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Corporación Andina de Fomento (CAF)

Financial Statements
As of and for the years ended
December 31, 2016 and 2015

CORPORACIÓN ANDINA DE FOMENTO (CAF)

Contents

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 Stated 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, 2016, 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, 2016.

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, 2016, 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, 2016.

L. Enrique García
Executive President

Hugo Sarmiento K.
Corporate Vice President of Finance

Marcos Subía G.
Director, Accounting and Budget

January 31, 2017

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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, 2016, 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, 2016, 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 as of and for the years ended December 31, 2016 and 2015 of CAF, and our report dated January 31, 2017, expressed an unmodified opinion on those financial statements.

Deloitte.

January 31, 2017

Caracas - Venezuela

Lara Marambio & Asociados. A member firm of Deloitte Touche Tohmatsu Limited.

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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, 2016 and 2015, 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, 2016 and 2015, and the results of its operations and its 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, 2016, 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 January 31, 2017 expressed an unmodified opinion on the CAF´s internal control over financial reporting.

Deloitte.

January 31, 2017

Caracas - Venezuela

CORPORACIÓN ANDINA DE FOMENTO (CAF)

Balance Sheets
As of December 31, 2016 and 2015
(In thousands of U.S. dollars)

	NOTES	2016	2015
ASSETS			
Cash and due from banks	**3**	72,403	216,078
Deposits with banks	**3**	1,652,367	2,590,453
Cash and deposits with banks		1,724,770	2,806,531
Marketable securities:			
Trading	**5 and 21**	9,267,953	6,787,875
Other investments	**4**	996,554	1,186,286
Loans (US$ 37,196 and US$ 26,108 at fair value as of December 31, 2016 and 2015)	**6 and 21**	21,977,081	20,430,792
Less loan commissions, net of origination costs		95,682	94,996
Less allowance for loan losses	**6**	63,749	58,929
Loans, net		21,817,650	20,276,867
Accrued interest and commissions receivable		345,115	303,935
Equity investments	**7**	386,051	328,390
Derivative financial instruments	**20 and 21**	118,353	215,509
Property and equipment, net	**8**	75,200	72,923
Other assets	**9**	937,342	491,379
TOTAL		35,668,988	32,469,695
LIABILITIES AND STOCKHOLDERS' EQUITY			
LIABILITIES:			
Deposits	**10**	3,098,883	2,700,248
Commercial paper	**11**	2,112,717	2,589,875
Borrowings (US$ 535,514 and US$ 526,807 at fair value as of December 31, 2016 and 2015)	**12 and 21**	1,422,375	1,463,850
Less debt issuance costs		909	934
Borrowings, net		1,421,466	1,462,916
Bonds (US$ 16,740,167 and US$ 14,526,090 at fair value as of December 31, 2016 and 2015)	**13 and 21**	17,171,924	15,058,361
Less debt issuance costs		26,618	29,763
Bonds, net		17,145,306	15,028,598
Accrued interest payable		281,058	249,534
Derivative financial instruments	**20 and 21**	1,021,292	808,097
Accrued expenses and other liabilities	**14**	114,622	106,333
Total liabilities		25,195,344	22,945,601
STOCKHOLDERS' EQUITY:	**16 and 18**		
Subscribed capital		7,219,455	6,511,460
Less callable capital portion		(1,589,660)	(1,553,660)
Capital subscriptions receivable		(846,250)	(466,525)
Paid-in capital		4,783,545	4,491,275
Additional paid-in capital		2,890,091	2,354,537
Reserves		2,678,853	2,601,223
Accumulated other comprehensive income		(1,563)	(571)
Retained earnings		122,718	77,630
Total stockholders’ equity		10,473,644	9,524,094
TOTAL		35,668,988	32,469,695

See accompanying notes to the financial statements

CORPORACIÓN ANDINA DE FOMENTO (CAF)

Statements of Comprehensive Income
For the years ended December 31, 2016 and 2015
(In thousands of U.S. dollars)

	NOTES	2016	2015
Interest income:			
Loans	2 (f)	666,548	526,084
Investments and deposits with banks	2 (e), 3 and 4	108,144	53,636
Loan commissions	2 (f)	38,768	41,539
Total interest income		813,460	621,259
Interest expense:			
Bonds		397,755	293,240
Deposits		17,057	8,716
Commercial paper		18,366	8,900
Borrowings		27,278	23,828
Commissions		10,591	10,707
Total interest expense		471,047	345,391
Net interest income		342,413	275,868
Provision for loan losses	6	38,270	18,703
Net interest income, after provision for loan losses		304,143	257,165
Non-interest income:			
Other commissions		3,784	9,150
Dividends and equity in earnings of investees	7	15,155	3,103
Other income	12	32,662	4,511
Total non-interest income		51,601	16,764
Non-interest expenses:			
Administrative expenses	24	140,973	125,072
Impairment charge for equity investments	7	9,200	11,046
Other expenses		1,404	3,045
Total non-interest expenses		151,577	139,163
Net income before unrealized changes in fair value related to financial instruments and Contributions to Stockholders' Special Funds		204,167	134,766
Unrealized changes in fair value related to financial instruments	22	(13,449)	(3,136)
Net income before Contributions to Stockholders' Special Funds		190,718	131,630
Contributions to Stockholders' Special Funds	17	68,000	54,000
Net income		122,718	77,630
Other comprehensive income:			
Unrecognized changes in assets/ liabilities under benefit pension plan	15 and 18	(1,563)	(603)
Amortization of defined benefit pension items	15 and 18	571	-
Total comprehensive income		121,726	77,027

See accompanying notes to the financial statements

CORPORACIÓN ANDINA DE FOMENTO (CAF)

Statements of Stockholders' Equity
For the years ended December 31, 2016 and 2015
(In thousands of U.S. dollars)

	NOTES	Paid-in capital	Additional paid-in capital	Reserves: General reserve	Reserves: Article 42 of by-laws	Reserves: Total reserves	Accumulated other comprehensive income	Retained earnings	Total stockholders' equity
BALANCES AT DECEMBER 31, 2014		4,250,495	1,911,487	2,012,149	451,435	2,463,584	32	137,639	8,763,237
Capital increase	**16**	240,780	443,050	-	-	-	-	-	683,830
Net income	**16**	-	-	-	-	-	-	77,630	77,630
Appropriated for general reserve	**16**	-	-	123,874	-	123,874	-	(123,874)	-
Appropriated for reserve pursuant to Article N° 42 of by-laws	**16**	-	-	-	13,765	13,765	-	(13,765)	-
Other comprehensive income	**18**	-	-	-	-	-	(603)	-	(603)
BALANCES AT DECEMBER 31, 2015		4,491,275	2,354,537	2,136,023	465,200	2,601,223	(571)	77,630	9,524,094
Capital increase	**16**	292,270	535,554	-	-	-	-	-	827,824
Net income	**16**	-	-	-	-	-	-	122,718	122,718
Appropriated for general reserve	**16**	-	-	69,830	-	69,830	-	(69,830)	-
Appropriated for reserve pursuant to Article N° 42 of by-laws	**16**	-	-	-	7,800	7,800	-	(7,800)	-
Other comprehensive income	**18**	-	-	-	-	-	(992)	-	(992)
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

See accompanying notes to the financial statements

CORPORACIÓN ANDINA DE FOMENTO (CAF)

