CAF

Annual Report 2012

2012 Annual Report

CAF DEVELOPMENT BANK OF LATIN AMERICA

CAF is a multilateral financial institution, whose mission is to support sustainable development and regional integration in Latin America. The Institution´s shareholders are the following: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Jamaica, Mexico, Panama, Paraguay, Peru, Portugal, Spain, Trinidad & Tobago, Uruguay, Venezuela and 14 private banks within the region.

The Institution serves the public and private sectors, providing a variety of products and services to a broad portfolio of clients, including shareholder states, private companies and financial institutions. Social and environmental benefits are at the core of the Institution´s management policies, and it strives for eco-efficiency and sustainability in all its operations.

As a financial intermediary, CAF channels resources from international markets to parties in Latin America, promoting investments and business opportunities.

2012 Shareholder Countries

Argentina	2001
Bolivia	1970
Brazil	1995
Chile	1992
Colombia	1970
Costa Rica	2002
Ecuador	1970
Spain	2002
Jamaica	1999
Mexico	1990
Panama	1997
Paraguay	1997
Peru	1970
Portugal	2009
Dominican Republic	2004
Trinidad and Tobago	1994
Uruguay	2001
Venezuela	1970

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Message from the Executive President

I have the pleasure of presenting the annual report and financial statements for fiscal year 2012.

In a year of uncertainty and weakness in the developed economies, with tensions persisting in the Eurozone and a nascent U.S. economic recovery that is still below its potential, the emerging economies have seen a slowing of their own economic growth, although they continue to be the global economy's principal growth engine.

Latin America has continued to display strength in the face of crisis, and that enabled the region to achieve 2012 growth of 3%, a solid performance even though it fell short of the 4.5% expansion in 2011. In the current favorable outlook for the region, 2013 economic growth is forecast at 3.6%.

Beyond the risks that Latin America confronts in the current global situation, the region has important structural challenges to overcome if it wants to reach higher levels of development with improved efficiency, social justice and sustainability. This is the moment for the region to carry out a strategic plan in which the public and private sectors share a vision for productive transformation and work together on critical development issues: education, infrastructure, productivity and strengthened institutions.

With this goal in mind, CAF approved loans totaling USD 9.3 billion in 2012 for Latin America and the Caribbean. It did so within the framework of a comprehensive development agenda that the Institution promotes with a long-term vision, on both a national and regional level, combining economic, social and environmental aspects.

With equitable distribution by country and strategic diversification by sector, CAF's loan approvals in the past five years have totaled USD 50 billion for regional development and integration.

2012 was also notable in terms of CAF's consolidation as a multilateral institution with a Latin American dimension –making it, today, one of the principal sources of multilateral financing for the region.

The support of CAF's shareholder countries was evidenced once again by their ratification, in less than a year's time, of all the agreements to increase paid-in capital by a total amount of USD 2 billion (approved at the end of 2011). That brings the total increase in paid-in capital for the past five years to USD 6.3 billion. This enlarged endowment reinforces CAF's important role as a provider of anti-cyclical lending and, at the same time, will allow it to double the amount of loan approvals to support the region's sustainable development over the next five years.

The incorporation of Trinidad and Tobago as a full member and Mexico's increased shareholder participation, as well as advanced conversations with other countries, also add to CAF's institutional strength.

The Institution's presence in the international markets also brought good news in 2012. CAF closed out the year with an upgrade of its credit risk rating by Moody's Investors Service from A1 to Aa3, and by Standard & Poor's from A+ to AA-.

The Institution's continued ratings improvements since 1993 are a product of its financial performance and the extraordinary support of its shareholders.

It is worth emphasizing the importance of these ratings upgrades for CAF, a regional development bank with a regional character owned by emerging market countries.

As an institution representative of the region, but with a global vision, CAF also performs an important role as a nexus between Latin America and the world, through its work with financial and development institutions from North America, Asia, Europe and the Middle East.

CAF's parallel work in research and the knowledge it generates about the region, as well as its ties to an extensive worldwide network of think tanks and universities, makes it an important reference today on socio-economic and development matters in Latin America.

As a result, CAF today is more than a bank for its shareholders – it is a center of regional reflection that offers them support in the design and implementation of public policies, promotes regional consensus on development issues and contributes to Latin America's international outreach.

Finally, upon presenting this Report, we should underscore that the financial results achieved in 2012 were highly satisfactory. The level of income, profitability, efficiency and quality of portfolio holdings, along with a complete fulfillment of obligations by every country, are attributes that strengthen the financial soundness of the Institution.

All this has been possible thanks to the high level of commitment from our shareholders, the governments, the members of the Board of Directors and CAF personnel.

With spirit and dedication, we won't lose sight of the goal that's behind everything we do: a more prosperous and equitable region for all Latin Americans.

Enrique García
Executive President

2012 Highlights

- In 2012, projects totaling USD 9.3 billion were approved for Latin America, with USD 50 billion authorized over the past five years. A greater diversity of countries and strategic sectors was achieved as well, with more emphasis on infrastructure and social development.

- Trinidad and Tobago was incorporated as a full CAF member. Mexico, meanwhile, increased its participation as a Series C shareholder.

- CAF's member countries subscribed capital increase agreements by USD 2.3 billion (approved by the Board of Directors at the end of 2011). The total increase in paid-in capital approved in the last five years reached USD 6.3 billion. This will allow CAF to double its operations during the 2012-2017 period.

- Moody's Investors Service and Standard & Poor's upgraded CAF's credit ratings: Moody's announced an upgrade from A1 to Aa3, while Standard & Poor's improved the long-term debt risk rating from A+ to AA- and the short-term rating from A-1 to A-1+.

- CAF issued 12 bonds in capital markets in six currencies for a total of USD 2.7 billion, a new record for the Institution.

- The United Nations General Assembly approved CAF's Observer Status, as a Latin American regional development bank.

Total assets

2012 USD **24.6** billion

2011 USD 21.5 billion

Liquid assets

2012 USD **7.2** billion

2011 USD 5.6 billion

Loan portfolio and equity investments

2012 USD **16.5** billion

2011 USD 15.1 billion

Paid-in capital

2012 USD **3.6** billion

2011 USD 3.2 billion

Equity

2012 USD **6.9** billion

2011 USD 6.3 billion

Net earnings

2012 USD **160** million

2011 USD 153 million

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In the first half of 2012, emerging economies experienced a moderate slowdown, partly due to restrictive domestic policies implemented in 2010 and 2011.

Latin America's Economic and Social Environment

International Environment: Recent Trends and Outlook

In 2012, the global economic recovery showed greater signs of weakness. This was due to worsened tensions in the Eurozone and lower than expected growth in emerging economies.

The U.S. economy finished 2012 with 2.2% growth, 0.4% higher than it registered the year before. Growth was driven by consumer spending, exports and fixed investment in the residential and non-residential real estate sectors. Those were partly offset by a drop in local and state government spending and in investment in private sector inventories. Likewise, imports rose in the second quarter. Still, personal consumer spending, which represents almost two-thirds of U.S. GDP, rose only 1.5% in the second quarter of 2012, 0.9% less than the increase in the first three months of the year, and that decline helped weaken job creation.

