,295	1,770,676
Borrowings (US\$ 470,220 and US\$ 550,563 at fair value as of December 31, 2018 and 2017), net	12 and 20	1,284,269	1,417,265
Bonds (US\$ 21,461,610 and US\$ 19,559,372 at fair value as of December 31, 2018 and 2017), net	13 and 20	21,620,093	19,718,627
Accrued interest payable		394,233	314,660
Derivative financial instruments	19 and 20	876,784	553,594
Accrued expenses and other liabilities	14	123,628	264,865
Total liabilities		28,150,847	26,989,830
<b>STOCKHOLDERS' EQUITY:</b>			
Subscribed capital	16 and 17	7,989,620	7,987,370
Less callable capital portion		1,589,660	1,589,660
Less capital subscriptions receivable		1,233,240	1,413,415
Paid-in capital		5,166,720	4,984,295
Additional paid-in capital		3,595,133	3,259,471
Reserves		2,877,970	2,801,571
Retained earnings		223,577	76,399
Total stockholders' equity		11,863,400	11,121,736
<b>TOTAL</b>		<b>40,014,247</b>	<b>38,111,566</b>

See accompanying notes to the financial statements

## CORPORACIÓN ANDINA DE FOMENTO (CAF)

### Statements of Comprehensive Income For the years ended December 31, 2018 and 2017 (In thousands of U.S. dollars)

	NOTES	2018	2017
Interest income:			
Loans	2 (f)	1,028,928	798,295
Investments and deposits with banks	2 (e), 3 and 4	239,909	162,908
Loan commissions	2 (f)	41,337	40,822
Total interest income		1,310,174	1,002,025
Interest expense:			
Bonds		715,186	517,955
Deposits		47,538	34,011
Commercial paper		15,535	25,265
Borrowings		43,302	32,115
Commissions		9,594	12,241
Total interest expense		831,155	621,587
Net interest income		479,019	380,438
Provision for loan losses	6	13,192	69,902
Net interest income, after provision for loan losses		465,827	310,536
Non-interest income:			
Other commissions		2,581	3,264
Dividends and equity in earnings of investees	7	8,922	9,523
Unrealized changes in fair value related to equity investment	7	13,691	-
Other income		4,698	3,171
Total non-interest income		29,892	15,958
Non-interest expenses:			
Administrative expenses	23	158,288	150,135
Impairment charge for equity investments	7	21,991	11,000
Other expenses		4,537	1,197
Total non-interest expenses		184,816	162,332
Income before unrealized changes in fair value related to financial instruments and contributions to Stockholders' Special Funds		310,903	164,162
Unrealized changes in fair value related to financial instruments	21	504	4,301
Income before contributions to Stockholders' Special Funds		311,407	168,463
Contributions to Stockholders' Special Funds	24	87,830	92,064
Net income		223,577	76,399
Other comprehensive income:			
Amortization of defined benefit pension items	15 and 17	-	1,563
Total comprehensive income		223,577	77,962

See accompanying notes to the financial statements

## CORPORACIÓN ANDINA DE FOMENTO (CAF)

Statements of Stockholders' Equity  
For the years ended December 31, 2018 and 2017  
(In thousands of U.S. dollars)

	NOTE	Paid-in capital	Additional paid-in capital	Reserves			Accumulated other comprehensive income	Retained earnings	Total stockholders' equity
				General reserve	Article N° 42 of the Constitutive Agreement	Total reserves			
BALANCES AT DECEMBER 31, 2016		4,783,545	2,890,091	2,205,853	473,000	2,678,853	(1,563)	122,718	10,473,644
Capital increase	16	200,750	369,380	-	-	-	-	-	570,130
Net income	16	-	-	-	-	-	-	76,399	76,399
Appropriated for general reserve	16	-	-	110,218	-	110,218	-	(110,218)	-
Appropriated for reserve pursuant to Article N° 42 of the Constitutive Agreement	16	-	-	-	12,500	12,500	-	(12,500)	-
Other comprehensive income	17	-	-	-	-	-	1,563	-	1,563
BALANCES AT DECEMBER 31, 2017		4,984,295	3,259,471	2,316,071	485,500	2,801,571	-	76,399	11,121,736
Capital increase	16	182,425	335,662	-	-	-	-	-	518,087
Net income	16	-	-	-	-	-	-	223,577	223,577
Appropriated for general reserve	16	-	-	68,699	-	68,699	-	(68,699)	-
Appropriated for reserve pursuant to Article N° 42 of the Constitutive Agreement	16	-	-	-	7,700	7,700	-	(7,700)	-
BALANCES AT DECEMBER 31, 2018		5,166,720	3,595,133	2,384,770	493,200	2,877,970	-	223,577	11,863,400

See accompanying notes to the financial statements

## CORPORACIÓN ANDINA DE FOMENTO (CAF)

**Statements of Cash Flows**  
**For the years ended December 31, 2018 and 2017**  
(In thousands of U.S. dollars)

	NOTE	2018	2017
<b>OPERATING ACTIVITIES:</b>			
Net income		223,577	76,399
Adjustments to reconcile net income to net cash (used in) provided by operating activities:			
Unrealized gain on trading securities	4	(1,750)	(1,332)
Amortization of loan commissions, net of origination costs		(16,406)	(15,822)
Provision for loan losses	6	13,192	69,902
Impairment charge for equity investments	7	21,991	11,000
Unrealized changes in fair value related to equity investment	7	(13,691)	-
Equity in earnings of investees		(3,436)	(4,175)
Amortization of deferred charges		6,120	5,082
Depreciation of property and equipment	8	6,005	5,767
Provision for employees' severance benefits		13,080	12,645
Provision for employees' savings plan		1,121	1,197
Unrealized changes in fair value related to financial instruments		(504)	(4,301)
Net changes in operating assets and liabilities:			
Severance benefits paid or advanced		(12,124)	(10,874)
Employees' savings plan paid or advanced		(3,769)	(2,963)
Trading securities, net		(445,068)	73,409
Interest and commissions receivable		(95,399)	(83,018)
Other assets		3,265	(7,614)
Accrued interest payable		79,572	33,601
Accrued expenses and other liabilities		(148)	12,591
Total adjustments and net changes in operating assets and liabilities		(447,949)	95,095
Net cash (used in) provided by operating activities		(224,372)	171,494
<b>INVESTING ACTIVITIES:</b>			
Purchases of other investments	5	(2,315,421)	(3,667,575)
Maturities of other investments	5	3,110,541	3,210,260
Loan origination and principal collections, net	6	(1,475,133)	(1,703,184)
Equity investments, net	7	(31,506)	(53,799)
Property and equipment, net	8	(21,636)	(20,982)
Net cash used in investing activities		(733,155)	(2,235,280)
Carried forward,		(957,527)	(2,063,786)

See accompanying notes to the financial statements

## CORPORACIÓN ANDINA DE FOMENTO (CAF)

**Statements of Cash Flows**  
**For the years ended December 31, 2018 and 2017**  
(In thousands of U.S. dollars)

	<b>2018</b>	<b>2017</b>
Brought forward,	(957,527)	(2,063,786)
<b>FINANCING ACTIVITIES:</b>		
Net increase (decrease) in deposits	260,402	(148,740)
Proceeds from commercial paper	2,629,208	3,864,251
Repayment of commercial paper	(3,758,589)	(4,206,292)
Net (increase) decrease in derivative-related collateral	(457,805)	626,566
Proceeds from issuance of bonds	4,900,589	3,809,731
Repayment of bonds	(2,355,306)	(2,098,519)
Proceeds from borrowings	169,699	141,804
Repayment of borrowings	(290,151)	(156,855)
Proceeds from issuance of shares	518,087	570,130
Net cash provided by financing activities	1,616,134	2,402,076
<b>NET INCREASE IN CASH AND DEPOSITS WITH BANKS</b>	658,607	338,290
<b>CASH AND DEPOSITS WITH BANKS AT BEGINNING OF THE YEAR</b>	2,063,060	1,724,770
<b>CASH AND DEPOSITS WITH BANKS AT END OF THE YEAR</b>	2,721,667	2,063,060
<b>SUPPLEMENTAL DISCLOSURE:</b>		
Interest paid during the period	727,661	561,366
<b>NON-CASH FINANCING ACTIVITIES:</b>		
Changes in derivative financial instruments assets	347,863	(414,315)
Changes in derivative financial instruments liabilities	323,190	(467,698)



# CORPORACIÓN ANDINA DE FOMENTO (CAF)

Notes to the Financial Statements  
For the years ended December 31, 2018 and 2017  
(In thousands of U.S. dollars)

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## 1. ORIGIN

**Business description** – Corporación Andina de Fomento (CAF) began its operations on June 8, 1970, and was established under public international law which abides by the provisions set forth in its Constitutive Agreement. Series “A” and “B” stockholder countries are: Argentina, Bolivia, Brazil, Colombia, Ecuador, Panama, Paraguay, Peru, Trinidad and Tobago, Uruguay and Venezuela. Series “C” stockholder countries are: Barbados, Chile, Costa Rica, Dominican Republic, Jamaica, Mexico, Portugal and Spain. In addition, there are 13 banks which are Series “B” stockholders. CAF is headquartered in Caracas and has offices in Asuncion, Bogota, Brasilia, Buenos Aires, Mexico City, Panama City, La Paz, Lima, Madrid, Montevideo, Port of Spain and Quito.

CAF’s objective is to support sustainable development and economic integration within Latin America and the Caribbean by helping stockholder countries diversify their economies and become more competitive and responsive to social needs.

CAF offers financial and related services to the governments of its stockholder countries, as well as their public and private institutions, corporations and joint ventures. CAF's principal activity is to provide short, medium and long-term loans to finance projects, working capital, trade activities and to undertake feasibility studies for investment opportunities in stockholder countries. Furthermore, CAF manages and supervises third-party cooperation funds owned and sponsored by other countries and organizations, destined to finance programs agreed upon with donor countries and organizations which are in line with CAF's policies and strategies.

CAF raises funds to finance its operations from sources both within and outside its stockholder countries.

## 2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

- a. **Financial statement presentation** – The accompanying financial statements have been prepared in accordance with U.S. generally accepted accounting principles with the U.S. dollar as the functional currency.
- b. **Use of estimates** – The preparation of the accompanying financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the balance sheet, as well as the amounts reported as revenues and expenses during the corresponding reporting period. The most important estimates related to the preparation of the accompanying financial statements refer to estimating the allowance for loan losses and valuation and classification at fair values of financial instruments, among others. Management believes these estimates are adequate. Actual results could differ from those estimates.
- c. **Transactions denominated in other currencies** – Transactions denominated in currencies other than U.S. dollars are converted into U.S. dollars at exchange rates prevailing in international markets on the dates of the transactions. Currency balances other than U.S. dollars are converted into U.S. dollars at year-end exchange rates. Any foreign exchange gains or losses, including related hedge effects, are included in the statements of comprehensive income.