Statements of Cash Flows
For the years ended December 31, 2016 and 2015
(In thousands of U.S. dollars)

	NOTES	2016	2015
OPERATING ACTIVITIES:			
Net income		122,718	77,630
Adjustments to reconcile net income to net cash (used in) provided by operating activities:			
Contributions to Stockholders' Special Funds	**17**	22,500	16,000
Unrealized loss on trading securities	**5**	4,260	9,766
Amortization of loan commissions, net of origination costs		(15,261)	(14,152)
Provision for loan losses	**6**	38,270	18,703
Impairment charge for equity investments	**7**	9,200	11,046
Equity in earnings of investees		(4,790)	(1,060)
Exchange difference	**12**	(28,223)	-
Amortization of deferred charges		5,360	4,206
Depreciation of property and equipment	**8**	5,682	5,725
Provision for employees' severance benefits		11,581	10,317
Provision for employees' savings plan		1,367	1,340
Unrealized changes in fair value related to financial instruments		13,449	3,267
Net changes in operating assets and liabilities:			
Severance benefits paid or advanced		(6,755)	(7,517)
Employees' savings plan paid or advanced		(771)	(449)
Trading securities, net		(2,492,444)	334,826
Interest and commissions receivable		(41,180)	(11,610)
Other assets		(4,658)	(1,577)
Accrued interest payable		31,523	9,987
Accrued expenses and other liabilities		(15,323)	899
Total adjustments and net changes in operating assets and liabilities		(2,466,213)	389,717
Net cash (used in) provided by operating activities		(2,343,495)	467,347
INVESTING ACTIVITIES:			
Purchases of other investments	**4**	(3,477,421)	(4,003,321)
Maturities of other investments	**4**	3,667,153	4,413,643
Loan origination and principal collections, net	**6**	(1,560,635)	(1,282,438)
Equity investments, net	**7**	(62,071)	(46,032)
Purchases of property and equipment,net	**8**	(7,959)	(9,645)
Net cash used in investing activities		(1,440,933)	(927,793)
Carried forward,		(3,784,428)	(460,446)

See accompanying notes to the financial statements

CORPORACIÓN ANDINA DE FOMENTO (CAF)

Statements of Cash Flows
For the years ended December 31, 2016 and 2015
(In thousands of U.S. dollars)

	NOTES	2016	2015
Brought forward,		(3,784,428)	(460,446)
FINANCING ACTIVITIES:			
Net increase (decrease) in deposits		398,635	(996,262)
Net (decrease) increase in commercial paper		(477,158)	736,593
Net increase in derivative related collateral		(449,354)	(320,905)
Proceeds from issuance of bonds	**13**	3,961,421	3,044,137
Repayment of bonds	**13**	(1,557,104)	(1,255,123)
Proceeds from borrowings	**12**	272,352	172,965
Repayment of borrowings	**12**	(273,949)	(218,672)
Proceeds from issuance of shares	**16**	827,824	683,830
Net cash provided by financing activities		2,702,667	1,846,563
NET (DECREASE) INCREASE IN CASH AND DEPOSITS WITH BANKS		(1,081,761)	1,386,117
CASH AND DEPOSITS WITH BANKS AT BEGINNING OF YEAR		2,806,531	1,420,414
CASH AND DEPOSITS WITH BANKS AT END OF YEAR		1,724,770	2,806,531
SUPPLEMENTAL DISCLOSURE:			
Interest paid during the year		417,009	320,045
NONCASH FINANCING ACTIVITIES:			
Changes in derivative financial instruments assets		97,156	168,194
Changes in derivative financial instruments liabilities		213,195	425,011

See accompanying notes to the financial statements

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 policies and strategies.

CAF raises funds to finance operations 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 financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of 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 CAF's financial statements refer to revenue recognition, valuation and classification at fair values of financial instruments, and estimating the allowance for loan losses, among others. Management believes these estimates are adequate. Actual results could differ from those estimates.

c. ***Transactions in other currencies –*** Transactions 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 statement of comprehensive income.

d. ***Cash and cash equivalents –*** Cash and cash equivalents 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 into sovereign and non-sovereign.

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 statement of comprehensive income.

The accrual for interest on loans is discontinued at the time a private sector loans is 90 days (180 days for public sector loans) 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 payments status and the probability of collecting scheduled principal and interest payments when due.

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 reason, 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:

Satisfactory-excellent – Extremely strong capacity to meet financial commitments.

Satisfactory-very good – Strong capacity to meet financial commitments, not significantly vulnerable to adverse economic conditions.

Satisfactory-adequate – Adequate capacity to meet financial commitments, but more vulnerable to adverse economic conditions.

Watch – Acceptable payment capacity however some indicators and elements require special attention otherwise they could result in impairment.

Special mention – More vulnerable to adverse economic conditions but currently has the capacity to meet financial commitments.

Sub-standard – Currently vulnerable and dependent on favorable economic conditions to meet financial commitments.

Doubtful – Currently highly vulnerable.

Loss – Payment default on financial commitments.

g. ***Troubled debt restructuring*** **–** A restructuring of debt constitutes a troubled debt restructuring if the creditor for economic or legal reasons related to the debtor's financial difficulties, grants a concession to the debtor 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, principal discounts, 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, already will have been identified as impaired. CAF´s management individually evaluates the compliance of the new terms of the restructured loan for a reasonable period to calculate specifics allowances for loan losses and if the remaining balance of the restructured loan is considered collectible, the restructured loan could return to accrual status.

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 as of 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 of the borrower countries, which is determined as the average rating of three recognized international risk rating agencies as of 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 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 reflecting a lower default probability – usually equivalent to three levels above its risk rating – is used.

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 risk rating agencies.

For those cases where the category equivalent to the rating of a given borrower determined in accordance with any of the 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 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. The allowance for loan losses is reported as a deduction from loans.

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 catalytic agent in attracting resources to stockholder countries.

Equity investments are accounted for using the equity method or at cost. 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.

Investments representing less than 20% of the voting rights of the investee are recorded using the cost method, recognizing any dividends received as income.

A decline in the value of any equity investment accounted at cost or equity method, which is not deemed to be temporary, results in a reduction in the carrying amount to fair value. These investments are evaluated, any impairment is charged to income and a new value for the investment is established.

The equity investments under cost method do not have available market price quotations and it is impracticable to determine the fair value of these investments without incurring excessive cost.

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 collateral, intangible assets and receivable from investment securities sold (Note 2e).

Collateral – CAF requires or posts collateral from or to individual swap counterparties and futures contracts 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 counterparties and futures contracts, under the collateral agreement, are recorded in other assets.

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 with local or foreign financial institutions and commercial banks, which are recorded at amortized cost, except for some borrowings that are designated as 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 (Note 2v).

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 statement 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.

- 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 (Note 2v).

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 labor law of the member countries, when applicable. The accrual for employee severance benefits is presented as part of "labor benefits" account under "Accrued expenses and other liabilities" caption.

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 days´ 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 pension plan (the Plan), which is mandatory for all new employees as of the date of implementation 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 to be 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 statement 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 statement 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.

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 statement 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 for 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 exposures 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 considering the weighted average rating of three recognized international risk rating agencies as of the date of the financial statements preparation. These country risk ratings have associated default 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 average rating. For non-sovereign guarantees, the provision is determined by considering the CAF internal rating of each client and the average rating of the aforementioned agencies.