In the labor market, wages saw an important recovery after hitting bottom in March. That led to an improvement in household income, since the great majority of U.S. workers are wage earners. However, the pace of job creation began to lose steam. The unemployment rate has been dropping since 2011 and finished 2012 at 7.8%, but it still resides well above the pre-crisis level, and the number of unemployed (12 million) remains significantly high.

It's worth pointing out that this drop in the unemployment rate is in part related to a drop in the labor participation rate, from 66.4% in February 2007 to 63.6%

During 2012, t**he region saw 3% growth**, a result well below the 4.5% expansion recorded in 2011.

in December 2012. At the current pace of job creation, the unemployment rate should remain above 7% until mid-2013.

Meanwhile, inflation eased during the first semester of the year before a slight uptick in July caused by a rise in energy prices. The overall annual inflation rate for 2012 was 1.7%. Core inflation has remained around 2% annually, which indicates that inflationary pressures are stable. Most analysts estimate that inflation will not be a problem in the short and medium term, and they believe the Federal Reserve won't tolerate an increase above the 2% target, even it were to help the economy grow more robustly.

In this context of persistent labor market weakness and a downturn in economic growth and prices, and in addition to fiscal adjustments planned for 2013, the Federal Reserve announced a third round of "quantitative easing." Under QE3, as it's called, the Federal Reserve will continue buying mortgage-backed assets and treasury notes for an indefinite period. The benchmark interest rate will also be kept at minimum levels until at least 2015.

Trends suggest slightly lower economic growth for 2013, closer to 2%. There are other worrisome risks on the horizon, among them a worsened European debt crisis that could spread to the U.S., as well as uncertainties hanging over the U.S.'s own fiscal outlook.

The most recent data indicate the Eurozone is on the brink of another recession after its economy contracted 0.6% in 2012. That shrinkage was a result of weak demand at home, which helped drive GDP growth down by 2 percentage points. On the other hand, foreign demand helped pull GDP growth up by 1.6 percentage points, but it wasn't enough to make up for the drop in domestic demand. The 2012 result also reflects intensified crises in Portugal, Spain, Greece and Italy, which overshadowed improved economic data in Germany and France. Preliminary figures indicate that the Spanish economy fell 1.4% in 2012; Portugal contracted 3% thanks to a steep decline in domestic demand, while Italy contracted 2.3%. Greece, in its fourth consecutive year of recession, saw an economic contraction of 6%.

Germany and France, meanwhile, had better than expected performances. In 2012, Germany grew 0.9% and France had negligible but still positive 0.2% growth.

Still, analysts foresee a worsened situation that will push the Eurozone into continued recession in 2013 – an estimated overall GDP contraction of 0.3% this year. Eurozone growth expectations are undermined by high uncertainty about a solution to the debt crisis any time soon. In recent months, the European Union has made itself stronger and more resilient for the long term: it put forward a formal agreement for a banking union that features a single supervisory body. In early September, the European Central Bank announced limited purchases (by it or the Eurozone's bail-out funds) of public debt in the secondary market (when a country's circumstances warrant it and as long as certain conditions are met). The Bank hopes to reduce credit spreads and downward pressure on debt ratings for troubled countries that have been harder hit.

The Eurozone's annual inflation rate was 2.2% in 2012, despite significant increases registered in August and September. The core annual inflation in December was 1.5%.

Japan's economy saw growth of 2% in 2012, rebounding from its 0.6% contraction in 2011. Private consumption, which showed some important signs of life at the beginning of the year thanks to government incentives, lost strength. That anemic domestic demand is reflective of the country's deflationary path: December's annual inflation rate was negative 1%, while core inflation fell to negative 2%. The external sector took the worst brunt, due largely to the almost total shutdown of nuclear power in the aftermath of the 2011 tsunami disaster, which led to significantly increased energy imports. The Bank of Japan, whose monetary policy had among the most restrictive in the industrialized world, announced its own quantitative easing with the goal of weakening the yen and stimulating exports.

Japan's economy is expected to grow about 1.6% in 2013, below average for the industrialized world.

During the first half of 2012, emerging economies exhibited a moderate slowdown in economic growth, partly as a result of more restrictive fiscal policies that many governments put in place in 2010 and 2011, and partly as a consequence of the fall in global demand.

China's economy continued to march at a slower pace, finishing 2012 with annual GDP growth of 7.8% compared to 9.3% in 2011. Investment and (to a lesser extent) consumer spending were the principal factors driving growth, while the contribution of the external sector was slightly negative. This underlines a shift in the Chinese economic balance toward domestic demand. Most analysts agree that the world's second-largest economy may have touched bottom in 2012, and that economic indicators at year's end suggested stabilization.

Amidst that weaker economic activity, Chinese inflation also dipped in 2012 and settled at an annual rate of 2.5%. This allowed the Central Bank in July to reduce the benchmark interest rate for loans to 6%, leaving room for further adjustments. But doubts exist about the likelihood of new interest rate reductions, due mainly to China's current political transition. On the fiscal scene, the government approved a five-year, USD 158 billion infrastructure investment plan, equal to 2.1% of GDP, which China hopes will provide a major stimulus for recovery.

For India, 2012's 4 % growth rate marked a larger than expected economic deceleration. Much of the blame lies with weaker investment because of government management problems, as well as an erosion of foreign demand. The rest of Asia's emerging economies showed gradual slowdowns, too, and their inflation rates tended to stabilize.

Commodities Markets

During the second quarter of 2012, commodities prices registered their worst four months since the end of 2008, reflecting the global economy's slowdown as well as lower expectations about growth in the developing world and an end to the Eurozone crisis. However, starting with the last quarter, commodities values recovered, thanks mainly to expectations of new rounds of economic stimulus by various governments.

The Brent crude oil price saw only a slight annual increase of 3% in 2012, closing at close to USD 111 per barrel. Along with the general worldwide economic uncertainty, oil prices were also tamped down by increased productivity in Saudi Arabia and higher crude inventories in the U.S. The tense civil war situation in Syria, however, nudged prices higher during the summer, bringing the price to an average of USD 110 per barrel for July, August and September. The 2013 outlook puts the price closer to USD 100 per barrel, given the prevailing geopolitical risks.

After experiencing a strong recovery at the outset of 2012, industrial metals prices nonetheless lost almost 9% on average during the second quarter before regaining ground in the third quarter with an 11% jump. Overall for 2012, metals prices ended up rising 5%. Most analysts concur that they'll remain in line with economic activity in China.

During the first half of 2012, the price of precious metals retreated due in large part to weaker demand from their principal buyer, India. But there was an upward trend toward the end of the year thanks to new round of quantitative easing in the U.S. It helped gold prices rise almost 6% for the year; by the end of December the price was approximately USD 1,660 an ounce, a level it should maintain in 2013.

Beginning in July, global food prices put an end to the downward trend they'd experienced since early 2011, as a result of the worst drought to hit the U.S. since the 1960s. If that upward trend continues, it creates the risk of inflationary pressures, especially in emerging economies where food prices constitute a heavier share of the basket of basic goods. It would also reduce the freedom central banks have to implement new monetary stimulus. But this trend is expected to be temporary and of a different nature than the steep price increases suffered during the food crisis of 2008.