# CORPORACIÓN ANDINA DE FOMENTO (CAF)

Notes to the Financial Statements  
For the years ended December 31, 2018 and 2017  
(In thousands of U.S. dollars)

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- d. **Cash and deposits with banks** – Cash and deposits with banks comprised of cash, due from banks and short-term deposits with banks with an original maturity of three months or less.
- e. **Marketable securities** – CAF classifies its investments, according to management intention, as trading marketable securities, which are recorded on the trade date. Trading marketable securities are mainly bought and held with the purpose of selling them in the short term. Trading marketable securities are recorded at fair value. Gains and losses from sales of trading marketable securities and changes in the fair value of trading marketable securities are included in interest income of investments and deposits with banks in the statements of comprehensive income.
- f. **Loans** – CAF grants short, medium and long-term loans to finance projects, working capital, trade activities and to undertake feasibility studies for investment opportunities, both to public and private entities, for development and integration programs and projects in stockholder countries.

For credit risk purposes, CAF classifies its loan portfolio as follow:

**Sovereign loans** – Include loans granted to national, regional or local governments or decentralized institutions and other loans fully guaranteed by national governments.

**Non-sovereign loans** – Include loans granted to corporate and financial sectors (public and private sectors), among others, which are not guaranteed by national governments.

Loans are carried at their outstanding principal balances less: (i) write-offs, (ii) the allowance for loan losses, and (iii) loan commission fees received upon origination net of certain direct origination costs. Interest income is accrued on the unpaid principal balance. Loan commission fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method and are presented as interest income - loan commissions in the statements of comprehensive income.

The accrual for interest on loans is discontinued at the time a private sector loan is 90 days delinquent or a public sector loan is 180 days delinquent unless the loan is well-secured and in process of collection.

Interest accrued but not collected for loans that are placed on non-accrual status is reversed against interest income. The interest on non-accrual loans is accounted for on a cash-basis, until qualifying for return to accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Non-accrual loans are considered impaired loans. Factors considered by management in determining impaired loans are payment status and the probability of collecting scheduled principal and interest payments when due.

# CORPORACIÓN ANDINA DE FOMENTO (CAF)

Notes to the Financial Statements  
For the years ended December 31, 2018 and 2017  
(In thousands of U.S. dollars)

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Loan losses, partial or total, are written off against the allowance for loan losses when management confirms the uncollectibility of a loan balance. Subsequent recoveries on written off loans, if any, will be credited to the allowance for loan losses.

CAF maintains risk exposure policies to avoid concentrating its loan portfolio in any one country or economic group, which might be affected by market situations or other circumstances. For this purpose, CAF uses certain measurement parameters, such as: CAF's stockholders' equity, total loan portfolio, exposure to economic groups from public and private sectors, among others. CAF reviews, on a semi-annual basis, the credit risk rating of its loans and classifies the risk into the following categories:

- (i) *Satisfactory-excellent* – Extremely strong capacity to meet financial commitments.
  - (ii) *Satisfactory-very good* – Strong capacity to meet financial commitments, not significantly vulnerable to adverse economic conditions.
  - (iii) *Satisfactory-adequate* – Adequate capacity to meet financial commitments, but more vulnerable to adverse economic conditions.
  - (iv) *Watch* – Acceptable payment capacity however some indicators and elements require special attention otherwise they could result in impairment.
  - (v) *Special mention* – More vulnerable to adverse economic conditions but currently has the capacity to meet financial commitments.
  - (vi) *Sub-standard* – Currently vulnerable and dependent on favorable economic conditions to meet financial commitments.
  - (vii) *Doubtful* – Currently highly vulnerable.
  - (viii) *Loss* – Payment default on financial commitments.
- g. Troubled debt restructuring** – A restructuring of a loan constitutes a troubled debt restructuring if CAF for economic or legal reasons related to the borrower's financial difficulties, grants a concession to the borrower that it would not otherwise consider.

The concession granted by CAF may include the modifications or renegotiation to the contractual terms of the loans such as interest rate reductions, restatement of future cash flows, extension of loan terms, and other modifications in order to minimize possible economic losses.

Loans whose terms are modified in a troubled debt restructuring, generally, are identified as impaired. CAF's management evaluates the compliance with the new terms of the restructured loan for a reasonable period to calculate specific allowances for loan losses and if the remaining balance of the restructured loan is considered collectible, the restructured loan could return to accrual status.

# CORPORACIÓN ANDINA DE FOMENTO (CAF)

Notes to the Financial Statements  
For the years ended December 31, 2018 and 2017  
(In thousands of U.S. dollars)

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- h. Allowance for loan losses** – The allowance for loan losses is maintained at a level CAF believes to be adequate to absorb losses inherent in the loan portfolio at the date of the financial statements.

For purposes of determining the allowance for loan losses, CAF management classifies its portfolio for credit risk purposes into sovereign and non-sovereign. The allowance for loan losses is estimated considering the credit risk exposure, default probability and loss given default, based on external data provided by risk rating agencies, recognizing such effects in profit or loss for the period.

The allowance for loan losses on sovereign loans is collectively evaluated and established by CAF based on the individual long-term foreign currency debt rating applicable to the borrower countries, which is determined using the average rating of three recognized international credit rating agencies at the date of each of the balance sheet presented. The long-term foreign currency debt rating considers a default probability. Given CAF's status as a de facto preferred creditor and the immunities and privileges conferred by its stockholder countries, which are established in CAF's Constitutive Agreement and other similar agreements, a correction factor is used reflecting a lower default probability – usually equivalent to three levels the average rating referred above.

For the non-sovereign loans, the allowance for loan losses is individually evaluated and calculated by considering CAF's internal rating of each borrower, using the probability of default corresponding to the average of the equivalent categories of the international risk-rating agencies.

For those cases where the category equivalent to the rating of a given borrower determined in accordance with any of the international risk-rating agencies is higher than the risk rating in local currency of the country corresponding to such borrower, or if for any reason there is no risk rating, the risk rating in local currency of such country determined by international average risk-rating agencies will be used.

A specific allowance for loan losses is individually evaluated and established by CAF for impaired loans. A loan is considered as impaired when, based on currently available information and events, it is probable that CAF will not recover the total amount of principal and interest as agreed in the terms of the original loan contract. The impairment of loans is determined on a loan by loan basis based on the present value of expected future cash flows, discounted at the original loan's effective interest rate.

- i. Equity investments** – CAF invests in equity securities of companies and funds in strategic sectors, with the objective of promoting the development of such companies and funds and their participation in the securities markets and to serve as a catalyst in attracting resources to stockholder countries.

If CAF has the ability to exercise significant influence over the operating and financial policies of the investee, which is generally presumed to exist when CAF holds an ownership interest in the voting stock of an investee between 20% and 50%, the equity investments are accounted for using the equity method. Under the equity method, the carrying amount of the equity investment is adjusted to reflect CAF's proportionate share of earnings or losses, dividends received and certain transactions of the investee Company.

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For the year ended December 31, 2017, investments representing less than 20% of the voting rights of the investee are recorded using the cost method.

During the year ended December 31, 2018, CAF prospectively adopted the policy of subsequent measurement for these investments in equity securities without readily determinable fair value, as follows:

(i) direct investments in equity securities of companies, (a) previously accounted for at cost without a readily determinable fair value and (b) that do not qualify for the net asset value practical expedient to estimate fair value, are accounted for at cost minus impairment (if any), plus or minus changes resulting from observable price changes in orderly transactions for an identical or similar investment of the same issuer.

(ii) equity investments in funds without readily determinable fair value, previously accounted for at cost, CAF has applied the net asset value practical expedient to estimate fair value.

The dividends received from equity investments accounted for at fair value (2018) and cost (2017), are recognized as income.

- j. *Property and equipment, net*** – Property and equipment are stated at cost less accumulated depreciation. Maintenance and repair expenses are charged directly to the statements of comprehensive income for the year as incurred, while improvements and renewals are capitalized. Depreciation is calculated using the straight-line method, and charged to the statements of comprehensive income over the estimated useful life of assets.

The estimated useful life for assets is as follows:

Buildings	30 years
Building improvements	15 years
Leasing building improvements	Term of leasing contract
Furniture and equipment	2 to 10 years
Vehicles	5 years

- k. *Other assets*** – Other assets mainly include the following:

***Derivative-related collateral*** – CAF receives or posts collateral from or to individual swap and futures counterparties in the form of cash to mitigate its credit exposure to these counterparties. It is the policy of CAF to restrict and invest collateral received from swap and futures counterparties for fulfilling its obligations under the collateral agreement. CAF records cash collateral received in other assets with a corresponding obligation to return the cash collateral received in accrued expenses and other liabilities. Cash collateral posted to swap and futures counterparties, under the collateral agreement, are recorded in other assets.



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**Intangible assets** – Include software investments which are reported at cost less accumulated amortization. The amortization is calculated with the straight-line method over the useful life estimated by CAF. The estimated useful life of these assets is between 2 and 5 years.

- l. Impairment** – A financial asset is considered impaired and an impairment loss is recognized only if there are circumstances that indicate impairment as a result of one or more events (“loss events”) that have occurred after recognition of the financial asset.
- m. Deposits and commercial paper** – Deposits and commercial paper are recorded at amortized cost.
- n. Borrowings** – The borrowings account includes those obligations to local or foreign financial institutions and commercial banks, which are recorded at amortized cost, except for some borrowings that are designated a fair value hedge or as an economic hedge. The up-front costs and fees related to the issuance of borrowings recorded at amortized cost are deferred and reported in the balance sheet as a direct deduction from the face amount of borrowings and amortized during the term of the borrowings as interest expense. The up-front cost and fees related to borrowing that are designated a fair value hedge or as an economic hedge, are recognized in the statement of comprehensive income when they occur.
- o. Bonds** – Medium and long-term bond issuances, whose objective is to provide the financial resources required to finance CAF’s operations, are recorded as follows:
  - Bonds denominated in currencies other than the US\$ are recognized at fair value. Gains or losses resulting from changes in the fair value of these bonds, as well as the related bond’s up-front costs and fees, are recognized in the statements of comprehensive income when they occur. CAF enters into cross-currency and interest rate swaps to economically hedge the interest rate and foreign exchange risks related with these bonds.
  - Bond denominated in US\$ are recognized at fair value. The interest rate risk on US\$ denominated bonds is hedged using interest rate swaps, and such interest rate swaps are designated as part of fair value hedge accounting relationships assuming no hedge ineffectiveness (the “shortcut method”). The related bond’s up-front costs and fees are deferred and reported in the balance sheet as a direct deduction from the face amount of the bonds, and amortized during the term of the bonds as interest expense.

Partial repurchases of bond issuances result in the derecognition of the corresponding liabilities. The difference between the repurchase price and the bond’s carrying amount is recognized as income/loss for the year.

- p. Employees’ severance benefits** – Accrual for severance benefits comprises all the liabilities related to the workers’ vested rights according to CAF’s employee policies and the applicable labor law of the member countries. The accrual for employee severance benefits is presented as part of “labor benefits” account under “Accrued expenses and other liabilities” caption.

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Under CAF's employee policies, employees earn a severance benefit equal to five days of salary per month, up to a total of 60 days per year of service. From the second year of service, employees earn an additional two day salary for each year of service (or fraction of a year greater than six months), cumulative up to a maximum of 30 days of salary per year. Severance benefits are recorded in the accounting records of CAF and interest on the amounts owed to employees are paid annually.