The provision for credit risks on contingent accounts, such as stand-by letters of credit and guarantees, are reported as other liabilities.

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

ASU 2015-14, Revenue from Contracts with Customers

In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers (Topic 606). The amendments in this ASU defer the effective date of ASU 2014-09 for all entities by one year. Public business entities, certain not-for-profit entities, and certain employee benefit plans should apply the guidance in ASU 2014-09 to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. All other entities should apply the guidance in ASU 2014-09 to annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019. This ASU will be effective for CAF in 2018.

During the year 2016, the following complementary updates related to Revenue from Contracts with Customers (Topic 606) were issued:

- ASU 2016-08, Principal versus Agent Considerations (Reporting Revenue Gross versus Net).

- ASU 2016-10, Identifying Performance Obligations and Licensing.
- ASU 2016-12, Narrow-Scope Improvements and Practical Expedients.
- ASU 2016-20, Technical Corrections and Improvements.

The modifications of these updates issued during the year 2016, which affect the Accounting Standards Update Guide N° 2014-09, Revenue from Contracts with Customers (Topic 606), which is not yet effective. The effective date and transition requirements for the amendments in this Update are the same as the effective date and transition requirements in Topic 606 (and any other Topic amended by Update 2014-09). Accounting Standards Update 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, defers the effective date of Update 2014-09 by one year.

ASU 2016-01, Financial Instruments Recognition and Measurement of Financial Assets and Financial Liabilities

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 will be effective for CAF in 2018.

ASU 2016-07, Investments – Equity Method and Joint Ventures

In March 2016, the FASB issued ASU 2016-07. The amendments in this update eliminate the requirement that when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence, an investor must adjust the investment, results of operations, and retained earnings retroactively on a step-by step basis as if the equity method had been in effect during all previous periods that the investment had been held. The amendments require that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting and also require that an entity that has an available-for-sale equity security that becomes qualified for the equity method of accounting recognize through earnings the unrealized holding gain or loss in accumulated other comprehensive income at the date the investment becomes qualified for use of the equity method. This ASU will be effective for CAF in 2017.

(In thousands of U.S. dollars)

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.

ASU 2016-18, Restricted Cash – a consensus of the FASB Emerging Issues Task Force

In November 2016, the FASB issued ASU 2016-18, Restricted Cash – a consensus of the FASB Emerging Issues Task Force. The amendments in this Update require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This ASU will be effective for CAF in 2018.

3. CASH AND DEPOSITS WITH BANKS

Bank deposits with original maturity of three months or less include the following:

	December 31,	
	2016	**2015**
Cash and due from banks	72,403	216,078
Deposits with banks:		
U.S. dollars	1,652,367	2,590,453
	1,724,770	2,806,531

4. OTHER INVESTMENTS

Deposits with banks due in 90 days or more (original maturity) as follows:

	December 31,	
	2016	**2015**
U.S. dollars	995,792	1,185,463
Other currencies	762	823
	996,554	1,186,286

As of December 31, 2016 and 2015, the interest rate of these deposits ranged from 0.90% to 1.62% and from 0.22% to 1.12%, respectively.

(In thousands of U.S. dollars)

5. MARKETABLE SECURITIES

Trading

A summary of trading securities follows:

	December 31,			
	2016		2015	
	Amount	Average maturity (years)	Amount	Average maturity (years)
U.S. Treasury Notes	1,867,916	1.82	1,895,996	2.03
Non-U.S. governments and government entities bonds	236,945	0.66	85,448	0.99
Financial institutions and corporate securities:				
Commercial paper	3,005,618	0.20	1,711,389	0.17
Certificates of deposits	2,257,292	0.36	1,176,718	0.48
Bonds	1,233,530	1.51	1,405,333	1.37
Collateralized mortgage obligation	336,041	4.47	306,152	4.66
Liquidity funds	330,611	1.00	206,839	1.00
	7,163,092	0.71	4,806,431	0.91
Marketable securities	9,267,953	0.93	6,787,875	1.23

Each certificate of deposit bears a maturity date and specified fixed interest rate. It also is registered with 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 losses of US$ 4,260 and US$ 9,766 at December 31, 2016 and 2015, respectively.

Net realized gains and losses from trading securities of US$ 25,986 and US$ 3,262 at December 31, 2016 and 2015, respectively, are included in the statement of comprehensive income in the line Investment and deposits with banks.

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. As of December 31, 2016 and 2015, 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$ 33,452 and US$ 4,158 at December 31, 2016 and December 31, 2015, respectively.

(In thousands of U.S. dollars)

Maturity of debt securities follows:

	December 31, 2016	December 31, 2015
Remaining maturities:		
Less than one year	6,289,696	3,919,518
Between one and two years	2,249,657	2,083,753
Between two and three years	424,450	451,920
Between three and four years	126,963	133,526
Between four and five years	85,918	115,925
Over five years	91,269	83,233
	9,267,953	6,787,875

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 with private institutions or companies of these countries.

Loans by country are summarized as follows:

	December 31, 2016	December 31, 2015
Stockholder country:		
Argentina	2,839,947	2,771,280
Barbados	85,000	50,000
Bolivia	2,211,132	2,027,045
Brazil	1,984,105	2,060,065
Chile	111,000	20,000
Colombia	2,339,206	2,080,181
Costa Rica	113,570	119,587
Dominican Republic	212,064	224,096
Ecuador	3,317,875	3,044,551
Jamaica	4,496	5,085
Mexico	381,729	225,646
Panama	1,464,317	1,288,004
Paraguay	337,105	290,515
Peru	2,274,512	2,297,980
Spain	44,203	177,671
Uruguay	935,256	654,827
Venezuela	3,320,841	3,094,364
Sub-total loans	21,976,358	20,430,897
Fair value adjustments	723	(105)
Carrying value of loans	21,977,081	20,430,792

(In thousands of U.S. dollars)

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

At December 31, 2016 and 2015, loans denominated in other currencies were granted for an equivalent of US$ 57,212 and US$ 30,057, respectively, principally in Bolivian bolivianos, Peruvian nuevos soles, Paraguayan guarani, Mexican pesos and Colombian pesos. At December 31, 2016 and 2015, fixed interest rate loans amounted to US$ 177,070 and US$ 100,354, respectively.

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

	December 31,	
	2016	**2015**
Public sector	18,773,300	16,822,700
Private sector	3,203,058	3,608,197
	21,976,358	20,430,897

The average yield of the loan portfolio is shown below:

	December 31,			
	2016		**2015**	
	Amount	**Weighted Average yield (%)**	**Amount**	**Weighted Average yield (%)**
Loans	21,976,358	3.41	20,430,897	2.85

Loans by industry segments are as follows:

	December 31,			
	2016	**%**	**2015**	**%**
Agriculture, hunting and forestry	150,018	-	78,094	-
Manufacturing industry	215,513	1	275,341	1
Electricity, gas and water supply	7,314,488	34	7,060,091	35
Transport, warehousing and communications	7,557,849	34	7,203,320	36
Financial Services - Commercial banks	1,626,136	7	1,646,223	8
Financial Services - Development banks	867,899	4	655,205	3
Social and other infrastructure programs	4,105,846	19	3,313,958	16
Others	138,609	1	198,665	1
	21,976,358	100	20,430,897	100

(In thousands of U.S. dollars)

Loans mature as follows:

	December 31,	
	2016	**2015**
Remaining maturities:		
Less than one year	4,174,292	3,713,933
Between one and two years	2,142,039	2,069,209
Between two and three years	2,303,002	1,935,815
Between three and four years	2,061,910	2,027,559
Between four and five years	1,932,948	1,789,567
Over five years	9,362,167	8,894,814
	21,976,358	20,430,897

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

	December 31,	
	2016	**2015**
Sovereign guaranteed	18,028,341	16,482,282
Non-sovereign guaranteed	3,948,017	3,948,615
	21,976,358	20,430,897

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. 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 2g).