Financial and Stock Markets

In spite of the loss of global economic recovery momentum, and the tenacity of the Eurozone crisis, international financial markets enjoyed a recovery starting in July, aided by minimal interest rate levels and ample liquidity. The Eurozone's recent progress in strengthening its monetary union helped alleviate investor pessimism and brighten the risk outlook in crisis-battered European countries.

At the same time, stock markets had a positive performance in 2012. The S&P 500 stock index rose 13%, surpassing the level it held at the time of the September 2008 Lehman Brothers collapse, while the Dow Jones index rose 7%.

Latin America: Recent Trends and Outlook:

Amidst the Eurozone tensions, the still fledgling U.S. economic recovery and the cooler trend in emerging economies, Latin America's performance in 2012 continued the slowdown begun in 2011.

Real Sector

In 2012, the region had 3% economic growth, a much lower figure than the previous year's 4.5% expansion. That slippage was the result of weaker than expected foreign demand, as well as softer domestic demand due to tighter economic policies implemented the year before. Declining exports resulted in a negative external sector performance, which was sharper in value than in volume, thanks to the fall in prices for commodities in the first quarter and depreciated currencies abroad. As for domestic demand, consumer spending was the principal growth engine, owing to a solid labor market performance and the expansion of credit. Investment remained robust thanks largely to a vibrant construction sector.

Job creation was dynamic. The urban unemployment rate fell to 6.8%, 0.4% lower compared to the last half of 2011.

In most Latin American countries, the underemployment rate also decreased to a significant extent, and real wages experienced an upturn close to 3%. The labor market's improvement, however, is expected to lose steam by the end of 2013, as a result of slower economic activity.

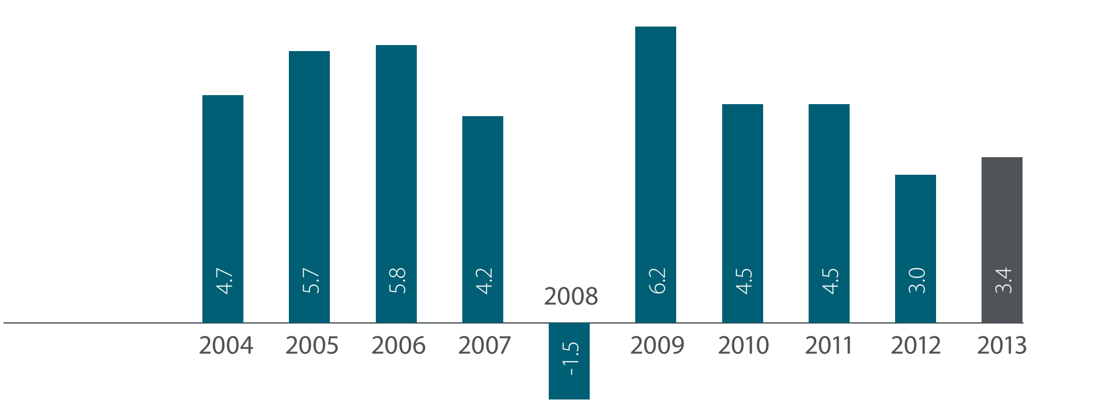
Because of the moderate global downturn, the Latin American economy is expected to grow just 3.4% in 2013, due to weaker foreign demand and slower growth in domestic demand. Generally speaking, raw materials prices will remain high; that, along with monetary stimulus in developed economies, should assure favorable external financial conditions for some time. However, there could be heightened downside risk, and an unexpected outcome to the European crisis could have an important impact on the region's performance.

External Sector

In 2012, Latin America recorded slower growth in trade flows, exports and imports alike. Export values saw a continued drop, from 29.1% annualized growth in the second quarter of 2011, to 10.7% in 2012's first quarter and 1.5% in the second quarter. This was related to a fall in the value of foreign currencies and global demand, and it was particularly sharp in South America, where countries are more dependent on commodities demand in Asia, which has shrunk as a consequence of the Eurozone crisis. The value of imports also fell in the second quarter, though to a lesser extent than exports. The drop in imports occurred because of more restrictive trade measures as well as weaker economic growth.

In that environment, the region's current account balance registered a deficit of 1.7% of GDP in 2012, which is expected to worsen to 1.9% of GDP by the end of 2013.

On the other hand, foreign direct investment (FDI) was robust in 2012. In fact, FDI was the most important source of foreign financing, continuing the trend of recent years. Likewise, conditions of abundant international liquidity and positive interest rate differentials continued to usher a wealth of portfolio capital into the region, albeit at a slower pace than in 2011 due to heightened aversion to risk. On balance, the region continued strengthening its position abroad and parlayed it into significant accumulation of foreign reserves.



Graph 1 • **Latin America. GDP Growth (%)**

Source: IMF

Fiscal Policies

Between 2009 and 2010, most Latin American countries took advantage of more open fiscal elbow room to carry out economic stimulus measures. They alleviated the effects of the financial crisis without raising debt to levels that threaten fiscal sustainability.

In 2011, some countries announced they were reining in those stimulus efforts, although in most cases, government policies continued to play an important role.

In 2012, fiscal account trends experienced few variations. Fiscal policy has been neutral in most countries. Government spending increased at the rate of GDP growth, as it did in 2011.

This year expects to see a fall in revenues in line with a weakening foreign trade sector and the slowdown of global economic activity. In spite of that, the region's fiscal panorama looks favorable.

As a result, countries in the region will need to keep up the process of fiscal consolidation (reducing government deficits and debt) since debt remains above pre-crisis levels. Government officials should be alert and avoid launching any fiscal stimulus prematurely. In fact, they should consider it only in the case of a sharp deterioration of external conditions.

While it is true that the region today enjoys better macroeconomic fundamentals than it has in the past, the recent financial crisis required anti-cyclical policies of increased public spending that weakened Latin America's fiscal position. From a structural perspective, once the effects on reduced revenue are taken into account, the fiscal breathing space the region could count on before the 2009 crisis has yet to be recovered.

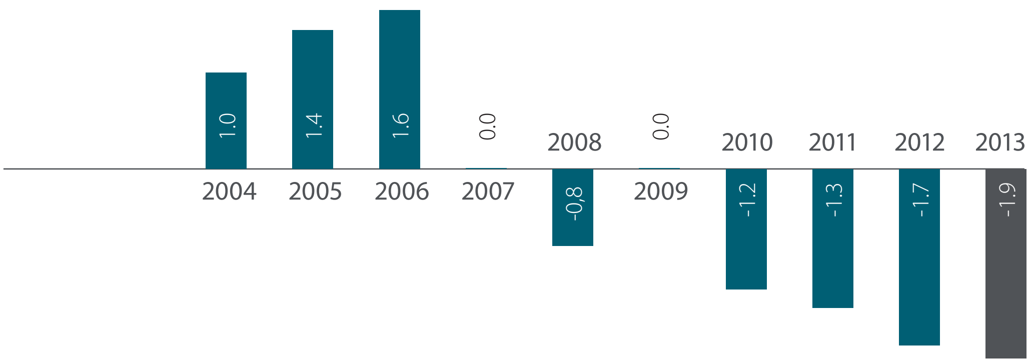
Despite certain advances in 2011, some countries still have tax reforms pending that could guarantee enhanced financing of spending. Only in this way can they in turn guarantee the sustainability of their fiscal policies in the medium and long terms.