In the case of unjustified dismissal or involuntary termination, employees have the right to an additional severance benefit of one month of salary per year of service.

- q. **Pension plan** – In March 2005, CAF established a defined benefit plan (the Plan), which is mandatory for all employees hired on or after the establishment of the Plan and voluntary for all other employees. The Plan's benefits are calculated based on years of service and the average salary of the three consecutive years in which the employee received the highest salary. CAF periodically updates the benefit obligations considering actuarial assumptions.
- r. **Derivative financial instruments and hedging activities** – CAF records all derivative financial instruments on the balance sheet at fair value, regardless of the purpose or intent for holding them. For derivative contracts for which hedge accounting is intended to apply, CAF designates the derivative financial instrument as a fair value hedge on the date the derivative contract is entered into. CAF formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. This process includes linking the derivative financial instruments that are designated as fair value hedge to specific assets and liabilities on the balance sheet, or to specific firm commitments. CAF's policy is not to enter into derivative financial instruments for speculative purposes. CAF also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivative financial instruments that are used in hedging transactions are highly effective in offsetting changes in fair values of the hedged items.

Changes in the fair value of highly effective derivative financial instruments considered hedges from an accounting perspective (fair value hedge) are recognized in the balance sheet. The ineffective portion of the change in fair value for a hedged derivative is recognized in the statements of comprehensive income.

Certain derivative financial instruments, although considered to be an effective hedge from an economic perspective (economic hedge), have not been designated as a hedge for accounting purposes. The changes in the fair value of such derivative financial instruments are recognized in the statements of comprehensive income, concurrently with the change in fair value of the underlying assets and liabilities.

CAF discontinues hedge accounting prospectively upon determining that the derivative financial instrument is no longer effective in offsetting changes in the fair value of the hedged item; the derivative expires or is sold, terminated or exercised; the derivative is de-designated as a hedging instrument, because it is unlikely that a forecasted transaction will occur, a hedged firm commitment no longer meets the definition of a firm commitment, or management determines that the designation of the derivative financial instrument as a hedging instrument is no longer appropriate.

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When hedge accounting is discontinued because it is determined that the derivative financial instrument no longer qualifies as an effective fair value hedge, CAF continues to carry the derivative financial instrument on the balance sheet at its fair value, and no longer adjusts the hedged asset or liability for changes in fair value. The adjustment of the carrying amount of the hedged asset or liability is accounted for in the same manner as other components of the carrying amount of that asset or liability. In all situations in which hedge accounting is discontinued, CAF continues to carry the derivative financial instrument at its fair value on the balance sheet, and recognizes any changes in its fair value in the statements of comprehensive income.

- s. ***Fair value of financial instruments and fair value measurements*** – An entity is required to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Accounting guidance establishes a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used to measure fair value. A financial instrument’s categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Inputs used to measure fair value may fall into one of three levels:

*Level 1* – Applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

*Level 2* – Applies to assets or liabilities for which there are inputs other than quoted prices that are observable for the asset or liability such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data.

*Level 3* – Applies to assets or liabilities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

- t. ***Guarantees*** – CAF provides guarantees on loans originated by third parties to support projects located within a stockholder country that are undertaken by public and private entities. CAF may offer guarantees of private credit agreements or it may offer public guarantees of obligations of the securities of third party issuers. CAF generally offers partial credit guarantees with the intention of sharing the risk with private lenders or holders of securities. CAF’s responsibility is limited to paying up to the amount of the guarantee upon default by the client. The guarantee fee income received is deferred and recognized over the period covered by the guarantee.
- u. ***Provision for guarantees losses*** – Provision for guarantees is maintained at a level CAF believes adequate to absorb probable losses inherent to the guaranteed loans originated by third parties as of the date of the financial statements. Guaranteed loans are classified as either sovereign or non-sovereign. Provision for guarantees is estimated by CAF considering the credit risk exposure, default probability and loss given default. Provision for sovereign guarantees losses is based on the individual long-term foreign currency debt rating of the guarantor countries (“country risk rating”) considering the weighted average rating of three recognized international risk rating agencies at the date of the financial statements preparation. These country risk ratings have associated default

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probability. Given CAF's status as a de facto preferred creditor, arising from its status as a multilateral financial institution and from the interest of its borrowers in maintaining their credit standing with CAF, and taking into account the immunities and privileges conferred by its stockholder countries, which are established in CAF's Constitutive Agreement and other similar agreements, a factor that reflects a lower default probability – usually equivalent to three levels up in this weighted average rating is used. For non-sovereign guarantees, the provision is determined by considering the CAF internal rating of each client and the weighted average rating of the aforementioned agencies.

The provision for guarantees losses, are reported as other liabilities.

v. ***Recent accounting pronouncements –***

***Recently adopted accounting pronouncements***

In January 2016, the FASB issued ASU 2016-01, Financial Instruments - Recognition and Measurement of Financial Assets and Financial Liabilities. The amendments in this ASU require all equity investments to be measured at fair value with changes in the fair value recognized through net income (other than those accounted for under equity method of accounting or those that result in consolidation of the investee). The amendments in this ASU also require an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. In addition, the amendments in this ASU eliminate the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities and the requirement to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet for public business entities. This ASU was adopted prospectively by CAF on January 1, 2018, and such adoption did not have a material impact on its financial statements. The effects of adopting this ASU are disclosed in Notes 7 and 20.

***Recent accounting pronouncements applicable –***

***ASU 2016-13, Financial Instruments – Credit Losses***

In June 2016, the FASB issued ASU 2016-13. Financial Instruments – Credit Losses, which amends guidance on reporting credit losses for assets held at amortized cost basis and available for sale debt securities. The ASU eliminates the probable initial recognition threshold in current guidance and, instead, requires an entity to reflect its current estimate of all expected credit losses. This ASU affects entities holding financial assets and net investment in leases that are not accounted for at fair value through net income. The amendments affect loans, debt securities, trade receivables, net investments in leases, off balance sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash. This ASU will be effective for CAF in 2020.

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## ***ASU 2017-08, Receivables – Nonrefundable Fees and Other Costs / Premium Amortization on Purchased Callable Debt Securities***

In March 2017, the FASB issued the ASU 2017-08 Receivables—Nonrefundable Fees and Other Costs / Premium Amortization on Purchased Callable Debt Securities. The amendments in this update shorten the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. This ASU will be effective for CAF in 2019. CAF does not expect the ASU to have a material impact on its financial statements.

## ***ASU 2017-12, Derivatives and Hedging / Targeted Improvements to Accounting for Hedging Activities and ASU 2018-16, Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes***

In August 2017, the FASB issued the ASU 2017-12 Derivatives and Hedging / Targeted Improvements to Accounting for Hedging Activities. The amendments in this Update more closely align the results of cash flow and fair value hedge accounting with risk management activities through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results in the financial statements. The amendments address specific limitations in current GAAP by expanding hedge accounting for both nonfinancial and financial risk components and by refining the measurement of hedge results to better reflect an entity's hedging strategies. Thus, the amendments will enable an entity to report more faithfully the economic results of hedging activities for certain fair value and cash flow hedges and will avoid mismatches in earnings by allowing for greater precision when measuring changes in fair value of the hedged item for certain fair value hedges.

On October 25, 2018, the FASB issued the ASU 2018-16,11 which amends ASC 815 to add the Overnight Index Swap (OIS) rate based on the secured overnight financing rate as a fifth U.S. benchmark interest rate. The other four eligible benchmark interest rates under ASC 815 are:

- Interest rates on direct Treasury obligations of the U.S. government.
- The LIBOR swap rate.
- The OIS Rate based on the Fed Funds Effective Rate.
- The Securities Industry and Financial Markets Association Municipal Swap Rate.

These ASU will be effective for CAF in 2019. CAF does not expect the ASU to have a material impact on its financial statements.



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## *ASU 2018-13, Fair value measurement and ASU 2018-14, Disclosures Improvements*

On August 28, 2018, the FASB issued two ASU and two changes to its conceptual framework that are intended to improve the effectiveness of disclosures in notes to financial statements. Specifically, the FASB released the following:

ASU 2018-13, which modifies the disclosure requirements related to fair value measurement. The objective of the disclosure requirements in this Subtopic is to provide users of financial statements with information about assets and liabilities measured at fair value in the statement of financial position or disclosed in the notes to financial statements:

- a. The valuation techniques and inputs that a reporting entity uses to arrive at its measures of fair value, including judgments and assumptions that the entity makes.
- b. The uncertainty in the fair value measurements as of the reporting date.
- c. How changes in fair value measurements affect an entity's performance and cash flows.

This ASU will be effective for CAF in 2019.

ASU 2018-14, which modifies the ASC 715-20 to improve disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. These ASU will be effective for CAF in 2020. CAF is currently evaluating the effects of adopting this ASU.

### **3. CASH AND DEPOSITS WITH BANKS**

Cash and deposits with banks with original maturity of three months or less include the following:

	<b>December 31,</b>	
	<b>2018</b>	<b>2017</b>
Cash and due from banks	127,355	61,294
Deposits with banks:		
U.S. dollars	2,594,312	2,001,766
	<u>2,721,667</u>	<u>2,063,060</u>

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## 4. MARKETABLE SECURITIES

### *Trading*

A summary of trading securities follows:

	December 31,			
	2018		2017	
	Amount	Average maturity (years)	Amount	Average maturity (years)
U.S. Treasury Notes	1,799,690	1.86	1,588,857	4.15
Non-U.S. governments and government entities bonds	243,581	1.31	106,812	2.21
Financial institutions and corporate securities:				
Commercial paper	3,371,479	0.13	3,146,896	0.18
Certificates of deposits	1,707,010	0.19	2,065,830	0.29
Bonds	1,856,325	2.52	1,605,236	2.22
Collateralized mortgage obligation	352,643	4.03	375,733	3.86
Liquidity funds	324,228	1.00	305,627	1.00
	7,611,685	0.91	7,499,322	0.86
Marketable securities	9,654,956	1.08	9,194,991	1.44

Each certificate of deposit bears a maturity date and specified fixed interest rate. It also is held through The Depository Trust Company (DTC) and has a CUSIP number, which is a code that identifies a financial security and facilitates trading. The liquidity funds are comprised of short-term (less than one year) securities representing high-quality liquid debt and monetary instruments.

The fair value of trading securities include net unrealized gain of US\$ 1,750 and US\$ 1,332, at December 31, 2018 and 2017, respectively.

Net realized gains and losses from trading securities of US\$ 34,498 and US\$ 36,183 for the years ended December 31, 2018 and 2017, respectively, are included in the statements of comprehensive income as part of Investments and deposits with banks.

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CAF places its short-term investments mainly in high grade financial institutions and corporate securities. CAF has conservative investment guidelines that limit the amount of credit risk exposure, considering among other factors, limits as to credit ratings, limits as to duration exposure, specific allocations by type of investment instruments and limits across sector and currency allocation. At December 31, 2018 and 2017, CAF does not have any significant concentrations of credit risk according to its investment guidelines. Non-US dollar-denominated securities included in marketable securities amounted to the equivalent of US\$ 12,480 and US\$ 87,819 at December 31, 2018 and 2017, respectively.