The credit quality of the non-sovereign guaranteed loan portfolio as of December 31, 2016 and 2015 is presented by internal credit risk classification, as follows:

	December 31,	
	2016	**2015**
Risk classification:		
Satisfactory-very good	1,671,461	2,042,901
Satisfactory appropriate	1,331,783	892,042
Watch	632,629	832,337
Special mention	173,761	57,500
Sub-standard	-	123,835
Doubtful	138,383	-
	3,948,017	3,948,615

(In thousands of U.S. dollars)

Loan portfolio quality

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

	December 31,	
	2016	**2015**
During the year CAF recorded the following transactions:		
Impaired loans	120,841	0
Loans written-off	33,730	16,354
Purchases of loan portfolio	0	0
Sales of loan portfolio	52,500	107,110
Trouble debt restructured	44,203	0
CAF presented the following amounts and quality indicators as of the end of the year:		
Non-accrual loans	120,841	0
Overdue loans	7,513	0
Allowance for loan losses as a percentage of loan portfolio	0.29%	0.29%
Nonaccrual loans as a percentage of loan portfolio	0.55%	0.00%
Overdue loan principal as a percentage of loan portfolio	0.03%	0.00%

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, 2016 and 2015, CAF had loans of this nature amounting to US$ 743,401 and US$ 1,109,267, respectively; whereas other financial institutions provided funds for US$ 455,754 and US$ 763,217, respectively.

Troubled Debt Restructuring

As of December 31, 2016 there was a troubled debt restructuring of a non-sovereign guaranteed loan, classified as impaired, with an outstanding balance of US$ 44,203. As a result of the restructuring, the principal modifications to the loan agreement consisted in extension of loan term, interest rate reductions and restatement of future cash flows, based on these facts CAF recognized a reduction of allowance for loan losses of US$ 1,486. During 2015, there were no loans restructured.

(In thousands of U.S. dollars)

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,					
	2016			2015		
	Sector			Sector		
	Sovereign	Non-sovereign	Total	Sovereign	Non-sovereign	Total
Balances at beginning of year	26,269	32,660	58,929	20,241	35,522	55,763
Provision for loan losses	(5,042)	43,312	38,270	6,028	12,675	18,703
Loans written-off	-	(33,730)	(33,730)	-	(16,354)	(16,354)
Recoveries	-	280	280	-	817	817
Balances at end of year	21,227	42,522	63,749	26,269	32,660	58,929
Allowance:						
Individually evaluated for loan losses	-	42,522	42,522	-	32,660	32,660
Collectively evaluated for loan losses	21,227	-	21,227	26,269	-	26,269
	21,227	42,522	63,749	26,269	32,660	58,929
Loans:						
Individually evaluated for loan losses	-	3,948,017	3,948,017	-	3,948,615	3,948,615
Collectively evaluated for loan losses	18,028,341	-	18,028,341	16,482,282	-	16,482,282
	18,028,341	3,948,017	21,976,358	16,482,282	3,948,615	20,430,897

7. EQUITY INVESTMENTS

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

	December 31,	
	2016	2015
Direct investment in company accounted under equity method	10,674	9,979
Investment funds accounted under equity method	27,198	33,369
Direct investments in companies at cost	80,689	81,189
Investment funds at cost	267,490	203,853
	386,051	328,390

(In thousands of U.S. dollars)

Equity investments by country are summarized as follow:

	Equity participation (%)	December 31, 2016	2015
Investment Funds:			
Bolivia	20	2,891	3,090
Brazil	Between 9 and 19	30,990	31,377
Colombia	Between 6 and 19	53,881	46,657
Mexico	Between 6 and 23	89,496	48,475
Peru	6	6,758	6,726
Regional	Between 2 and 33	110,671	100,896
		294,687	237,221
Direct Investments in companies:			
Argentina	17	-	2,000
Bolivia	20	10,674	9,979
Brazil	13	7,000	7,000
Colombia	8	15,000	15,000
Ecuador	10	490	490
Peru	Between 1 and 13	11,740	11,740
Regional	Between 1 and 20	46,461	44,960
		91,364	91,169
		386,051	328,390

Details of equity investments under equity method are as follows:

	Equity participation	Latest financial statements	December 31, 2016	2015
Company:				
Banco de Desarrollo de la Producción	20%	08/31/2016	10,674	9,979
Funds:				
Darby Latinoamerican Mezzanine Fund II	20%	09/30/2016	12,366	10,481
Emerging Energy Latinoamerican Fund	0%		-	1,576
Fondo de Fondos México II	0%		-	8,278
Microfinance Growth Fund	20%	09/30/2016	5,990	5,854
Produbanco Darby-Probanco Fund II	33%	09/30/2016	5,951	4,090
Próspero Microfinanzas Fund	20%	09/30/2016	2,891	3,090
			27,198	33,369

During 2016 and 2015, CAF recognized income of US$ 10,365 and US$ 2,043, respectively, for dividends received from investments under the cost method, which are included in the statements of comprehensive income.

(In thousands of U.S. dollars)

At December 31, 2016 and 2015, CAF recognized impairment related to cost-method investments of US$ 9,200 and US$ 11,046, respectively.

8. PROPERTY AND EQUIPMENT, NET

A summary of property and equipment, net follows:

	December 31,	
	2016	**2015**
Land	27,029	27,029
Buildings	38,931	38,814
Buildings improvements	20,984	19,773
Leased building improvements	6,948	6,392
Furniture and equipment	25,956	24,066
Vehicles	1,020	1,008
	120,868	117,082
Less accumulated depreciation	59,677	54,589
Projects in progress	14,009	10,430
	75,200	72,923

Depreciation expenses of US$ 5,682 and US$ 5,725 for property and equipment for the years ended December 31, 2016 and 2015, respectively, are included in the statement of comprehensive income.

9. OTHER ASSETS

A summary of other assets follows:

	December 31,	
	2016	**2015**
Derivative related collateral	904,902	455,361
Intangible assets, net	14,052	13,795
Receivable from investment securities sold	-	2,876
Other	18,388	19,347
	937,342	491,379

10. DEPOSITS

A summary of deposits follows:

	December 31,	
	2016	**2015**
Demand deposits	77,321	333,969
Time deposits:		
Less than one year	3,021,562	2,366,279
	3,098,883	2,700,248

(In thousands of U.S. dollars)

At December 31, 2016 and 2015, the weighted average cost was 0.61% and 0.28%, respectively. Deposits are issued for amounts equal to or more than US$ 100. Total deposits denominated in other currencies amount to US$ 914 and US$ 1,058 at December 31, 2016 and 2015, respectively.