Monetary and Foreign Exchange Policies

In 2012, Latin America in general kept inflation within a target range set by government officials, and core inflation remained essentially stable. This was the case in spite of the loss of growth momentum, which indicates some upward pressure on prices, but with clear differences between countries. The recent increase in food prices has set off alarms, given their importance in the region's basket of basic consumer goods. However, because this jump hasn't affected all products, and because it's a response to temporary supply shocks, the impact is expected to be softer than that of the 2008 food crisis.

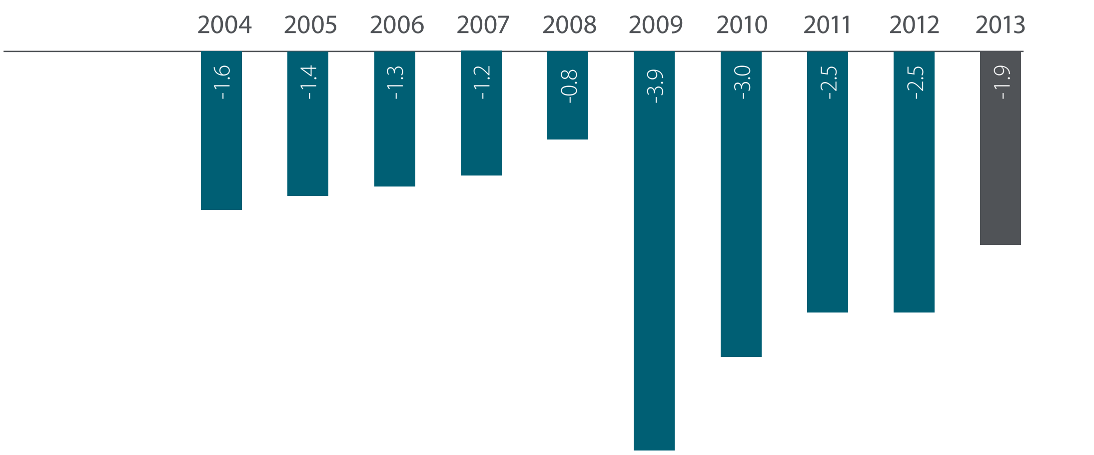
Meanwhile, the drop in interest rates by central banks has not been widespread. Up until now, only Brazil and Colombia have trimmed their rates, while the rest of the region has held them steady. The current room for anti-cyclical monetary policy is smaller than it was earlier in the crisis, since interest rate levels are lower than they were in 2008.

Until the middle of the year, the inflationary pressures that Latin American countries confronted in 2010 and 2011 practically disappeared. This was a result of a slowdown in capital inflows, as well as the effect of certain measures taken by officials the previous year.



Graph 2 • **Latin America: Current Account (% of GDP)**

Source: IMF



Graph 3 • **Latin America. Fiscal Balance (% of GDP)**

Source: IMF

Heightened aversion to risk in financial markets also eased those pressures and, furthermore, caused the depreciation of certain Latin American currencies. Still, some countries have continued to intervene in foreign exchange markets via currency purchases (sterilized in many cases), regulations on short-term capital inflow and the modification of bank reserves.

Competitiveness and the Business Environment

Even though the region for once doesn't find itself at the epicenter of the global crisis, we shouldn't forget that Latin America faces structural challenges that limit its development.

The region needs to move ahead with an agenda aimed at reducing dependence on exports, increasing levels of savings and investment, generating gains in productivity and competitiveness, and confronting the grave problems of social equality.

The major differences between Latin America and developed countries are found in technological capacity and innovation. That, in turn, underlines the need for improving available infrastructure and adapting it to new global trends.

According to the World Economic Forum's latest report on competitiveness (2012-2013), Latin America occupies, on average, 80th place in a sampling of 144 countries.

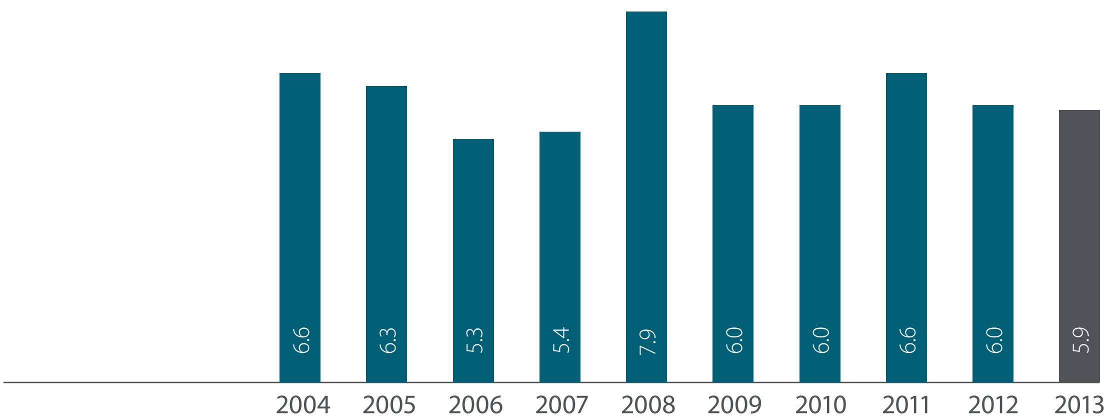
The region's shortcomings have mainly to do with market inefficiency, institutional quality, and technology and innovation. However, the last two indicators saw quantitative improvement in the past year compared to others.

The countries that performed best in the WEF competitiveness rankings are Chile (33rd), Panama (40th), Brazil (48th), Mexico (53rd), Costa Rica (57th) and Peru (61st). They ended up above the worldwide average in ranking, as well as absolute score, largely by taking important steps to reduce their external exposure. They've done this especially by improving their macroeconomic fundamentals and strengthening their net foreign trade position, as well as expanding their domestic financial markets. Other factors that explain their success include pragmatic efforts to build an international presence and technological advances that have brought them greater efficiency.

Latin America is also one of the developing regions where businesses confront major challenges, evidenced by the World Bank's annual Doing Business index, which places Latin America on average in the 97th position out of 185 countries surveyed. The 2013 study indicates that, on average, it takes 52 days to start a business in Latin America, well above the average for developed countries (12 days) and the world in general (24 days). Among the region's other big burdens are low labor and multi-sector productivity, and the bottlenecks that stunt growth in domestic production in the face of increasing global competition.

International Integration

In terms of political dialogue and agreement, throughout 2012 Latin America promoted an agenda geared toward strengthening diverse integration initiatives, hoping to encourage intraregional cooperation and international common ground. The principal measures that stood out were: two hemispheric summits; the strengthening of regional institutions, and fundamental political agreements within the framework of the Community of Latin American and Caribbean States (CELAC), the Union of South American Nations (UNASUR) and the Bolivarian Alliance for the Americas (ALBA); advancing the agenda of sub-regional integration blocs, mainly Mercosur, the Andean Community of Nations (CAN) and the Mesoamerica Project; and finally, important



Graph 4 • **Latin America. Average Inflation Rate (Consumer Index Price)** *Source: IMF*

initiatives to forge closer ties with extra-regional partners, most notably the Pacific Alliance.