Maturity of marketable securities are as follows:

	December 31,	
	2018	2017
Remaining maturities:		
Less than one year	6,032,574	6,312,305
Between one and two years	1,964,737	518,233
Between two and three years	649,114	449,968
Between three and four years	568,404	182,553
Between four and five years	305,809	1,561,551
Over five years	134,318	170,381
	<u>9,654,956</u>	<u>9,194,991</u>

## 5. OTHER INVESTMENTS

Deposits with banks due with more than 90 days (original maturity) are as follows:

	December 31,	
	2018	2017
U.S. dollars	658,165	1,453,145
Other currencies	585	724
	<u>658,750</u>	<u>1,453,869</u>

The interest rates on these deposits ranged from 1.88% to 3.25% at December 31, 2018 and from 1.33% to 2.24% at December 31, 2017.

## 6. LOANS

Loans include short, medium and long-term loans to finance projects, working capital and trade activities. The majority of the loans are to Series "A" and "B" stockholder countries, or to private institutions or companies of these countries.

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Loans by country are summarized as follows:

	<b>December 31,</b>	
	<b>2018</b>	<b>2017</b>
Stockholder country:		
Argentina	3,577,715	3,207,732
Barbados	84,014	86,650
Bolivia	2,562,869	2,483,765
Brazil	1,694,502	2,116,352
Chile	425,000	305,000
Colombia	2,840,345	2,516,203
Costa Rica	88,795	89,872
Dominican Republic	206,515	251,764
Ecuador	3,586,804	3,437,558
Mexico	530,000	305,000
Panama	1,900,354	1,503,012
Paraguay	466,200	418,669
Peru	2,039,674	2,279,635
Trinidad & Tobago	600,000	300,000
Uruguay	994,685	1,044,167
Venezuela	3,514,102	3,285,490
Sub-total loans	25,111,574	23,630,869
Fair value adjustments	(187)	(2,796)
Loans	25,111,387	23,628,073

Fair value adjustments of loans represent mainly adjustments to the amount of loans for which the fair value option is elected.

At December 31, 2018 and 2017, loans denominated in other currencies amounted to an equivalent of US\$ 30,155 and US\$ 45,597, respectively, principally denominated in Peruvian nuevos soles, Colombian pesos and Bolivian bolivianos. At December 31, 2018 and 2017, fixed interest rate loans amounted to US\$ 134,104 and US\$ 117,752, respectively.

Loans classified by public sector and private sector borrowers are as follows:

	<b>December 31,</b>	
	<b>2018</b>	<b>2017</b>
Public sector	21,571,079	20,201,026
Private sector	3,540,495	3,429,843
	25,111,574	23,630,869

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The weighted average yield of the loan portfolio is shown below:

	December 31,			
	2018		2017	
	Amount	Weighted average yield (%)	Amount	Weighted average yield (%)
Loans	25,111,574	4.43	23,630,869	3.49

Loans by industry segments are as follows:

	December 31,			
	2018	%	2017	%
Electricity, gas and water supply	7,853,261	31	7,777,829	33
Transport, warehousing and communications	7,288,024	29	7,601,610	32
Social and other infrastructure programs	6,473,592	26	4,858,267	21
Financial services - commercial banks	2,141,810	9	2,213,724	9
Financial services - development banks	999,466	4	764,751	3
Agriculture, hunting and forestry	151,551	1	166,138	1
Manufacturing industry	91,413	-	107,270	-
Others	112,457	-	141,280	1
	25,111,574	100	23,630,869	100

Loans mature as follows:

	December 31,	
	2018	2017
Remaining maturities:		
Less than one year	5,327,009	4,873,919
Between one and two years	2,638,910	2,517,977
Between two and three years	2,399,462	2,411,805
Between three and four years	2,416,173	2,159,737
Between four and five years	2,169,924	2,089,476
Over five years	10,160,096	9,577,955
	25,111,574	23,630,869

The loan portfolio classified based on the type of credit risk is as follows:

	December 31,	
	2018	2017
Sovereign guaranteed	20,737,233	19,402,360
Non-sovereign guaranteed	4,374,341	4,228,509
	25,111,574	23,630,869



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CAF maintains an internal risk rating system to evaluate the quality of the non-sovereign guaranteed loan portfolio, which identifies, through a standardized rating and review parameters, those risks related to credit transactions. At December 31, 2018 and 2017, the sovereign guaranteed loan portfolio is classified by CAF as satisfactory - very good. For purpose of determining the allowance for loan losses, rating assigned by external agencies are used (Note 2h).

The credit quality of the non-sovereign guaranteed loan portfolio is presented by internal risk rating classification as follow:

	December 31,	
	2018	2017
Risk rating classification:		
Satisfactory-outstanding	475,000	-
Satisfactory-very good	1,816,725	1,788,467
Satisfactory-adequate	1,271,575	1,637,519
Watch	590,259	535,731
Special mention	108,087	128,133
Doubtful	112,695	76,081
Sub-standard	-	62,578
	4,374,341	4,228,509

### *Loan portfolio quality*

The loan portfolio quality indicators and the related amounts are presented below:

	December 31,	
	2018	2017
During the year CAF recorded the following transactions:		
Loans written-off	22,000	69,526
Purchases of loan portfolio	0	0
Sales of loan portfolio	16,167	43,376
CAF presented the following amounts and quality indicators as of the end of the year:		
Impaired loans	112,695	138,659
Non-accrual loans	112,695	138,659
Trouble debt restructured	0	0
Overdue loans	124,286	94,240
Allowance for loan losses as a percentage of loan portfolio	0.26%	0.28%
Nonaccrual loans as a percentage of loan portfolio	0.45%	0.59%
Overdue loan principal as a percentage of loan portfolio	0.49%	0.40%

At December 31, 2018, there are outstanding overdue amounts from Venezuela totaling US\$ 182,776, comprising, US\$ 124,286 of principal and US\$ 58,490 of interest and commissions. Those amounts were originally due between December 7, 2018 and December 28, 2018. During January 2019, CAF received payments for US\$ 6,133 related to this overdue interest.

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At December 31, 2017, there were outstanding overdue amount from Venezuela totaling US\$ 136,507 comprising, US\$ 94,240 of principal and US\$ 42,267 of interest and commissions. Those amounts were received in full in January 2018.

## *A/B Loans*

CAF administers loan-participations sold, and only assumes the credit risk for the portion of the loan owned by CAF. At December 31, 2018 and 2017, CAF had loans of this nature amounting to US\$ 366,048 and US\$ 423,536, respectively; whereas other financial institutions provided funds for US\$ 208,761 and US\$ 213,739, respectively.

## *Troubled Debt Restructuring*

At December 31, 2017, there was a troubled debt restructuring of a non-sovereign guaranteed loan, classified as impaired, with an outstanding balance of US\$ 44,203, which was totally written off. At December 31, 2018, there were no troubled debt restructuring.

## *Allowance for Loan Losses*

Changes in the allowance and the balance for loan losses over the outstanding amounts, individually and collectively evaluated, are presented below:

	December 31,					
	2018			2017		
	Sector			Sector		
	Sovereign	Non-sovereign	Total	Sovereign	Non-sovereign	Total
Balances at beginning of year	35,239	31,986	67,225	21,227	42,522	63,749
Provision for loan losses	1,476	11,716	13,192	14,012	55,890	69,902
Loans written-off	-	(22,000)	(22,000)	-	(69,526)	(69,526)
Recoveries	-	6,431	6,431	-	3,100	3,100
Balances at end of year	36,715	28,133	64,848	35,239	31,986	67,225
Allowance:						
Individually evaluated for loan losses	-	28,133	28,133	-	31,986	31,986
Collectively evaluated for loan losses	36,715	-	36,715	35,239	-	35,239
	36,715	28,133	64,848	35,239	31,986	67,225
Loans:						
Individually evaluated for loan losses	-	4,374,341	4,374,341	-	4,228,509	4,228,509
Collectively evaluated for loan losses	20,737,233	-	20,737,233	19,402,360	-	19,402,360
	20,737,233	4,374,341	25,111,574	19,402,360	4,228,509	23,630,869

# CORPORACIÓN ANDINA DE FOMENTO (CAF)

Notes to the Financial Statements  
For the years ended December 31, 2018 and 2017  
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## 7. EQUITY INVESTMENTS

Equity investments, which have no readily determinable fair value, are as follows:

	December 31,	
	2018	2017
Investments - Equity securities	394,638	397,357
Investments - Equity method	65,029	35,668
	<u>459,667</u>	<u>433,025</u>

CAF recognized the following in the statement of comprehensive income related to equity securities:

	Year ended December 31,	
	2018	2017
Dividends	5,486	912
Changes in fair value measurements	13,691	-
Impairment in equity securities	21,991	11,000

As a result of the implementation of ASU 2016-01, during the year ended December 31, 2018, CAF recognized gains of US\$ 13,691, corresponding to the net increase in the fair value of investments in equity instruments.

For the years ended December 31, 2018 and 2017, CAF recognized its equity in earnings of the investees for US\$ 3,436 and US\$ 4,175, respectively, for investments under the equity method, which are recorded in the statement of comprehensive income.

During 2017, CAF recognized US\$ 4,436 for gain on sale, which amounts are included in the statements of comprehensive income. As of December 31, 2018, CAF did not recognize any gain on sale.

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## 8. PROPERTY AND EQUIPMENT, NET

A summary of property and equipment, net follows:

	<b>December 31,</b>	
	<b>2018</b>	<b>2017</b>
Land	27,029	27,029
Buildings	40,134	40,134
Buildings improvements	21,056	20,891
Leasing building improvements	8,839	8,962
Furniture and equipment	30,215	27,507
Vehicles	1,079	1,021
	128,352	125,544
Less accumulated depreciation	67,363	64,937
Projects in progress	45,057	29,808
	106,046	90,415

Depreciation expenses of US\$ 6,005 and US\$ 5,767 for property and equipment for the years ended December 31, 2018 and 2017, respectively, are included in the statements of comprehensive income as part of administrative expenses.

## 9. OTHER ASSETS

A summary of other assets follows:

	<b>December 31,</b>	
	<b>2018</b>	<b>2017</b>
Derivative-related collateral	735,955	417,547
Intangible assets, net	10,169	13,071
Other	15,418	21,900
	761,542	452,518

## 10. DEPOSITS

A summary of deposits follows:

	<b>December 31,</b>	
	<b>2018</b>	<b>2017</b>
Demand deposits	72,007	71,010
Time deposits:		
Less than one year	3,138,538	2,879,133
	3,210,545	2,950,143

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At December 31, 2018 and 2017, the weighted average interest cost of deposits was 1.91% and 1.11%, respectively. Deposits are issued for amounts equal to or more than US\$ 100. Total deposits denominated in other currencies amounted to an equivalent of US\$ 457,848 and US\$ 347,956 at December 31, 2018 and 2017, respectively.