11. COMMERCIAL PAPER

The outstanding amount of commercial paper issued by CAF amounting to US$ 2,112,717 at December 31, 2016 will mature in 2017 (US$ 2,589,875 at December 31, 2015 matured in 2016). At December 31, 2016 and 2015, the weighted average interest rate cost was 0.82% and 0.43% respectively.

12. BORROWINGS

A summary of borrowings by currency follows:

	December 31, 2016	December 31, 2015
U.S. dollars	1,269,296	1,280,884
Euros	112,900	112,900
Peruvian nuevos soles	35,416	21,695
Venezuelan bolivars	60	34,127
Other currencies	7,425	5,337
	1,425,097	1,454,943
Fair value adjustments	(2,722)	8,907
Less debt issuance costs	909	934
Carrying value of borrowings	1,421,466	1,462,916

At December 31, 2016 and 2015, the fixed interest-bearing borrowings amounted to US$ 555,514 and US$ 549,413, respectively. At December 31, 2016 and 2015, the weighted average interest rate after considering the impact of interest rate swaps was 2.02% and 1.75%, respectively.

During the year ended December 31, 2016, CAF recognized income for US$ 28,223, mainly from exchange difference in borrowings denominated in Venezuelan bolivars, which are presented in "Non-interest income - Other income".

Borrowings, by remaining maturities, are summarized below:

	December 31, 2016	December 31, 2015
Remaining maturities:		
Less than one year	111,936	476,242
Between one and two years	540,411	104,872
Between two and three years	158,231	206,041
Between three and four years	129,841	131,757
Between four and five years	117,841	116,757
Over five years	366,837	419,274
	1,425,097	1,454,943

(In thousands of U.S. dollars)

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

At December 31, 2016 and 2015, there were unused term credit facilities amounting to US$ 478,995 and US$ 511,216, respectively.

13. BONDS

An analysis of outstanding bonds follows:

	December 31,					
	2016			2015		
	At original exchange rate	At spot exchange rate	Weighted average cost, after swaps (%) (Year-end)	At original exchange rate	At spot exchange rate	Weighted average cost, after swaps (%) (Year-end)
U.S. dollars	7,799,202	7,799,202	2.28	6,762,371	6,762,371	2.37
Euro	4,977,094	4,169,433	2.05	4,257,096	3,602,169	1.86
Swiss francs	2,639,425	2,457,002	2.28	2,235,639	2,108,434	1.75
Australian dollars	718,094	643,556	2.43	772,283	658,078	1.57
Norwegian kroner	622,501	488,361	2.26	622,501	475,964	1.59
Hong Kong dollars	548,686	548,972	1.85	386,060	386,437	1.88
Japanese yen	347,939	290,723	3.31	310,578	244,996	2.77
Turkish lira	134,555	98,898	1.39	70,105	53,808	0.77
Colombian pesos	112,565	73,899	3.58	112,565	70,408	2.96
Mexican pesos	98,108	63,701	3.61	98,108	16,462	2.87
South African rand	60,362	61,378	1.41	22,598	16,247	0.80
Peruvian nuevos soles	14,943	14,583	1.60	22,397	21,532	0.91
	18,073,474	16,709,708		15,672,301	14,416,906	
Fair value adjustments		462,216			641,455	
Less debt issuance costs		26,618			29,763	
Carrying value of bonds		17,145,306			15,028,598	

(In thousands of U.S. dollars)

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

	December 31,	
	2016	**2015**
Remaining maturities:		
Less than one year	2,080,201	1,561,251
Between one and two years	2,290,870	2,087,629
Between two and three years	2,366,440	2,225,655
Between three and four years	1,607,932	1,074,313
Between four and five years	2,537,642	1,133,701
Over five years	7,190,389	7,589,752
	18,073,474	15,672,301

At December 31, 2016 and 2015, fixed interest rate bonds amounted to US$ 17,801,069 and US$ 15,201,393, respectively, of which US$ 10,286,532 and US$ 8,927,226, respectively, are denominated in other currencies.

There were no bonds repurchased during the years ended December 31, 2016 and 2015.

14. ACCRUED EXPENSES AND OTHER LIABILITIES

A summary of accrued expenses and other liabilities follows:

	December 31,	
	2016	**2015**
Derivatives related collateral	187	-
Employees' severance benefits and savings plan	82,241	72,995
Payable for invesment securities purchased	-	5,488
Contributions to Stockholders´ Special Funds	22,500	16,000
Provision for contingencies	2,607	4,105
Other liabilities	7,087	7,745
	114,622	106,333

15. PENSION PLAN

At December 31, 2016 and 2015, the Plan has 568 and 489 participants and active employees, respectively. The measurement date used to determine pension plan benefit obligation is December 31.

(In thousands of U.S. dollars)

For the years ended December 31, 2016 and 2015, a reconciliation of beginning and ending balances of the benefit obligation are as follows:

	December 31, 2016	December 31, 2015
Change in benefit obligation:		
Benefit obligation at beginning of year	14,002	11,294
Service cost	1,715	1,438
Interest cost	594	481
Plan participants´contributions	1,600	1,319
Actuarial loss	1,177	224
Benefit paid	(325)	(754)
Benefit obligation at end of year	18,763	14,002

For the years ended December 31, 2016 and 2015, a reconciliation of beginning and ending balances of the fair value of plan assets are as follows:

	December 31, 2016	December 31, 2015
Change in plan assets:		
Fair value of plan assets at beginning of year	13,431	11,326
Actual return on plan assets	325	221
Contributions	3,770	2,638
Benefit paid	(325)	(754)
Fair value of plan assets at end of year	17,201	13,431

Plan assets are as follows:

	December 31, 2016	December 31, 2015
Plan assets:		
Deposits with banks	17,201	13,431

The table below summarizes the component of the periodic cost of projected benefits related to the PBO for the years ended December 31, 2016 and 2015:

	December 31, 2016	December 31, 2015
Service cost	1,715	1,438
Interest cost	594	481
Expected return on plan assets	(201)	(170)
	2,108	1,749

(In thousands of U.S. dollars)

A summary of the net projected cost for the year 2017 follows:

Service cost:	
Contributions to the plan	1,776
Guaranteed benefit	412
	2,188
Interest cost	794
Expected return on plan assets	(258)
	2,724

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

2017	539,441
2018	993,517
2019	345,823
2020	214,332
2021	437,735

Weighted-average assumptions used to determine net benefit cost since the origination of the Plan to December 31, 2016 and 2015 follows:

Discount rate	4%
Expected long-term rate return on Plan assets	1.5%
Salary increase rate	3%

16. STOCKHOLDERS' EQUITY

Authorized Capital

The authorized capital of CAF at December 31, 2016 and 2015 amounts to US$ 15,000,000, distributed among Series "A", "B" and "C" shares.

Additional paid-in capital

The additional paid-in capital of CAF at December 31, 2016 and 2015 amounts to US$ 2,890,091 and US$ 2,354,537, respectively. The additional paid-in capital is the amount paid by Series "B" and Series "C" stockholders in excess of the par value.

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:

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.

(In thousands of U.S. dollars)

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. Also, 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.