At the hemispheric level, the sixth Summit of the Americas held in Colombia in April 2012 reaffirmed the commitment of the 35 participant countries to the promotion, supplementation and expansion of myriad projects: infrastructure; electrical power interconnection; technology transfer and telecommunications networks that foster the integration of the Americas and contribute to sustainable development; social inclusion and increased hemispheric trade. Likewise, the participant countries spoke out in favor of promoting and expanding integrated public policies aimed at combating poverty and inequality at the national, sub-regional and regional levels, and at achieving sustainable development with social justice on the American continent.

The 22nd Ibero-American Summit held in Cádiz, Spain, prioritized security, culture, education and development issues. Especially important were advances and agreements related to financing infrastructure projects and promoting small and medium enterprises (SMEs). Agreements for the creation of the Ibero-American Competitiveness Council and the Ibero-American Arbitration Center also stood out. Likewise, as an acknowledgment of the Ibero-American community's global challenges, the summit endorsed the formation of a group of regional leaders charged with proposing a plan to redefine the role of these summits and strengthening Ibero-American cooperation.

Both summits tackled the problem of public security with special interest. They emphasized the need for government initiatives via integrated policies, strategies and actions, as well as stronger bilateral, regional and international cooperation in the fight against violence and organized transnational crime in all its forms.

During 2012, the prospects for stronger institutional integration and regional political dialogue looked especially dynamic within the Community of Latin American and Caribbean States (CELAC), which constitutes the region's fullest representative body. It's worth mentioning the first and second Meetings of Regional and Sub-regional Integration Mechanisms, as well as the first gatherings of ministers of foreign relations, infrastructure, telecommunications and border integration, energy and finance.

The first Meeting of Foreign Ministers promoted agreement on issues of common interest. Among the most important were the start of peace talks with guerrillas in Colombia, Paraguay's political situation, support for the Argentine government in the matter of the Malvinas (Falkland) Islands and stronger cooperation with countries like Haiti and Cuba. The Santiago Plan, a CELAC ministerial declaration on infrastructure, telecommunications and border integration, underlined the need to reduce the region's infrastructure gap and move toward sustainable growth that increases competitiveness and spurs regional integration. It involved diverse gatherings for the exchange of information, experiences and joint projects in areas such as the regulation and control of multimodal transport of goods, Internet information and traffic and integrated border controls that facilitate the flow of people, goods and services.

At the first Meeting of Energy Ministers, the participant countries committed themselves to the launch of a regional energy grid that takes advantage of renewable and available non-renewable natural resources in the most efficient manner. With respect to renewable resources, the meeting promoted the use of hydro-energy and, as a complement, wind energy. It also pointed to biomass energy as a way of reducing greenhouse gases. In terms of non-renewable resources, it recommended sharing the development and application of more efficient extraction and consumption technologies.

Through the Viña del Mar Declaration, the CELAC finance ministers reiterated their countries' commitment to bringing about the economic and financial integration of Latin America and the Caribbean. Toward that end, they agreed to create a Financial Working Group that will put forward a strategic proposal for stronger regional finance, with the 2012 Caracas Plan of Action as its antecedent. They also agreed to start up various initiatives aimed at learning about regional experiences with financial integration, as well as designing measures for confronting the adverse impacts of natural disasters and climate change.

The energy the region displayed with the entry into force of the Constitutive Treaty of the Union of the South American Nations (UNASUR) in 2011 was a transcendental step toward its consolidation as a forum par excellence of regional political dialogue, and for contributing in a substantive way to the stability and expansion of democracy in South America. In the past year, UNASUR has advanced working plans for each of the Ministry Level Councils established so far: health, defense, energy, economy and finance, social development, infrastructure and planning, drugs, education, culture, science, technology and innovation and electoral matters. It bears noting that at the sixth Ordinary Meeting of the Council of Heads of State held in Lima, the member countries agreed to prioritize the adoption of a common strategy for better utilization of natural resources as a dynamic means of advancing regional integration.

Regarding infrastructure, the South American Infrastructure and Planning Council (COSIPLAN) in 2012 launched a Strategic Action Plan (PAE) 2012-2022, and carried out its Priority Agenda for Integration Projects (API). It consists of 31 structured operations and 88 individual projects of a strategic nature, with a high impact on physical integration and regional socio-economic development. The total investment is an estimated USD 17 billion. To complement this, UNASUR's communications ministers continued their push for South American regional integration measures through the construction of the South American Fiber Optic Ring, whose objective is to connect the continent's 12 countries and in turn link them with other continents. The goal is to reduce the costs of data transmission and Internet services in general, fostering not only improved communications infrastructure but an increase in available network content, improved international roaming conditions, enhanced service and expanded access.

As for energy integration, the Council of Ministers held in Caracas agreed to the Structure of the South American Energy Treaty and made advances in its study of the region's medium- and long-term energy scenarios. The South American Economy and Finance Council (CSEF), held in Lima, resulted in agreement on measures and joint mechanisms to protect the region from the effects of the current international financial crisis. It would also adopt common solutions by prioritizing more coordinated handling and mobilization of international reserves, the use of domestic currencies and incentives for intraregional trade. Finally, throughout 2012, UNASUR's Council of Defense Ministers finalized its South America Prospective Study Project 2025, related to defense issues, regional interests and the protection of strategic South American resources. It seeks to preserve the region as a Peace Zone with the full force of democratic institutions, which is indispensable for completing the South American integration process.

During 2012, the Bolivarian Alliance for the Americas (ALBA) made definite advances with the creation of a High-Level Commission charged with designing, coordinating and approving integration mechanisms, concrete actions and joint declarations; an Executive Secretariat for continuity and control of agreed-upon policies and plans; and a Working Plan that includes a multimedia ALBA network. An ALBA Defense Council was also established by the member countries' defense ministers and military joint chiefs of staff, aimed at developing common defense doctrines and policies. In terms of trade, the ALBA-TP Economic Area (ECOALBA) was established as an economic zone for shared, interdependent development with the goal of creating a partnership model that strengthens the commercial and productive systems of the member countries.

Throughout 2012, Mercosur made significant progress in expanding the sub-regional bloc with the Bolivarian Republic of Venezuela's entry as a Member State, the signing of a Protocol of Adherence by the Plurinational State of Bolivia, and the presence of Suriname and Guyana as invited nations. The member countries also reaffirmed their commitment to the prompt entry into force of the Mercosur Customs Code which, along with the elimination of the Common External Tariff's double charging and the distribution of customs income, constitute decisive elements for the perfection of the Customs Union. Also important is the continuity of the Mercosur Strategic Social Action Plan, designed to carry out projects to remedy the sub-region's wealth disparities, and the redefining of the bloc's international cooperation policy. What's more, Mercosur has made a formal request for participation in the Pacific Alliance as an observer.

The sixth Summit of the Americas reaffirmed the commitment of the 35 participant countries to the promotion of projects that advance hemispheric integration and contribute to sustainable development.