## 11. COMMERCIAL PAPER

At December 31, 2018 and 2017, the outstanding amount of commercial paper issued by CAF, amounts to US\$ 641,295 and US\$ 1,770,676, respectively, of which matures in 2019 and 2018, respectively. At December 31, 2018 and 2017, the weighted average interest cost on commercial paper was 1.94% and 1.30%, respectively.

## 12. BORROWINGS

A summary of borrowings by currency follows:

	<b>December 31,</b>	
	<b>2018</b>	<b>2017</b>
U.S. dollars	1,158,009	1,262,823
Euros	106,628	112,900
Peruvian nuevos soles	22,828	33,016
Venezuelan bolivars	92	287
Other currencies	1,947	1,119
	1,289,504	1,410,145
Fair value adjustments	(4,415)	8,129
Less debt issuance costs	820	1,009
Carrying value of borrowings	1,284,269	1,417,265

At December 31, 2018 and 2017, the fixed interest-bearing borrowings amounted to US\$ 467,169 and US\$ 546,340, respectively. At December 31, 2018 and 2017, the weighted average interest rate after considering the impact of interest rate swaps was 3.14% and 2.58%, respectively.

Borrowings, by remaining maturities, are summarized below:

	<b>December 31,</b>	
	<b>2018</b>	<b>2017</b>
Remaining maturities:		
Less than one year	181,505	507,649
Between one and two years	392,356	173,567
Between two and three years	155,327	151,168
Between three and four years	130,031	139,178
Between four and five years	122,532	118,626
Over five years	307,753	319,957
	1,289,504	1,410,145

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Some borrowing agreements contains covenants requiring the use of the proceeds for specific purposes or projects.

At December 31, 2018 and 2017, there were unused term credit facilities amounting to US\$ 782,691 and US\$ 851,997, respectively.

## 13. BONDS

An analysis of outstanding bonds follows:

	December 31,					
	2018			2017		
	At original exchange rate	At spot exchange rate	Weighted average cost, after swaps (%)	At original exchange rate	At spot exchange rate	Weighted average cost, after swaps (%)
U.S. dollars	9,235,275	9,235,275	6.71	8,105,090	8,105,090	4.17
Euro	6,952,140	6,574,568	1.81	5,834,571	5,691,902	2.00
Swiss francs	2,465,629	2,388,454	2.60	2,659,698	2,601,868	2.28
Australian dollars	1,041,899	925,405	3.63	910,080	889,513	2.77
Hong Kong dollars	757,299	750,575	1.90	757,292	752,217	1.54
Norwegian kroner	622,500	481,895	3.26	622,501	511,627	2.56
Japanese yen	347,422	308,250	4.20	347,680	301,766	3.61
Colombian pesos	283,283	241,991	2.38	112,565	74,269	3.77
Mexican pesos	254,725	219,228	3.64	98,108	67,003	3.88
Turkish lira	64,467	36,425	3.63	134,587	92,075	1.83
Indonesian Rupee	75,000	70,984	2.02	-	-	-
Brazilian Real	68,701	56,805	2.38	68,701	66,475	1.62
South African rand	37,773	40,881	2.79	60,372	68,135	1.85
Indian Rupee	31,891	30,572	2.59	31,891	33,473	1.92
Canadian dollars	30,395	29,295	3.19	30,395	31,822	2.42
Peruvian nuevos soles	53,378	52,476	4.44	7,489	7,585	1.85
	<u>22,321,777</u>	<u>21,443,079</u>		<u>19,781,020</u>	<u>19,294,820</u>	
Fair value adjustments		195,441			446,762	
Less debt issuance costs		18,427			22,955	
Carrying value of bonds		<u>21,620,093</u>			<u>19,718,627</u>	

# CORPORACIÓN ANDINA DE FOMENTO (CAF)

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A summary of the bonds issued, by remaining maturities at original exchange rate, follows:

	<b>December 31,</b>	
	<b>2018</b>	<b>2017</b>
Remaining maturities:		
Less than one year	2,291,645	2,311,200
Between one and two years	3,906,435	2,336,118
Between two and three years	3,154,929	2,926,163
Between three and four years	2,685,947	2,644,380
Between four and five years	3,202,716	2,685,564
Over five years	7,080,105	6,877,595
	<b>22,321,777</b>	<b>19,781,020</b>

At December 31, 2018 and 2017, fixed interest rate bonds amounted to US\$ 22,229,968 and US\$ 19,683,812, respectively, of which US\$ 13,095,772 and US\$ 11,684,716, respectively, are denominated in other currencies.

There were no bonds repurchased during the years ended December 31, 2018 and 2017.

## 14. ACCRUED EXPENSES AND OTHER LIABILITIES

A summary of accrued expenses and other liabilities follows:

	<b>December 31,</b>	
	<b>2018</b>	<b>2017</b>
Employees' severance benefits and savings plan	82,273	77,993
Contributions to Stockholders' Special Funds	36,872	36,967
Provision for contingencies	1,414	1,490
Derivative-related collateral	-	139,397
Other	3,069	9,018
	<b>123,628</b>	<b>264,865</b>

## 15. PENSION PLAN

At December 31, 2018 and 2017, the Plan has 576 and 584 participants and active employees, respectively. The date used to determine pension plan benefit obligation is December 31, of each year.

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For the years ended December 31, 2018 and 2017, a reconciliation of beginning and ending balances of the benefit obligation follows:

	<b>2018</b>	<b>2017</b>
Change in benefit obligation:		
Benefit obligation at beginning of year	21,526	18,763
Service cost	2,518	2,225
Interest cost	850	794
Plan participants' contributions	1,812	1,813
Actuarial (gain) loss	(443)	(248)
Benefit paid	(2,471)	(1,821)
Benefit obligation at end of year	23,792	21,526

For the years ended December 31, 2018 and 2017, a reconciliation of beginning and ending balances of the fair value of plan assets follows:

	<b>2018</b>	<b>2017</b>
Change in plan assets:		
Fair value of plan assets at beginning of year	21,509	17,201
Actual return on plan assets	987	440
Contributions	4,129	5,689
Benefit paid	(2,471)	(1,821)
Fair value of plan assets at end of year	24,154	21,509

Plan assets are as follows:

	<b>December 31,</b>	
	<b>2018</b>	<b>2017</b>
Plan assets:		
Deposits with banks	24,154	21,509

The table below summarizes the component of the periodic cost of projected benefits related to the PBO for the years ended December 31, 2018 and 2017:

	<b>2018</b>	<b>2017</b>
Service cost	2,518	2,225
Interest cost	850	794
Expected return on plan assets	(860)	(258)
	2,508	2,761



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A summary of the net projected cost for the year ending December 31, 2019 follows:

Service cost:	
Contributions to the plan	1,866
Guaranteed benefit	744
	<hr/>
	2,610
Interest cost	945
Expected return on plan assets	(959)
	<hr/>
	2,596
	<hr/>

A summary of the benefits that are expected to be paid for the next five years follows:

2019	361
2020	132
2021	323
2022	425
2023	810

Weighted-average assumptions used to determine net benefit cost since the origination of the Plan to December 31, 2018 and 2017 follows:

	<u>2018</u>	<u>2017</u>
Discount rate	4%	4%
Expected long-term nominal rate return on Plan assets	4%	1.5%
Salary increase rate	3%	3%

## 16. STOCKHOLDERS' EQUITY

### *Authorized capital*

The authorized capital of CAF at December 31, 2018 and 2017 amounts to US\$ 15,000,000, of which US\$ 10,000,000 is ordinary capital shares and US\$ 5,000,000 is callable capital shares, distributed among Series "A", "B" and "C" shares.

### *Additional paid-in capital*

The additional paid-in capital is the amount paid by Series "B" and Series "C" stockholders in excess of the par value. The additional paid-in capital of CAF at December 31, 2018 and 2017 amounts to US\$ 3,595,133 and US\$ 3,259,471, respectively.

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## *Subscribed callable capital*

The payment of subscribed callable capital will be as required, with prior resolution of the Board of Directors, in order to meet financial obligations of CAF, when internal resources are inadequate.

## *Shares*

CAF's shares are classified as follows:

- (i) Series "A" shares: Subscribed by the governments or public-sector institutions, semipublic or private entities with social or public objectives of: Argentina, Bolivia, Brazil, Colombia, Ecuador, Panama, Paraguay, Peru, Trinidad and Tobago, Uruguay and Venezuela. Series "A" shares grant the right of representation on CAF's Board of Directors to one principal director and one alternate director for each of the above countries. These shares have a par value of US\$ 1,200.
- (ii) Series "B" shares: Subscribed by the governments or public-sector institutions, semipublic or private entities and commercial banks of: Argentina, Bolivia, Brazil, Colombia, Ecuador, Panama, Paraguay, Peru, Trinidad and Tobago, Uruguay and Venezuela. Each of these shares grants the right of representation on CAF's Board of Directors to one principal director and one alternate director for each of the following countries: Bolivia, Colombia, Ecuador, Peru and Venezuela. In addition, the commercial banks that currently hold Series "B" shares of CAF are entitled, as a group, to elect one principal director and one alternate director on the Board of Directors. Series "B" shares have a par value of US\$ 5.
- (iii) Series "C" shares: Subscribed by legal entities or individuals belonging to countries other than Argentina, Bolivia, Brazil, Colombia, Ecuador, Panama, Paraguay, Peru, Uruguay and Venezuela. These shares confer the right of representation on CAF's Board of Directors to two principal directors and their respective alternates, who are elected by the holders of these shares. Series "C" shares have a par value of US\$ 5.

A summary of the changes in subscribed and paid-in capital for the years ended December 31, 2018 and 2017 follows:

	Number of Shares			Nominal Amounts			
	Series "A"	Series "B"	Series "C"	Series "A"	Series "B"	Series "C"	Total
At December 31, 2016	11	881,771	72,298	13,200	4,408,855	361,490	4,783,545
Issued for cash	-	31,723	8,427	-	158,615	42,135	200,750
At December 31, 2017	11	913,494	80,725	13,200	4,567,470	403,625	4,984,295
Issued for cash	-	32,717	3,768	-	163,585	18,840	182,425
At December 31, 2018	11	946,211	84,493	13,200	4,731,055	422,465	5,166,720

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Subscribed and paid-in capital at December 31, 2018 is as follows:

	Number of Shares			Nominal Amounts			Total
	Series "A"	Series "B"	Series "C"	Series "A"	Series "B"	Series "C"	
Stockholder:							
Argentina	1	100,404	-	1,200	502,020	-	503,220
Bolivia	1	55,058	-	1,200	275,290	-	276,490
Brazil	1	89,270	-	1,200	446,350	-	447,550
Colombia	1	176,825	-	1,200	884,125	-	885,325
Ecuador	1	55,379	-	1,200	276,895	-	278,095
Panama	1	30,491	-	1,200	152,455	-	153,655
Paraguay	1	30,011	-	1,200	150,055	-	151,255
Peru	1	184,417	-	1,200	922,085	-	923,285
Trinidad & Tobago	1	23,457	-	1,200	117,285	-	118,485
Uruguay	1	31,724	-	1,200	158,620	-	159,820
Venezuela	1	168,678	-	1,200	843,390	-	844,590
Barbados	-	-	3,522	-	-	17,610	17,610
Chile	-	-	5,541	-	-	27,705	27,705
Costa Rica	-	-	3,291	-	-	16,455	16,455
Dominican Republic	-	-	8,795	-	-	43,975	43,975
Jamaica	-	-	182	-	-	910	910
Mexico	-	-	15,367	-	-	76,835	76,835
Portugal	-	-	1,770	-	-	8,850	8,850
Spain	-	-	46,025	-	-	230,125	230,125
Commercial banks	-	497	-	-	2,485	-	2,485
	<u>11</u>	<u>946,211</u>	<u>84,493</u>	<u>13,200</u>	<u>4,731,055</u>	<u>422,465</u>	<u>5,166,720</u>