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 forthe years ended December 31, 2016 and 2015 follows:

	Number of Shares			Nominal Amounts			
	Series “A”	Series “B”	Series “C”	Series “A”	Series “B”	Series “C”	Total
At December 31, 2014	10	755,889	91,810	12,000	3,779,445	459,050	4,250,495
Issued for cash	-	46,201	1,955	-	231,005	9,775	240,780
At December 31, 2015	10	802,090	93,765	12,000	4,010,450	468,825	4,491,275
Issued for cash	1	56,224	1,990	1,200	281,120	9,950	292,270
Transfer of shares	-	23,457	(23,457)	-	117,285	(117,285)	-
At December 31, 2016	11	881,771	72,298	13,200	4,408,855	361,490	4,783,545

Subscribed and paid-in capital at December 31, 2016 is presented as follows:

	Number of Shares			Nominal Amounts			
	Series “A”	Series “B”	Series “C”	Series “A”	Series “B”	Series “C”	Total
Stockholder:							
Argentina	1	88,423	-	1,200	442,115	-	443,315
Bolivia	1	50,003	-	1,200	250,015	-	251,215
Brazil	1	85,042	-	1,200	425,210	-	426,410
Colombia	1	163,894	-	1,200	819,470	-	820,670
Ecuador	1	50,324	-	1,200	251,620	-	252,820
Panama	1	23,676	-	1,200	118,380	-	119,580
Paraguay	1	23,938	-	1,200	119,690	-	120,890
Peru	1	176,550	-	1,200	882,750	-	883,950
Trinidad & Tobago	1	23,457	-	1,200	117,285	-	118,485
Uruguay	1	27,374	-	1,200	136,870	-	138,070
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	-	-	6,796	-	-	33,980	33,980
Jamaica	-	-	182	-	-	910	910
Mexico	-	-	11,757	-	-	58,785	58,785
Portugal	-	-	1,470	-	-	7,350	7,350
Spain	-	-	39,739	-	-	198,695	198,695
Commercial banks	-	412	-	-	2,060	-	2,060
	11	881,771	72,298	13,200	4,408,855	361,490	4,783,545

(In thousands of U.S. dollars)

At December 31, 2016, 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	2,816	14,080	-	-	25,200	126,000	-	-
Bolivia	14,791	73,955	-	-	14,400	72,000	-	-
Brazil	2,816	14,080	-	-	25,200	126,000	-	-
Colombia	52,507	262,535	-	-	50,400	252,000	-	-
Ecuador	14,791	73,955	-	-	14,400	72,000	-	-
Panama	16,551	82,755	-	-	7,200	36,000	-	-
Paraguay	2,428	12,140	-	-	7,200	36,000	-	-
Peru	-	-	-	-	50,400	252,000	-	-
Trinidad y Tobago	-	-	-	-	7,200	36,000	-	-
Uruguay	14,086	70,430	-	-	7,200	36,000	-	-
Venezuela	48,156	240,780	-	-	50,400	252,000	-	-
Barbados	-	-	-	-	-	-	-	-
Chile	-	-	-	-	-	-	800	4,000
Dominican Republic	-	-	239	1,195	-	-	-	-
Mexico	-	-	-	-	-	-	1,600	8,000
Portugal	-	-	-	-	-	-	16,332	81,660
Spain	-	-	-	-	-	-	40,000	200,000
Commercial banks	69	345	-	-	-	-	-	-
	169,011	845,055	239	1,195	259,200	1,296,000	58,732	293,660

Subscribed and paid-in capital at December 31, 2015 is presented as follows:

	Number of Shares			Nominal Amounts			
	Series "A"	Series "B"	Series "C"	Series "A"	Series "B"	Series "C"	Total
Stockholder:							
Argentina	1	81,934	-	1,200	409,670	-	410,870
Bolivia	1	46,985	-	1,200	234,925	-	236,125
Brazil	1	69,194	-	1,200	345,970	-	347,170
Colombia	1	159,414	-	1,200	797,070	-	798,270
Ecuador	1	47,306	-	1,200	236,530	-	237,730
Panama	1	21,211	-	1,200	106,055	-	107,255
Paraguay	1	21,192	-	1,200	105,960	-	107,160
Peru	1	167,420	-	1,200	837,100	-	838,300
Uruguay	1	25,060	-	1,200	125,300	-	126,500
Venezuela	1	161,962	-	1,200	809,810	-	811,010
Barbados	-	-	1,761	-	-	8,805	8,805
Chile	-	-	5,541	-	-	27,705	27,705
Costa Rica	-	-	3,291	-	-	16,455	16,455
Dominican Republic	-	-	6,567	-	-	32,835	32,835
Jamaica	-	-	182	-	-	910	910
Mexico	-	-	11,757	-	-	58,785	58,785
Portugal	-	-	1,470	-	-	7,350	7,350
Spain	-	-	39,739	-	-	198,695	198,695
Trinidad & Tobago	-	-	23,457	-	-	117,285	117,285
Commercial banks	-	412	-	-	2,060	-	2,060
	10	802,090	93,765	12,000	4,010,450	468,825	4,491,275

(In thousands of U.S. dollars)

At December 31, 2015, 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	9,305	46,525	-	-	25,200	126,000	-	-
Bolivia	4,428	22,140	-	-	14,400	72,000	-	-
Brazil	18,664	93,320	-	-	25,200	126,000	-	-
Colombia	16,702	83,510	-	-	50,400	252,000	-	-
Ecuador	4,428	22,140	-	-	14,400	72,000	-	-
Panama	5,635	28,175	-	-	7,200	36,000	-	-
Paraguay	5,174	25,870	-	-	7,200	36,000	-	-
Peru	9,130	45,650	-	-	50,400	252,000	-	-
Uruguay	3,019	15,095	-	-	7,200	36,000	-	-
Venezuela	14,587	72,935	-	-	50,400	252,000	-	-
Barbados	-	-	1,761	8,805	-	-	-	-
Chile	-	-	-	-	-	-	800	4,000
Dominican Republic	-	-	468	2,340	-	-	-	-
Mexico	-	-	-	-	-	-	1,600	8,000
Portugal	-	-	-	-	-	-	16,332	81,660
Spain	-	-	-	-	-	-	40,000	200,000
Commercial banks	4	20	-	-	-	-	-	-
	91,076	455,380	2,229	11,145	252,000	1,260,000	58,732	293,660

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$ 69,830 and US$ 123,874 during the years ended December 31, 2016 and 2015, through appropriations from net income for the years ended December 31, 2015 and 2014, respectively.

Reserve Pursuant to Article N° 42 of the Constitutive Agreement

CAF's Constitutive Agreement requires that at least 10% of annual net income is to be appropriated to a reserve fund until that reserve fund amounts to 50% of the subscribed capital, which is considered an equity reserve. Additional appropriation may be approved by the stockholders. At the Stockholders' Assembly in March 2016 and 2015, it was authorized to increase the reserve fund by US$ 7,800 and US$ 13,765, through an appropriation from net income for the years ended December 31, 2015 and 2014, respectively.

17. CONTRIBUTIONS TO STOCKHOLDERS' SPECIAL FUNDS

The stockholders' special funds are created to promote technical and financial cooperation, sustainable human development, and management of poverty relief funds in stockholder countries. CAF has no residual interest in these stockholders' special funds.

(In thousands of U.S. dollars)

The Stockholders' Assembly 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 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.