With regard to the Andean Community of Nations (CAN), one highlight was the Andean Council's Meeting of Foreign Relations Ministers held in May in Cartagena, where the member countries made significant advances in re-engineering the Andean Integration System, with a look toward adapting the CAN to current regional and international challenges. One 2012 highlight was the community adoption of Andean policies on labor migration and the fight against illegal mining. Another, related to foreign relations, was the entry into force of the Free Trade Pact between two CAN countries, Colombia and Peru, and the European Union.

Another example of negotiation initiatives with extra-regional partners involves the Pacific Alliance formed by Colombia, Chile, Mexico and Peru, with Panama as an observer country. The group's fourth Heads of State Summit spotlighted advances achieved in the areas of trade and integration, as well as a will to bring about the free transit of goods, or zero trade tariffs, in keeping with the internal legal procedures of each country. Regarding services and capital, the Public-Private Committee was created to develop a strategy for helping businesses take advantage of the Free Trade Pact and Bilateral Investment Agreements among the Pacific Alliance countries. The commitment to exempt the citizens of participant countries from visa requirements should aid the mobility of people and create more favorable conditions for tourism, trade and investment. The group also committed itself to creating and starting up a Pacific Alliance Common Cooperation Fund in 2013.

Meanwhile, in the Joint Declaration of the 13th Heads of State and Government Summit of the Tuxtla Mechanism for Dialogue and Agreement, the decision was made to launch priority actions for the Project for Mesoamerican Integration and Development. The goal is more effective global economic and regional integration, and more social and sustainable development for the people of the Mesoamerican region. Recognizing the need to reduce travel time on roads and at border passes throughout the Mesoamerican Integration Corridor, and to increase road safety, the Mesoamerica Project participant countries approved the creation of the Management Unit for the Mesoamerican Integration Corridor (UGCMI) to keep the development of the region's technical, legal-institutional, financial and economic facets on track.

The UGCMI will function under the administrative direction of a Technical Operative Committee (CTO) consisting of the Inter-American Development Bank (IDB), the Central American Economic Integration Bank (BCIE), CAF and other multilateral organizations and entities that provide resources for the Unit's functions.

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During 2012, CAF approved operations worth USD 9.3 billion. With that, the Institution strengthens the growth trend of financial support to its shareholder countries.

Operations

The year 2012 was a year for consolidating the heightened and sustained rhythm of growth that CAF has maintained over the past five years. The year-end figures confirmed once again the strong growth of the Institution's portfolio, as well as the heightened volume of loan approvals and disbursements even amidst global economic uncertainty.

Loan approvals for the five-year period 2008-2012 rose to USD 47.0 billion (USD 9.3 billion in 2012), while the loan portfolio stood at USD 16.5 billion at year- end. An important milestone was reached in 2012 when CAF's all-time loan approvals figure passed the USD 100 billion mark: since the development bank's founding in 1970, it has authorized more than USD 102 billion to support projects and initiatives that drive sustainable development and regional integration. CAF has achieved this volume, as well as the high quality of its operations, while always keeping its management approach in line with Latin America's diverse national realities.

Added mention should be made of efforts in recent years to strengthen CAF's assets. In 2012 they were bolstered by Trinidad and Tobago's incorporation as a full member of the Institution, and by an increased capital contribution from Mexico.

CAF –development bank of Latin America, boasts 18 shareholder countries and is in talks with countries such as Suriname and Guyana, and those in Central America and the Caribbean, to evaluate their incorporation as well. CAF renders multiple services to a broad range of clients in the region's public, private and mixed sectors. In recent years, the Institution has positioned itself as the principal source of multilateral financing for its founding countries and the principal source of multilateral financing for infrastructure in all of Latin America. By the end of

An important milestone was reached in 2012 when CAF's all-time loan approvals figure passed the USD 100 billion mark.

2012, 88% of its loan approvals were concentrated in the Institution's 10 full-member countries.

CAF's assistance to those countries was, once again, one of the highlights of its 2012 operations. CAF identifies the financing needs of its shareholder countries, and in coordination with national officials, designs credit schemes and technical assistance programs tailored to the development goals of each country.

Meanwhile, CAF-administered cooperation funds, which are mostly non-reimbursable, are geared toward aiding and complementing the Institution credit activities. They 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. In 2012, approvals via these strategic programs totaled USD 40 million.

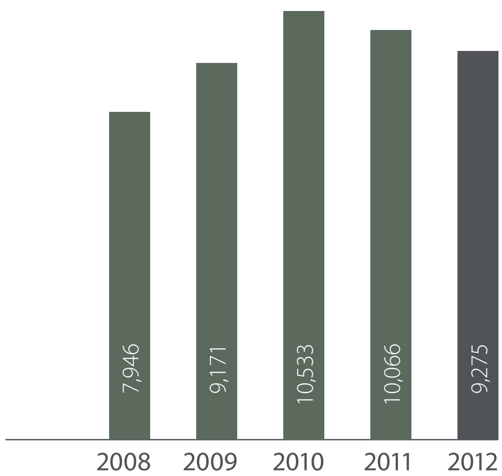
Approvals

In 2012, CAF approved operations totaling USD 9.3 billion. That reflects the Institution's continued high level of financing for its shareholder countries in the face of an especially complicated international economic situation.

It bears mentioning that, of the total approved, USD 3 billion was channeled to investment programs and projects via medium- and long-term loans that included both sovereign and non-sovereign risk. At the same time, USD 4.2 billion was steered to credit lines for companies and banks to strengthen the productive sectors of shareholder countries, and USD 2.1 billion was distributed between partial credit guarantees, share participation, contingent (standby) credit lines, program and sectorial loans and cooperation funds.

USD **9.3** billion

Total approvals



Graph 1 • **Approvals (in millions of USD)**

Table 1 • **Approvals by Product (in millions of USD)**

Sovereign	**4,586**
Loans	2,986
Investment programs and projects	2,761
PBLs and *swaps*	225
Contingent credit lines	1,500
Credit lines	100
Non-sovereign	**4,649**
Corporate loans	235
Credit lines	4,071
Corporate	582
Financial	3,489
Partial credit guarantees	151
Equity participation	192
Cooperation Funds	**40**
Total	**9,275**

Table 2 • **Approvals by Country (in millions of USD)**

Country	2008	2009	2010	2011	2012	2008-12
Argentina	411	649	1,607	1,346	839	4,851
Bolivia	560	511	426	407	485	2,389
Brazil	1,798	907	1,980	1,797	1,903	8,386
Colombia	1,483	2,050	992	1,456	841	6,822
Costa Rica	120	10	10	10	10	161
Ecuador	604	873	901	772	766	3,915
Mexico	10	65	35	29	82	222
Panama	635	232	312	484	328	1,991
Paraguay	6	107	36	120	189	457
Peru	1,458	2,287	1,693	2,184	1,749	9,372
Dominican Republic	75	129	0	10	10	225
Uruguay	601	590	120	648	729	2,687
Venezuela	72	627	1,638	531	327	3,195
Others	114	133	783	270	1,017	2,317
Total	**7,946**	**9,171**	**10,533**	**10,066**	**9,275**	**46,990**

Approvals by Country

CAF's growing presence in Latin America means increased involvement in the majority of the region's countries. What stands out specifically in 2012 is the USD 4.0 billion approved for Argentina, Brazil, Panama, Paraguay and Uruguay, countries that comprise part of the Series A shareholder group and which account for 43% of the bank's total approvals. Adding the approvals for these countries to those for the founding countries brings the amount to USD 8.2 billion, or 88% of the total.