At December 31, 2018, the detail of unpaid subscribed capital and subscribed callable capital is presented below:

	Unpaid Subscribed Capital				Subscribed Callable Capital			
	Series "B"		Series "C"		Series "B"		Series "C"	
	Number of shares	Nominal Amount	Number of shares	Nominal Amount	Number of shares	Nominal Amount	Number of shares	Nominal Amount
Stockholder:								
Argentina	31,120	155,600	-	-	25,200	126,000	-	-
Bolivia	9,736	48,680	-	-	14,400	72,000	-	-
Brazil	38,873	194,365	-	-	25,200	126,000	-	-
Colombia	39,576	197,880	-	-	50,400	252,000	-	-
Ecuador	9,736	48,680	-	-	14,400	72,000	-	-
Panama	9,736	48,680	-	-	7,200	36,000	-	-
Paraguay	9,736	48,680	-	-	7,200	36,000	-	-
Peru	32,418	162,090	-	-	50,400	252,000	-	-
Trinidad y Tobago	-	-	-	-	7,200	36,000	-	-
Uruguay	9,736	48,680	-	-	7,200	36,000	-	-
Venezuela	48,156	240,780	-	-	50,400	252,000	-	-
Barbados	-	-	-	-	-	-	-	-
Chile	-	-	-	-	-	-	800	4,000
Dominican Republic	-	-	1,761	8,805	-	-	-	-
Mexico	-	-	-	-	-	-	1,600	8,000
Portugal	-	-	150	750	-	-	16,332	81,660
Spain	-	-	5,914	29,570	-	-	40,000	200,000
Commercial banks	-	-	-	-	-	-	-	-
	<u>238,823</u>	<u>1,194,115</u>	<u>7,825</u>	<u>39,125</u>	<u>259,200</u>	<u>1,296,000</u>	<u>58,732</u>	<u>293,660</u>

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Subscribed and paid-in capital at December 31, 2017 is as follows:

	Number of Shares			Nominal Amounts			Total
	Series "A"	Series "B"	Series "C"	Series "A"	Series "B"	Series "C"	
Stockholder:							
Argentina	1	94,179	-	1,200	470,895	-	472,095
Bolivia	1	52,624	-	1,200	263,120	-	264,320
Brazil	1	87,858	-	1,200	439,290	-	440,490
Colombia	1	169,364	-	1,200	846,820	-	848,020
Ecuador	1	52,945	-	1,200	264,725	-	265,925
Panama	1	28,057	-	1,200	140,285	-	141,485
Paraguay	1	27,577	-	1,200	137,885	-	139,085
Peru	1	179,014	-	1,200	895,070	-	896,270
Trinidad & Tobago	1	23,457	-	1,200	117,285	-	118,485
Uruguay	1	29,290	-	1,200	146,450	-	147,650
Venezuela	1	168,678	-	1,200	843,390	-	844,590
Barbados	-	-	3,522	-	-	17,610	17,610
Chile	-	-	5,541	-	-	27,705	27,705
Costa Rica	-	-	3,291	-	-	16,455	16,455
Dominican Republic	-	-	7,915	-	-	39,575	39,575
Jamaica	-	-	182	-	-	910	910
Mexico	-	-	15,367	-	-	76,835	76,835
Portugal	-	-	1,470	-	-	7,350	7,350
Spain	-	-	43,437	-	-	217,185	217,185
Commercial banks	-	451	-	-	2,255	-	2,255
	<u>11</u>	<u>913,494</u>	<u>80,725</u>	<u>13,200</u>	<u>4,567,470</u>	<u>403,625</u>	<u>4,984,295</u>

At December 31, 2017, the detail of unpaid subscribed capital and of subscribed callable capital is presented below:

	Unpaid Subscribed Capital				Subscribed Callable Capital			
	Series "B"		Series "C"		Series "B"		Series "C"	
	Number of shares	Nominal Amount	Number of shares	Nominal Amount	Number of shares	Nominal Amount	Number of shares	Nominal Amount
Stockholder:								
Argentina	37,345	186,725	-	-	25,200	126,000	-	-
Bolivia	12,170	60,850	-	-	14,400	72,000	-	-
Brazil	40,285	201,425	-	-	25,200	126,000	-	-
Colombia	47,037	235,185	-	-	50,400	252,000	-	-
Ecuador	12,170	60,850	-	-	14,400	72,000	-	-
Panama	12,170	60,850	-	-	7,200	36,000	-	-
Paraguay	12,170	60,850	-	-	7,200	36,000	-	-
Peru	37,821	189,105	-	-	50,400	252,000	-	-
Trinidad y Tobago	-	-	-	-	7,200	36,000	-	-
Uruguay	12,170	60,850	-	-	7,200	36,000	-	-
Venezuela	48,156	240,780	-	-	50,400	252,000	-	-
Barbados	-	-	-	-	-	-	-	-
Chile	-	-	-	-	-	-	800	4,000
Dominican Republic	-	-	2,641	13,205	-	-	-	-
Mexico	-	-	-	-	-	-	1,600	8,000
Portugal	-	-	-	-	-	-	16,332	81,660
Spain	-	-	8,502	42,510	-	-	40,000	200,000
Commercial banks	46	230	-	-	-	-	-	-
	<u>271,540</u>	<u>1,357,700</u>	<u>11,143</u>	<u>55,715</u>	<u>259,200</u>	<u>1,296,000</u>	<u>58,732</u>	<u>293,660</u>

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## *General Reserve*

CAF maintains a general reserve approved by the Stockholders' Assembly, which is considered an equity reserve. Stockholders approved the increase in the general reserve by US\$ 68,699 and US\$ 110,218 during the years ended December 31, 2018 and 2017, through appropriations from net income for the years ended December 31, 2017 and 2016, respectively.

## *Reserve Pursuant to Article N° 42 of the Constitutive Agreement*

CAF's Constitutive Agreement states that at least 10% of annual net income should be appropriated into a reserve fund until that reserve fund amounts to 50% of the subscribed capital. That reserve fund is considered an equity reserve. Additional appropriation may be approved by the stockholders. The Stockholders' Assembly held in March 2018 and 2017, authorized an increase in the reserve fund for US\$ 7,700 and US\$ 12,500, through an appropriation from net income for the years ended December 31, 2017 and 2016, respectively.

## **17. ACCUMULATED OTHER COMPREHENSIVE INCOME**

Accumulated other comprehensive income balances and the amounts reclassified out of accumulated other comprehensive income and into net income were as follows:

	<b>December 31,</b>	
	<b>2018</b>	<b>2017</b>
Balances at beginning of the year	-	(1,563)
Amortization of defined benefit pension items (1)	-	1,563
Balances at end of year	-	-

(1) This other comprehensive income component is included in the statements of comprehensive income.

## **18. TAX EXEMPTIONS**

Pursuant to its Constitutive Agreement CAF is exempt, in all of its Member Countries, from all taxes on income, properties and other assets as well as from any liability related to the payment, withholding or collection of any taxes. The term "Member Country" is defined in Article 3 of CAF's General Regulations as any shareholder country holding at least one Series "A" share that, either is a signatory to the Constitutive Agreement or, being of Latin America or the Caribbean, has adhered to it. At December 2018, the Member Countries are Argentina, Bolivia, Brazil, Colombia, Ecuador, Panama, Paraguay, Peru, Trinidad and Tobago, Uruguay and Venezuela.

CAF has entered into bilateral agreements with its other shareholder countries providing for tax exemptions substantially similar to those granted to it by the Member Countries.

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## 19. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

CAF utilizes derivative financial instruments to reduce exposure to interest rate risk and foreign currency risk. CAF does not hold or issue derivative financial instruments for trading or speculative purposes.

The market risk associated with interest rate and foreign currency risk is managed by swapping marketable securities - trading, loans, borrowings and bonds, subject to fixed interest rates and denominated in other currency into floating interest rate instruments denominated in U.S. dollars. CAF enters into derivative financial instruments to offset the economic changes in value of specifically identified marketable securities – trading, loans, borrowings and bonds.

Derivative financial instruments held by CAF consist of interest rate swaps designated as fair value hedges of specifically identified loans, bonds or borrowings with fixed interest rates and denominated in U.S. dollars. Also, CAF enters into cross-currency and interest rate swaps as an economic hedge (derivative that is entered into to manage a risk but is not accounted as a hedge) for interest rate and foreign exchange risks related with marketable securities – trading, bonds, borrowings or loans denominated in currencies other than the U.S. dollar where CAF's management elected to measure those liabilities and assets at fair value under the fair value option guidance.

When the fair value of a derivative financial instrument is positive, the counterparty owes CAF, creating credit risk for CAF. When the fair value of a derivative financial instrument is negative, CAF owes the counterparty and, therefore, it does not have credit risk. CAF minimizes the credit risk in derivative financial instruments by entering into transactions with high-quality counterparties whose credit rating is "A" or higher.

In order to reduce the credit risk in derivative financial instruments, CAF enters into credit support agreements with its major swap counterparties. This provides risk mitigation, as the swap contracts are regularly marked-to-market, and the party being the net obligor is required to post collateral when net mark to-market exposure exceeds certain predetermined thresholds. This collateral is in the form of cash.

CAF does not offset for each counterparty, the fair value amount recognized for derivative financial instruments with the fair value amount recognized for the collateral, whether posted or received, under master netting arrangements executed with the same counterparty. CAF reports separately the cumulative gross amounts for the receivable from and payable to for derivative financial instruments.

CAF also utilizes futures derivatives instruments to reduce exposure to price risk. These are contracts for delayed delivery of securities or money market instruments in which the seller agrees to make delivery at a specified future date of a specified instrument at a specified price or yield. Initial margin requirements are met with cash or securities. CAF generally closes out open positions prior to maturity. Therefore, cash receipts or payments are limited to the change in fair value of the future contracts. Additionally, CAF utilizes forward contracts to reduce exposure to foreign currency risk.