In March 2016, the Stockholders' Assembly approved the contribution up to a maximum amount of US$ 72,000 to some stockholders' special funds for 2016. Subsequently, 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$ 36,000, US$ 20,000, US$ 10,000 and US$ 2,000 to Compensatory Financing Fund (FFC), Technical Cooperation Fund (FCT) Fund for the Development of Small and Medium Enterprises (FIDE), and Human Development Fund (FONDESHU), respectively. As of December 31, 2016, CAF recognized US$ 68,000 as an expense and recognized an unconditional obligation (accounts payable) for US$ 22,500 which will be paid in January 2017.

In March 2015, the Stockholders' Assembly approved the contribution of up to a maximum amount of US$ 72,000 to some stockholders' special funds for 2015. Subsequently, the Executive President directly or by delegation authorized the disbursement of US$ 32,000, US$ 20,000 and US$ 2,000 to FFC, FCT and FONDESHU, respectively. As of December 31, 2015, CAF recognized US$ 54,000 as an expense and recognized an unconditional obligation (accounts payable) for US$ 16,000, which were paid in 2016.

18. ACCUMULATED OTHER COMPREHENSIVE INCOME

Accumulated other comprehensive income balances as of December 31, 2016 and 2015, and the amounts reclassified out of accumulated other comprehensive income and into net income were as follows:

	December 31,	
	2016	**2015**
Balances at beginning of the year	(571)	32
Unrecognized changes in assets/ liabilities under benefit pension plan	(1,563)	(603)
Amortization of defined benefit pension items (1)	571	-
Balances at end of year	(1,563)	(571)

(1) This accumulated other comprehensive income component is included in administrative expenses in the statement of comprehensive income.

19. TAX EXEMPTIONS

In all Full Member Shareholder Countries, CAF is exempt from all taxes on income, properties and other assets. It is also exempt from liability related to the payment, withholding or collection of any taxes.

20. 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.

(In thousands of U.S. dollars)

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 with market risk characteristics that are expected to change in a manner that will offset the economic change in value of specifically identified loans, bonds or borrowings. Derivative contracts 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 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 the net marked 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.

At December 31, 2016 and 2015, balance sheet details related to CAF's derivative financial instruments is as follows:

	Derivative assets		Derivative liabilities	
	December 31,		December 31,	
	2016	2015	2016	2015
Interest rate swap	61,657	123,618	78,076	13,097
Cross-currency swap	56,238	91,603	942,965	794,589
U.S Treasury Futures	318	271	26	134
Cross-currency forward contracts	140	17	225	277
	118,353	215,509	1,021,292	808,097

(In thousands of U.S. dollars)

The following table presents the notional amount and fair values of interest rate swaps and cross-currency swaps and the underlying hedged items at December 31, 2016 and 2015:

	Notional amount		Fair value	
	Interest rate swap	**Cross-currency swap**	**Derivative assets**	**Derivative liabilities**
At December 31, 2016:				
Marketable securities - Trading	-	29,982	476	452
Loans	21,495	-	290	8
Loans	-	15,000	-	151
Borrowings	-	112,900	-	7,822
Borrowings	425,336	-	7,115	3,057
Bonds	-	10,286,532	55,762	934,540
Bonds	7,353,173	-	54,252	75,011
	7,800,004	10,444,414	117,895	1,021,041
At December 31, 2015:				
Loans	-	6,117	3,045	-
Loans	22,143	-	179	27
Borrowings	-	112,900	-	4,138
Borrowings	405,000	-	12,581	132
Bonds	-	8,927,226	88,558	790,451
Bonds	6,212,803	-	110,858	12,938
	6,639,946	9,046,243	215,221	807,686

The following table presents the notional amount and fair values of U.S. treasury futures and cross-currency forward contracts at December 31, 2016 and 2015:

At December 31, 2016

	Start date	Termination date	Contract Currency	Notional amount	Fair value Derivative assets
Forward contracts	Various	Until January 2017	Various	43,593	140
Futures short	Various	Until March 2017	Various	1,177,200	318

	Start date	Termination date	Contract Currency	Notional amount	Fair value Derivative liabilities
Forward contracts	Various	Until January 2017	Various	43,680	(225)
Futures long	Various	Until March 2017	Various	21,200	(26)

At December 31,2015

	Start date	Termination date	Contract Currency	Notional amount	Fair value Derivative assets
Forward contracts	Various	Until March 2016	Various	21,335	17
Futures long	Various	Until March 2016	Various	82,600	(27)
Futures short	Various	Until March 2016	Various	18,000	298
				100,600	271

(In thousands of U.S. dollars)

	Start date	Termination date	Contract Currency	Notional amount	Fair value Derivative liabilities
Forward contracts	Various	Until March 2016	Various	21,525	(277)
Futures short	Various	Until March 2016	Various	(553,200)	(134)

The amount of collateral posted related with futures at December 31, 2016 and December 31, 2015, was US$ 20,059 and US$ 4,098, respectively.

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:

At December 31, 2016

Derivative assets

		Gross amounts not offset in the balance sheet		
Description	Gross amounts of recognized assets	Financial instruments	Cash and securities collateral received	Net amount
Swaps	117,895	(117,467)	-	428

Derivative liabilities

		Gross amounts not offset in the balance sheet		
Description	Gross amounts of recognized liabilities	Financial instruments	Cash and securities collateral pledged	Net amount
Swaps	(1,021,041)	117,467	884,843	(18,731)

At December 31, 2015

Derivative assets

		Gross amounts not offset in the balance sheet		
Description	Gross amounts of recognized assets	Financial instruments	Cash and securities collateral received	Net amount
Swaps	215,221	(213,364)	-	1,857

Derivative liabilities

Description	Gross amounts of recognized liabilities	Gross amounts not offset in the balance sheet: Financial instruments	Gross amounts not offset in the balance sheet: Cash and securities collateral pledged	Net amount
Swaps	(807,686)	213,364	451,263	(143,059)

21. 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 techniques and the key inputs to those models.

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

If quoted market prices in active markets are not available, fair value is based upon internally developed valuation techniques that use, where possible, current market-based or independently sourced market parameters, 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 by 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 the counterparties, 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 fluctuation 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 valuation technique.

(In thousands of U.S. dollars)

During 2016 and 2015, there were no transfers between levels 1, 2 and 3.

Items Measured at Fair Value on a Recurring Basis

The following tables present for each of the fair value hierarchy levels CAF's assets and liabilities that are measured at fair value on a recurring basis at December 31, 2016 and 2015:

At December 31, 2016

	Level 1	Level 2	Level 3	Total
Assets:				
Marketable Securities:				
U.S. Treasury Notes	1,867,916	-	-	1,867,916
Non-U.S. governments and government entities bonds	236,945	-	-	236,945
Financial institutions and corporate securities:				
Commercial paper	3,005,618	-	-	3,005,618
Certificate of deposits	2,257,292	-	-	2,257,292
Bonds	1,233,530	-	-	1,233,530
Collateralized mortagage obligation	336,041	-	-	336,041
Liquity funds	330,611	-	-	330,611
	7,163,092	-	-	7,163,092
Sub-total financial assets at fair value	9,267,953	-	-	9,267,953
Loans	-	37,196	-	37,196
Derivative instruments:				
Interest rate swap	-	61,657	-	61,657
Cross-currency swap	-	56,238	-	56,238
U.S Treasury Futures	-	318	-	318
Cross-currency forward contracts	-	140	-	140
	-	118,353	-	118,353
Total financial assets at fair value	9,267,953	155,549	-	9,423,502
Liabilities:				
Borrowings	-	535,514	-	535,514
Bonds	-	16,740,167	-	16,740,167
Derivative instruments:				
Interest rate swap	-	78,076	-	78,076
Cross-currency swap	-	942,965	-	942,965
U.S Treasury Futures	-	26	-	26
Cross-currency forward contracts	-	225	-	225
	-	1,021,292	-	1,021,292
Total financial liabilities at fair value	-	18,296,973	-	18,296,973