It is worth noting that in the cases of Peru, Brazil and Colombia, approvals for the productive sector via the financial system stood at USD 1 billion, USD 1 billion and USD 815 million respectively, all through medium- and long-term lines of credit.

The Institution's closer ties with Trinidad and Tobago, and Mexico are also noteworthy and reflect the opening of representative offices in both countries, which will bring about a significant increase in approvals in these countries.

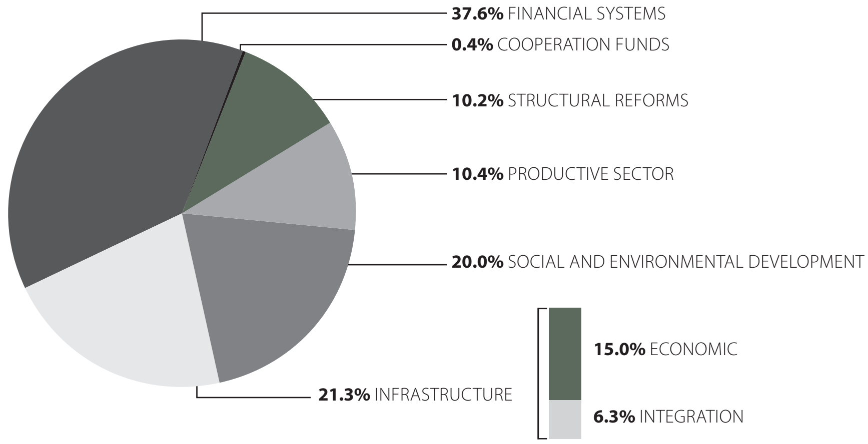
Approvals by Strategic Area

From a sectorial perspective, CAF approved USD 2.0 billion for infrastructure, especially improved roads and highways, in line with the established development priorities of the shareholder countries. These approvals represent 21% of the total, of which 70% was destined for economic infrastructure activities and the remaining 30% to infrastructure projects that aid regional integration.

Among the important projects approved were the second phase of the Argentine Geostationary Telecommunications Satellite System Program in Argentina; the Construction Project for the Ruta F-04 Four-Lane Highway, Sacaba-Chiñata and Quillacollo-Suticollo Sections, in Bolivia; the São Paulo Transport, Logistics and Environment Program, in Brazil; Quito's First Metro Line Project, in Ecuador; the second phase of the Panama City Metro Project, in Panama; and the Energy Sector Fortification Program, in Uruguay.

The goal of these initiatives is to create platforms that foster the necessary economic growth for enhancing quality of life, and to promote favorable conditions for the region's competitiveness and sustainability.

CAF also championed social development financing. It authorized resources for projects in areas such as basic services, the development of human and social capital, environmental preservation and the promotion of education and health. Approvals in this area of strategic interest reached USD 1.9 billion, which represents 20% of the total approved in 2012.



Graph 2 • **Approvals by Strategic Area, 2012**

Resources were steered to operations like the Norte Grande Water and Sanitation Infrastructure Program, in Argentina; the second phase of the More Investments for Water Program, or MIAGUA II, in Bolivia; the Maracaná Stadium Reform and Refurbishment Project for the 2014 World Cup, in Brazil; the second phase of the Program to Strengthen Social and Environmental Management of the Indirect Impacts of the Southern Interoceanic Road Corridor, in Peru; the Program for Improvement and Rehabilitation of Potable Water and Sanitation Systems, in Uruguay, and the second phase of the Simon Bolívar Social Action for Music Complex Project, in Venezuela.

CAF also directed USD 4.5 billion to the productive and financial sectors, both directly and through the financial systems of the region's countries. This amounted to 48% of the total approved in 2012. Those funds were channeled via corporate loans, as well as through short- and medium-term lines of credit; at the same time, they financed, with or without sovereign guarantee, the region's development banking systems. These resources seek to promote competitiveness and strengthen public and private companies in the region, as well as provide backing for SMEs and micro-finance entities that benefit entrepreneurial sectors with limited access to financial services.

In the area of structural reforms, CAF renewed contingent credit lines for Peru and Uruguay. These were approved as preventive financing instruments to back up the public debt management of both governments in case they encounter difficulties accessing capital markets. Furthermore, two program loans were approved, one designed to aid Paraguay's Strategic Economic and Social Plan for 2008-2013, the other to help the Argentine government optimize public investment and public credit management processes. The approvals for this sector totaled USD 950 million by the end of 2012, representing 10% of the total approved.

Approvals by Term

Long-term loans – five years or longer – made up 46% of 2012's approvals. In this manner, CAF helped segments not served by other financial sources and took part, through both public and private initiatives, in the countries' high-impact sustainable development projects. Short- and medium-term operations made up the remaining 54% of the approvals. Resources of this type were steered toward financing international trade and working capital, funneled through financial systems that support the productive sector.

USD **47.0** billion

Approvals during the five-year period 2008-2012

Table 3 • **Approvals by Term (in millions of USD)**

	2008	2009	2010	2011	2012	2008-12
Long-term loans	3,186	5,394	6,830	4,946	4,281	24,637
Medium-term loans	38	269	268	175	46	796
Short-term loans	4,722	3,507	3,436	4,945	4,948	21,557
Total	**7,946**	**9,171**	**10,533**	**10,066**	**9,275**	**46,990**

Approvals by Type of Risk

In 2012, CAF approvals for the sovereign (public) sector rose to USD 4.6 billion, representing 49% of total approvals.

Approvals for the non-sovereign sector represented 51% of the total (USD 4.7 billion) and were channeled to the productive and financial sectors, public and private, which for the most part required short- and medium-term resources. That money also provided companies with direct financing for working capital, as well as foreign trade and investment operations, fundamentally for increasing the productive capacity of public and private enterprises.

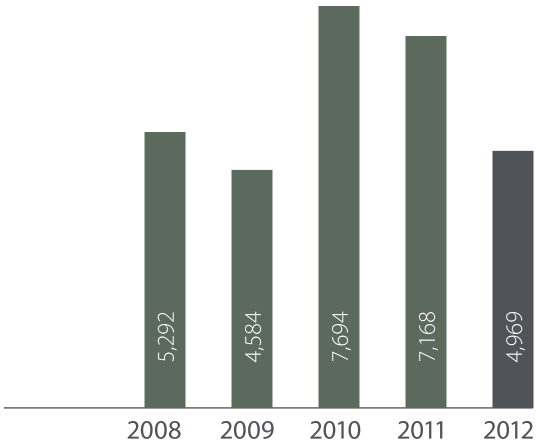
Table 4 • **Approvals by Type of Risk (in millions of USD)**

	2008	2009	2010	2011	2012	2008-12
Sovereign	3,343	5,590	5,796	4,528	4,586	23,843
Non-sovereign	4,603	3,580	4,737	5,538	4,688	23,147
Total	**7,946**	**9,171**	**10,533**	**10,066**	**9,275**	**46,990**

Disbursements

By the end of 2012, the amount disbursed by CAF had risen to USD 5.0 billion. The figure was lower than 2011 due to a lower rate of renewal for short-term lines of credit in the financial sector, which in turn was a consequence of abundant liquidity in Latin America's banking systems. An important share of disbursements in 2012 – 39% – went to sovereign investment programs and projects, among other priority areas on the CAF Integrated Development Agenda. The goal was to improve the competitiveness of productive sectors and lend support to less favored segments of the population, especially through basic services grants.