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The balance sheet details related to CAF's derivative financial instruments are as follows:

	<b>Derivative assets</b>		<b>Derivative liabilities</b>	
	<b>December 31,</b>		<b>December 31,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Cross-currency swap	152,018	495,694	733,232	458,576
Interest rate swap	31,978	31,272	134,624	94,912
U.S Treasury futures	657	5,488	8,696	35
Cross-currency forward contracts	152	214	232	71
	<u>184,805</u>	<u>532,668</u>	<u>876,784</u>	<u>553,594</u>

The following table presents the notional amount and fair values of interest rate swaps and cross-currency swaps and the underlying hedged items:

	<b>Notional amount</b>		<b>Fair value</b>	
	<b>Interest rate swap</b>	<b>Cross-currency swap</b>	<b>Derivative assets</b>	<b>Derivative liabilities</b>
	<b>swap</b>	<b>swap</b>	<b>assets</b>	<b>liabilities</b>
At December 31, 2018:				
Loans	68,752	-	826	411
Loans	-	6,333	620	-
Borrowings	-	108,097	89	-
Borrowings	366,538	-	1,467	6,183
Bonds	-	13,095,772	151,309	733,232
Bonds	9,049,096	-	29,685	128,030
	<u>9,484,386</u>	<u>13,210,202</u>	<u>183,996</u>	<u>867,856</u>
At December 31, 2017:				
Marketable securities - Trading	-	29,982	438	707
Loans	39,741	-	266	302
Loans	-	12,000	5	210
Borrowings	-	112,900	8,889	-
Borrowings	429,534	-	4,718	4,055
Bonds	-	11,684,716	486,362	457,659
Bonds	7,914,096	-	26,288	90,555
	<u>8,383,371</u>	<u>11,839,598</u>	<u>526,966</u>	<u>553,488</u>

The following table presents the notional amount and fair values of U.S. treasury futures and cross-currency forward contracts:

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## At December 31, 2018

	<u>Start date</u>	<u>Termination date</u>	<u>Contract Currency</u>	<u>Notional amount</u>	<u>Fair value Derivative assets</u>
Forward contracts	Various	Until Mar 2019	Various	15,603	152
Futures long	Various	Until Mar 2019	Various	103,600	657
	<u>Start date</u>	<u>Termination date</u>	<u>Contract Currency</u>	<u>Notional amount</u>	<u>Fair value Derivative liabilities</u>
Forward contracts	Various	Various	Various	24,572	(232)
Futures short	Various	Until Mar 2019	Various	1,336,600	(8,696)

## At December 31, 2017

	<u>Start date</u>	<u>Termination date</u>	<u>Contract Currency</u>	<u>Notional amount</u>	<u>Fair value Derivative assets</u>
Forward contracts	Various	Until January 2018	Various	65,915	214
Futures short	Various	Until March 2018	Various	1,184,598	5,488
	<u>Start date</u>	<u>Termination date</u>	<u>Contract Currency</u>	<u>Notional amount</u>	<u>Fair value Derivative liabilities</u>
Forward contracts	Various	Until March 2018	Various	65,771	(71)
Futures long	Various	Until March 2018	USD	19,800	(35)

The amounts of collateral posted related to futures at December 31, 2018 and 2017, were US\$ 13,690 and US\$ 9,080, respectively. The amounts of collateral received related to futures at December 31, 2017 was US\$ 397.

CAF enters into International Swaps and Derivatives Association, Inc. (ISDA) master netting arrangements with substantially all of its derivative counterparties. These legally enforceable master netting arrangements give CAF the right to take cash or liquidate securities held as collateral and to offset receivables and payables with the same counterparty, in the event of default by the counterparty. The following tables present information about the effect of offsetting of derivative financial instruments, although CAF has elected not to offset any derivative financial instruments by counterparty in the balance sheet:



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## At December 31, 2018

<i>Derivative assets</i>		<b>Gross amounts not offset in the balance sheet</b>		<b>Net amount</b>
<b>Description</b>	<b>Gross amounts of recognized assets</b>	<b>Financial instruments</b>	<b>Cash and securities collateral received</b>	
Swaps	183,996	(183,974)	-	22

<i>Derivative liabilities</i>		<b>Gross amounts not offset in the balance sheet</b>		<b>Net amount</b>
<b>Description</b>	<b>Gross amounts of recognized liabilities</b>	<b>Financial instruments</b>	<b>Cash and securities collateral pledged</b>	
Swaps	(867,856)	183,974	722,265	38,383

## At December 31, 2017

<i>Derivative assets</i>		<b>Gross amounts not offset in the balance sheet</b>		<b>Net amount</b>
<b>Description</b>	<b>Gross amounts of recognized assets</b>	<b>Financial instruments</b>	<b>Cash and securities collateral received</b>	
Swaps	526,966	(331,368)	(139,000)	56,598

<i>Derivative liabilities</i>		<b>Gross amounts not offset in the balance sheet</b>		<b>Net amount</b>
<b>Description</b>	<b>Gross amounts of recognized liabilities</b>	<b>Financial instruments</b>	<b>Cash and securities collateral pledged</b>	
Swaps	(553,488)	331,368	408,467	186,347

## 20. FAIR VALUE MEASUREMENTS

The following section describes the valuation methodologies used by CAF to measure various financial instruments at fair value, including an indication of the level in the fair value hierarchy in which each financial instrument is classified. Where appropriate, the description includes details of the valuation methodologies and the key inputs to those methodologies.

When available, CAF generally uses quoted prices in active markets to determine fair value.

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If quoted market prices in active markets are not available, fair value is based upon internally developed valuation methodologies that use, where possible, current market-based or independently sourced market inputs, such as interest rates, currency rates, etc.

Where available, CAF may also make use of quoted prices in active markets for recent trading activity in positions with the same or similar characteristics to the financial instrument being valued. The frequency and size of trading activity and the amount of the bid-ask spread are among the factors considered in determining the liquidity of markets and the relevance of observed quoted prices from those markets.

The following valuation methodologies are used to estimate the fair value and determine the classification in the fair value hierarchy of CAF's financial instruments:

- *Marketable securities:* CAF uses quoted prices in active markets to determine the fair value of trading securities. These securities are classified in Level 1 of the fair value hierarchy.
- *Loans:* The fair value of fixed rate loans, is determined using a discounted cash flow technique using the current variable interest rate for similar loans. These loans are classified in Level 2 of the fair value hierarchy.
- *Derivative assets and liabilities:* Derivative financial instruments transactions contracted and designated by CAF as hedges of risks related to interest rates, currency rates or both, for transactions recorded as financial assets or liabilities are also presented at fair value. In those cases the fair value is calculated using market prices provided by an independent financial information services company, which are determined based on discounted cash flows using observable inputs. Derivative assets and liabilities are classified in Level 2 of the fair value hierarchy.
- *Bonds and borrowings:* For CAF's bonds issued and medium and long term borrowings, fair value is determined by using a discounted cash flow technique, taking into consideration benchmark interest yield curves at the end of the reporting period to discount the expected cash flows for the applicable maturity, thus reflecting market fluctuations of key variables such as interest and exchange rates. These yield curves are adjusted to incorporate CAF credit risk spread. Bonds and borrowings are generally classified in Level 2 of the fair value hierarchy based on the observability of significant inputs to the discounted cash flow technique.

During 2018 and 2017, there were no transfers between levels 1, 2 and 3.

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## *Items Measured at Fair Value on a Recurring Basis*

The following tables present for each of the fair value hierarchy levels CAF's financial assets and liabilities that are measured at fair value on a recurring basis at December 31, 2018 and 2017:

### **At December 31, 2018**

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>Assets:</b>				
Marketable Securities:				
U.S. Treasury Notes	1,799,690	-	-	1,799,690
Non-U.S. governments and government entities bonds	243,581	-	-	243,581
Financial institutions and corporate securities:				
Commercial paper	3,371,479	-	-	3,371,479
Certificate of deposits	1,707,010	-	-	1,707,010
Bonds	1,856,325	-	-	1,856,325
Collateralized mortgage obligation	352,643	-	-	352,643
Liquidity funds	324,228	-	-	324,228
	<u>7,611,685</u>	<u>-</u>	<u>-</u>	<u>7,611,685</u>
Sub-total financial assets at fair value	<u>9,654,956</u>	<u>-</u>	<u>-</u>	<u>9,654,956</u>
Loans	-	74,402	-	74,402
Derivative instruments:				
Cross-currency swap	-	152,018	-	152,018
Interest rate swap	-	31,978	-	31,978
U.S Treasury futures	-	657	-	657
Cross-currency forward contracts	-	152	-	152
	<u>-</u>	<u>184,805</u>	<u>-</u>	<u>184,805</u>
Total financial assets at fair value	<u>9,654,956</u>	<u>259,207</u>	<u>-</u>	<u>9,914,163</u>
<b>Liabilities:</b>				
Borrowings	-	470,220	-	470,220
Bonds	-	21,461,610	-	21,461,610
Derivative instruments:				
Cross-currency swap	-	733,232	-	733,232
Interest rate swap	-	134,624	-	134,624
U.S Treasury futures	-	8,696	-	8,696
Cross-currency forward contracts	-	232	-	232
	<u>-</u>	<u>876,784</u>	<u>-</u>	<u>876,784</u>
Total financial liabilities at fair value	<u>-</u>	<u>22,808,614</u>	<u>-</u>	<u>22,808,614</u>

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## At December 31, 2017

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Marketable Securities:				
U.S. Treasury Notes	1,588,857	-	-	1,588,857
Non-U.S. governments and government entities bonds	106,812	-	-	106,812
Financial institutions and corporate securities:				
Commercial paper	3,146,896	-	-	3,146,896
Certificate of deposits	2,065,830	-	-	2,065,830
Bonds	1,605,236	-	-	1,605,236
Collateralized mortgage obligation	375,733	-	-	375,733
Liquidity funds	305,627	-	-	305,627
	<u>7,499,322</u>	<u>-</u>	<u>-</u>	<u>7,499,322</u>
Sub-total financial assets at fair value	9,194,991	-	-	9,194,991
Loans	-	49,007	-	49,007
Derivative instruments:				
Cross-currency swap	-	495,694	-	495,694
Interest rate swap	-	31,272	-	31,272
U.S Treasury futures	-	5,488	-	5,488
Cross-currency forward contracts	-	214	-	214
	<u>-</u>	<u>532,668</u>	<u>-</u>	<u>532,668</u>
Total financial assets at fair value	<u>9,194,991</u>	<u>581,675</u>	<u>-</u>	<u>9,776,666</u>
Liabilities:				
Borrowings	-	550,563	-	550,563
Bonds	-	19,559,372	-	19,559,372
Derivative instruments:				
Cross-currency swap	-	458,576	-	458,576
Interest rate swap	-	94,912	-	94,912
U.S Treasury futures	-	35	-	35
Cross-currency forward contracts	-	71	-	71
	<u>-</u>	<u>553,594</u>	<u>-</u>	<u>553,594</u>
Total financial liabilities at fair value	<u>-</u>	<u>20,663,529</u>	<u>-</u>	<u>20,663,529</u>

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## *Items that are not measured at fair value*

The carrying amount and estimated fair values of CAF's financial instruments that are not recognized in the balance sheets at fair value are as follows:

	Hierarchy Levels	December 31, 2018		December 31, 2017	
		Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Financial assets:					
Cash and due from banks	1	127,355	127,355	61,294	61,294
Deposits with banks	1	2,594,312	2,594,312	2,001,766	2,001,766
Other investments	1	658,750	658,750	1,453,869	1,453,869
Loans, net	2	24,869,314	24,871,974	23,414,311	23,415,830
Accrued interest and commissions receivable	2	523,098	523,098	427,702	427,702
Derivate related collateral	1	735,955	735,955	417,547	417,547
Financial liabilities:					
Deposits	2	3,210,545	3,210,545	2,950,143	2,950,143
Commercial paper	2	641,295	641,295	1,770,676	1,770,676
Borrowings, net	2	814,049	817,727	866,702	867,601
Bonds, net	2	158,483	159,131	159,255	160,037
Accrued interest payable	2	394,232	394,232	314,660	314,660
Derivate related collateral	1	-	-	139,397	139,397

The following methods and assumptions were used to estimate the fair value of those financial instruments not accounted for at fair value:

- *Cash and due from banks, deposits with banks, interest and commissions receivable, other investment, deposits, commercial paper, accrued interest payable, derivate related collateral, receivable from investment securities sold and payable for investment securities purchased:* The carrying amounts approximate fair value because of the short maturity of these instruments.
- *Loans:* CAF is one of the few institutions that grant loans for development projects in the stockholder countries. A secondary market does not exist for the type of loans granted by CAF. As rates on variable rate loans are reset on a semiannual basis, the carrying value, adjusted for credit risk, was determined to be the best estimate of fair value. The fair value of fixed rate loans is determined by using the current variable interest rate for similar loans. The fair value of impaired loans is estimated on the basis of discounted cash flows.
- *Equity investments:* CAF elected a practical expedient exception to fair value measurement on its direct investments in equity securities of companies without a readily determinable fair value under ASU 2016-01 and measured those investments at cost, less impairment plus or minus observable price changes of an identical or similar instrument of the same issuer. At December 31, 2018, the carrying amount of those investments was US\$ 57,983, and the effects of the impairment were recognized in the statement of comprehensive income and the changes in observable prices were not material to the financial statements. In addition, as of December 31, 2018, investments in funds

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without a readily determinable fair value, with carrying amount of US\$ 378,174, are accounted for at fair value applying the practical expedient, using the net asset value per share or unit.

CAF's equity investments in other entities accounted for at cost reached US\$ 397,357 at December 31, 2017, did not have available market price quotations and it was impracticable to determine the fair value of these investments without incurring excessive cost.

- *Bonds and borrowings:* For CAF's bonds issued and medium and long term borrowings, fair value is determined using a discounted cash flow technique, taking into consideration yield curves to discount the expected cash flows for the applicable maturity, thus reflecting the fluctuation of variables such as interest and exchange rates. These yield curves are adjusted to incorporate CAF credit risk spread. Those financial instrument are generally classified in Level 2 of the fair value hierarchy based on the observability of significant inputs to the valuation methodology.

During 2018 and 2017, there were no transfers between levels 1, 2 and 3.

## 21. GAIN (LOSSES) ON CHANGES IN FAIR VALUE RELATED TO FINANCIAL INSTRUMENTS

The gains (losses) on changes in fair value of marketable securities - trading, cross-currency swaps and financial liabilities carried at fair value under the fair value option are as follows:

	<b>Year ended December 31, 2018</b>		
	<b>Gain (loss) on derivatives</b>	<b>Gain (loss) on hedged item</b>	<b>Net Gain (loss)</b>
<b>Cross-currency swaps:</b>			
Marketable securities - trading	268	(664)	(396)
Bonds	(610,626)	609,740	(886)
Loans	826	2,503	3,329
Borrowings	(8,800)	7,165	(1,635)
	(618,332)	618,744	412
	<b>Year ended December 31, 2017</b>		
	<b>Gain (loss) on derivatives</b>	<b>Gain (loss) on hedged item</b>	<b>Net Gain (loss)</b>
<b>Cross-currency swaps:</b>			
Marketable securities - trading	(293)	(303)	(596)
Bonds	907,482	(905,616)	1,866
Loans	(55)	(3,754)	(3,809)
Borrowings	16,711	(14,246)	2,465
	923,845	(923,919)	(74)

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In addition, during the years ended December 31, 2018 and 2017, CAF recorded net gains of US\$ 92 and US\$ 4,375, respectively, related to changes in fair value of futures and forwards and changes in fair value of the U.S. Treasury Notes.

## 22. COMMITMENTS AND CONTINGENCIES

Commitments and contingencies include the following:

	December 31,	
	2018	2017
Loan commitments subscribed - eligibles	4,884,248	5,448,998
Lines of credit	4,014,161	3,593,234
Loan commitments subscribed - non eligibles	1,822,170	1,464,000
Guarantees	165,294	176,642
Equity investments agreements subscribed	133,582	167,182
Letters of credit	1,168	3,754

These commitments and contingencies arose from the normal course of CAF's business and are related principally to loans that have been approved or committed for disbursement.

In the ordinary course of business, CAF has entered into commitments to extend loans; such loan commitments are reported in the above table upon signing the corresponding loan agreement and are reported as loans in the balance sheets when disbursements are made. Loan commitments that have fulfilled the necessary requirements for disbursement are classified as eligible.

The commitments to extend loans have fixed expiration dates and in some cases expire without a loan being disbursed. Therefore, the amounts of total commitment to extend loans do not necessarily represent future cash requirements. Also, based on experience, portions of the loan commitments are disbursed on average two years after the signing of the loan agreement.

The lines of credit are extended to financial and corporate institutions as a facility to grant short term loans basically to finance working capital and international trade activities.

Guarantees mature as follows:

	December 31,	
	2018	2017
Less than one year	21,670	17,391
Between one and two years	-	15,000
Between three and five years	34,649	-
Over five years	108,975	144,251
	<u>165,294</u>	<u>176,642</u>

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To the best knowledge of CAF's management, CAF is not involved in any litigation that is material to CAF's business or that is likely to have any impact on its business, financial condition or results of operations.

## 23. ADMINISTRATIVE EXPENSES

For the years ended December 31, 2018 and 2017, the details of administrative expenses are as follows:

	<u>2018</u>	<u>2017</u>
Salaries and employee benefits	106,405	101,710
Professional fees, seminars and other expenses	20,394	18,799
Logistics and infrastructure	17,423	17,300
Telecommunications and technology	14,066	12,326
	<u>158,288</u>	<u>150,135</u>

## 24. SPECIAL FUNDS AND OTHER FUNDS UNDER MANAGEMENT

CAF, as a multilateral financial institution, acts as administrator of several funds owned by third-parties and CAF's stockholders' special funds, created to promote technical and financial cooperation, sustainable human development, and management of poverty relief funds in stockholder countries.

The stockholders' special funds contribute to regional integration and sustainable development through capacity building, increased domestic and international exchanges, generation and use of knowledge, as well as training human resources and fortifying institutions. The stockholders' special funds are governed by the provisions of the Constitutive Agreement and any other provisions that may be established by the Board of Directors.

The Stockholders' Assembly of CAF approves a maximum amount to be contributed to stockholders' special funds during the fiscal year and to recognize these contributions as expenses. The Executive President by delegation of the Stockholders' Assembly of CAF may authorize, up to the maximum approved amount, the amounts that will be contributed during the current period, based on the analysis of the new commitments contracted or the resources required by the stockholders' special funds.

The resources of the stockholders' special funds, that come from a contribution by CAF, are completely independent from the resources of CAF and are thus so maintained, accounted for, presented, utilized, invested, committed and otherwise disposed of. With regard to the use of the stockholders' special funds, the financial responsibility of CAF, as administrator, is limited to the net assets of each of the constituted stockholders' special funds. CAF has no residual interest in the net assets of the stockholders' special funds.



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(In thousands of U.S. dollars)

In March 2018, the Stockholders' Assembly of CAF approved the contribution up to a maximum amount of US\$ 92,000 to some stockholders' special funds for the year ended December 31, 2018. Subsequently, during the year ended December 31, 2018, the Executive President directly or by delegation, based on the analysis of the new commitments contracted or the resources required by the stockholders' special funds, authorized the contributions of US\$ 70,000, US\$ 16,743, and US\$ 1,087 to Compensatory Financing Fund (FFC), Technical Cooperation Fund (FCT), and Human Development Fund (FONDESHU), respectively. For the year ended December 31, 2018, CAF recognized US\$ 87,830 as an expense and, at December 31, 2018 recognized an unconditional obligation (accounts payable) for US\$ 36,872 which was paid in January 2019.

In March 2017, the Stockholders' Assembly of CAF approved the contribution up to a maximum amount of US\$ 92,064 to some stockholders' special funds for the year ended December 31, 2017. Subsequently, during the year ended December 31, 2017, the Executive President directly or by delegation, based on the analysis of the new commitments contracted or the resources required by the stockholders' special funds, authorized the contributions of US\$ 68,000, US\$ 22,064 and US\$ 2,000 to FFC, FCT and FONDESHU, respectively. For the year ended December 31, 2017, CAF recognized US\$ 92,064 as an expense and, at December 31, 2017 recognized an unconditional obligation (accounts payable) for US\$ 36,967 which was paid in January 2018.

At December 31, 2018 and 2017, managed funds net assets are US\$ 428,787 and 408,258, respectively. The balances of these funds are as follows:

	December 31,	
	2018	2017
Compensatory Financing Fund (FFC) (1)	255,999	247,259
Fund for the Development of Small and Medium Enterprises (FIDE)	61,430	61,827
Technical Cooperation Fund (FCT)	48,248	45,844
Human Development Fund (FONDESHU)	8,875	9,496
Others non related with stockholders' special funds	54,235	43,832
	<u>428,787</u>	<u>408,258</u>

(1) FFC was created by CAF's stockholders for the purpose of compensating a portion of the interest costs of certain loans granted by CAF to finance economic and social infrastructure projects. For the years ended December 31, 2018 and 2017, FFC compensated interest amounting to US\$ 83,932 and US\$ 82,765, respectively, which amounts are included in interest income – loans in the statement of comprehensive income.

## 25. SEGMENT REPORTING

Management has determined that CAF has only one operating and reportable segment since it does not manage its operations by allocating resources based on a determination of the contributions to net income of individual operations. CAF does not differentiate on the basis of the nature of the products or services provided the preparation process, or the method for providing services among individual countries.

# CORPORACIÓN ANDINA DE FOMENTO (CAF)

Notes to the Financial Statements  
For the years ended December 31, 2018 and 2017  
(In thousands of U.S. dollars)

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For the years ended December 31, 2018 and 2017, loans made to or guaranteed by four countries individually generated in excess, of 10% of interest income on loans, as follows:

	<u>2018</u>	<u>2017</u>
Argentina	150,099	110,364
Ecuador	149,204	121,071
Venezuela	146,693	115,277
Bolivia	112,655	86,807
	<u>558,651</u>	<u>433,519</u>

## 26. SUBSEQUENT EVENTS

Management has evaluated subsequent events through February 15, 2019, the date of issue of these financial statements. As a result of this evaluation, management has determined that there are no subsequent events that require a disclosure in these financial statements for the year ended December 31, 2018, except for:

- On January 30, 2019, CAF issued bonds for EUR 750,000,000, 0.625% due 2024, under its Medium Term Notes Programme.
- On February 11, 2019, CAF issued bonds for US\$ 1,250,000,000, 3.250% due 2022, under its registration statement filed with the U.S. Securities and Exchange Commission.

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