(In thousands of U.S. dollars)

At December 31, 2015

	Level 1	Level 2	Level 3	Total
Assets:				
Marketable Securities:				
U.S. Treasury Notes	1,895,996	-	-	1,895,996
Non-U.S. governments and government entities bonds	85,448	-	-	85,448
Financial institutions and corporate securities:				
Commercial paper	1,711,389	-	-	1,711,389
Certificate of deposits	1,176,718	-	-	1,176,718
Bonds	1,405,333	-	-	1,405,333
Collateralized mortagage obligation	306,152	-	-	306,152
Liquity funds	206,839	-	-	206,839
	4,806,431	-	-	4,806,431
Sub-total financial assets at fair value	6,787,875	-	-	6,787,875
Loans	-	26,108	-	26,108
Derivative instruments:				
Interest rate swap	-	123,618	-	123,618
Cross-currency swap	-	91,603	-	91,603
U.S Treasury Futures	-	271	-	271
Cross-currency forward contracts	-	17	-	17
	-	215,509	-	215,509
Total financial assets at fair value	6,787,875	241,617	-	7,029,492
Liabilities:				
Borrowings	-	526,807	-	526,807
Bonds	-	14,526,090	-	14,526,090
Derivative instruments:				
Interest rate swap	-	13,097	-	13,097
Cross-currency swap	-	794,589	-	794,589
U.S Treasury Futures	-	134	-	134
Cross-currency forward contracts	-	277	-	277
	-	808,097	-	808,097
Total financial liabilities at fair value	-	15,860,994	-	15,860,994

(In thousands of U.S. dollars)

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:

		December 31,			
		2016		2015	
	Hierarchy Levels	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Financial assets:					
Cash and due from banks	1	72,403	72,403	216,078	216,078
Deposits with banks	1	1,652,367	1,652,367	2,590,453	2,590,453
Other investments	1	996,554	996,554	1,186,286	1,186,286
Loans, net	2	21,780,453	21,784,619	20,250,759	20,253,744
Acrrued interest and commissions receivable	2	345,115	345,115	303,935	303,935
Derivate related collateral	1	904,902	904,902	455,361	455,361
Receivable from investment securities sold	1	-	-	2,876	2,876
Financial liabilities:					
Deposits	2	3,098,883	3,098,883	2,700,248	2,700,248
Commercial paper	2	2,112,717	2,112,717	2,589,875	2,589,875
Borrowings	2	885,952	888,029	936,108	936,770
Bonds	2	407,150	408,140	502,509	503,773
Accrued interest payable	2	281,059	281,059	249,534	249,534
Derivate related collateral	1	187	187	-	-
Payable for investment securities purchased	1	-	-	5,488	5,488

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´s equity investments in other entities accounted for at cost of US$ 348,179 and US$ 285,042 as of December 31, 2016 and 2015, respectively, do not have available market price quotations and it is impracticable to determine the fair value of these investments without incurring excessive cost.

(In thousands of U.S. dollars)

- *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 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 transactions are generally classified in Level 2 of the fair value hierarchy based on the observability of significant inputs to the valuation technique.

During 2016 and 2015, there were no transfers between levels 1, 2 and 3.

22. FAIR VALUE OPTION

CAF's management decided to measure at fair value those financial assets and liabilities denominated in currencies other than US dollars for which it has contracted derivatives as an economic hedge to mitigate exposure to interest rate risk and foreign currency risk.

The results recorded in the statement of comprehensive income resulting from the periodic cash flows and unrealized changes in fair value as of December 31, 2016 and 2015 for instruments for which the fair value option was chosen, and for derivatives used as economic hedges for these instruments, are as follows:

	December 31,	
	2016	**2015**
Marketable securities - trading	992	-
Bond related swaps	(7,956)	(2,451)
Loan related swaps	90	347
Borrowings related swaps	(444)	(596)
Futures and forwards	(6,131)	(436)
	(13,449)	(3,136)

23. COMMITMENTS AND CONTINGENCIES

Commitments and contingencies include the following:

	December 31,	
	2016	**2015**
Loan commitments subscribed - eligibles	5,622,081	5,387,461
Lines of credit	4,104,214	3,951,669
Loan commitments subscribed - non eligibles	1,896,500	2,333,937
Equity investments agreements subscribed	224,185	268,478
Guarantees	185,435	261,650
Letters of credit	12,050	4,849

(In thousands of U.S. dollars)

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. Also, based on experience, portions of the loan commitments are disbursed on average two years after the signing of the loan agreement. Therefore, the amounts of total commitment to extend loans do not necessarily represent future cash requirements.

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,	
	2016	**2015**
Less than one year	8,047	20,734
Between one and two years	32,582	59,408
Between three and five years	-	1,400
Over five years	144,806	180,108
	185,435	261,650

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.

24. ADMINISTRATIVE EXPENSES

For the years ended December 31, 2016 and 2015, CAF recorded administrative expenses as follows:

	December 31,	
	2016	**2015**
Salaries and employee benefits	91,763	80,085
Professional fees, seminars and other expenses	21,448	18,499
Logistics and infrastructure	16,389	14,740
Telecommunications and technology	11,373	11,748
	140,973	125,072

(In thousands of U.S. dollars)

25. 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.

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 resources of the stockholders' special funds, that come from a contribution by CAF (note 17), 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.

As of December 31, 2016 and 2015, managed funds net assets are US$ 418,536 and US$ 455,209, respectively. The balances of these funds are as follows:

	December 31,	
	2016	**2015**
Compensatory Financing Fund (FFC) (1)	258,343	294,590
Fund for the Development of Small and Medium Enterprises (FIDE)	62,526	52,957
Technical Cooperation Fund (FCT)	42,839	50,162
Human Development Fund (FONDESHU)	10,186	13,430
Latin American Carbon, Clean Alternative Energies Program (PLAC)	5,712	6,448
Others non related with stockholders' special funds	38,930	37,622
	418,536	455,209

(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, 2016 and 2015, FFC compensated interest amounting to US$ 75,460 and US$ 70,307, respectively.

26. 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.

(In thousands of U.S. dollars)

For the years ended December 31, 2016 and 2015, loans made to or guaranteed by seven countries individually generated in excess, of 10% of loan income, as follows:

	December 31,	
	2016	**2015**
Argentina	92,253	82,950
Bolivia	67,749	53,067
Brazil	71,223	57,115
Colombia	-	41,867
Ecuador	100,268	75,382
Peru	73,691	64,450
Venezuela	96,861	75,429
	502,045	450,260

27. SUBSEQUENT EVENTS

Mana gement has evaluated subsequent events through January 31, 2017, 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 CAF's financial statements at the year ended December 31, 2016, except for:

- On January 24 2017, CAF issued bonds for BRL 220, 2 million, 8.10%, due 2020, under its Medium Term Notes Programme.

- On January 25 2017, CAF issued bonds for EUR 750 million, 0.50%, due 2022, under its Medium Term Notes Programme.

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