It is worth mentioning that the total disbursed, more than 53% (USD 2.6 billion) was short-term, without significant impact on the growth of the portfolio by the end of 2012. Brazil, Colombia and Peru accounted for more than 70% of the year's disbursements.



Graph 3 • **Disbursements (in millions of USD)**

Table 5 • **Disbursements by Product (in millions of USD)**

Medium- and long-term loans	**2,207**
Sovereign	1,995
Investment programs and projects	1,935
PBLs and *swaps*	61
Non-sovereign	212
Credit lines (companies and banks)	**2,630**
Contingent credit lines	**53**
Equity participation	**44**
Cooperation funds	**34**
TOTAL	**4,969**

Table 6 • **Disbursements by Country (in millions of USD)**

Country	**2008**	**2009**	**2010**	**2011**	**2012**	**2008-12**
Argentina	294	492	283	663	464	2,195
Bolivia	444	216	253	266	338	1,517
Brazil	951	1,022	1,226	963	1,028	5,190
Colombia	892	927	1,601	1,836	855	6,112
Costa Rica	86	24	0	7	7	124
Ecuador	444	290	721	566	736	2,757
Panama	16	6	23	177	256	479
Paraguay	8	4	51	43	47	152
Peru	1,531	650	2,494	1,303	618	6,597
Dominican Republic	55	20	45	39	27	186
Uruguay	170	377	95	52	9	704
Venezuela	260	412	685	905	359	2,620
Others	141	145	216	347	224	1,074
Total	**5,292**	**4,584**	**7,694**	**7,168**	**4,969**	**29,707**

USD **16.5** billion

Total portfolio

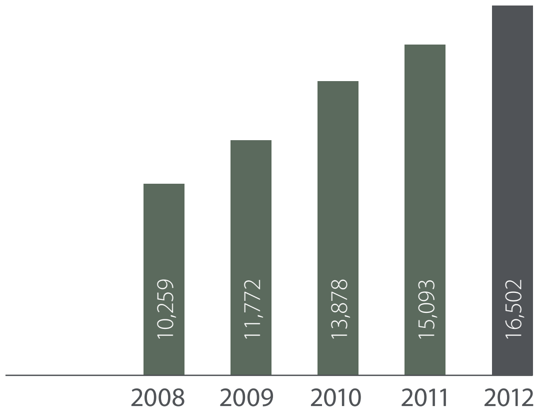
Portfolio

By the end of 2012, the CAF portfolio stood at USD 16.5 billion, which represented an increase of 9.3% compared to the close of 2011.

The portfolio's heightened and sustained rate of growth has allowed CAF, in just six years, to double its size since 2006 (when it was USD 8.2 billion). The Institution's operative and financial projections indicate that this sustained growth dynamic will remain solid over the next five years.

Portfolio by Country

The portfolio's growth in 2012 mirrored the economic dynamic that Latin America's countries themselves experienced, and it evidenced CAF's response to the growing demand for resources among the region's economies.



Graph 4 • **Portfolio (in millions of USD)**

Table 7 • **Portfolio by Country (in millions of USD)**

Country	**2008**	**2009**	**2010**	**2011**	**2012**
Argentina	693	1,157	1,395	1,913	2,117
Bolivia	1,110	1,166	1,309	1,426	1,605
Brazil	825	1,034	1,116	992	1,258
Colombia	1,707	1,695	1,974	1,829	1,850
Costa Rica	107	126	121	118	110
Ecuador	2,018	2,052	2,437	2,509	2,649
Panama	72	76	90	246	479
Paraguay	37	28	66	100	135
Peru	1,774	1,869	2,186	2,578	2,670
Dominican Republic	55	75	120	158	176
Uruguay	232	582	657	352	332
Venezuela	1,535	1,765	2,228	2,652	2,816
Others	94	148	181	218	306
Total	**10,259**	**11,772**	**13,878**	**15,093**	**16,502**

Portfolio by Economic Sector

Contributing to the construction of infrastructure and the promotion of social development constitutes one of CAF's principal strategic tasks. The portfolio related to loans authorized for the transport sector accounted for USD 5.8 billion, which represented 35% of the portfolio at year's end, while that related to telecommunications was USD 38 million, or 0.2%. The share associated with electricity, gas and water distribution accounted for USD 5.5 billion, 34% of the total portfolio. In fact, the growing weight of the energy sector – USD 4.6 billion by year's end – prodded the corporate decision to create a new vice presidency for energy projects. That also reflected the sector's growing importance in the Integrated Development Agenda promoted by CAF. Additionally, the education, social services and health sectors account for approximately 12% of the Institution's total loan portfolio.

The portfolio Commercial Banking and Financial Institutions of Development sector accounted for USD 1.8 billion and represented almost 11% of the total portfolio. This level of activity reflects the Institution's interest in aiding the expansion of the productive sector, especially the micro, small and medium enterprise

(MSME) segment, as a fundamental mechanism of economic development in the region.

The remaining 8% of the portfolio (USD 1.4 billion) was directed to other activities related to CAF's corporate strategy. Among them was USD 1.1 billion for carrying out reforms and guaranteeing the macroeconomic stability of the shareholder countries.

Table 8 • **Portfolio by Economic Sector (in millions of USD)**

	2008	2009	2010	2011	2012
Agricultural infrastructure	88	78	40	34	63
Mining and quarrying	70	43	66	50	0
Manufacturing	416	261	200	281	208
Electricity, gas and water supply	2,004	2,968	4,095	5,018	5,532
Transport, warehousing and communications	3,201	3,660	4,365	5,325	5,826
Commercial banking	1,457	1,500	1,698	1,077	1,144
Development institutions	210	225	345	354	641
Education, social services and healthcare	1,740	1,698	1,599	1,854	1,970
Other activities	1,075	1,339	1,469	1,101	1,119
Total	**10,259**	**11,772**	**13,878**	**15,093**	**16,502**

Portfolio by Term

As in years past, CAF directed the majority of its loan portfolio to long-term operations, with the aim of contributing to economic infrastructure, integration and social development. As a result, at the end of 2012 the long-term loan portfolio stood at USD 14.7 billion and represented 89% of the total. Adding medium-term portfolio and capital investments brings the amount to USD 15.5 billion, or 94% of the total. In this way, the Institution helps satisfy regional financing needs that are not easily serviced through other sources.

The short-term portfolio, meanwhile, stood at USD 1 billion and represented 6% of the total.

Table 9 • **Portfolio by Term (in millions of USD)**

	2008	2009	2010	2011	2012
Capital investments	75	85	95	112	147
Loans	10,184	11,687	13,783	14,981	16,355
Long-term	8,472	10,101	11,882	13,639	14,713
Medium-term	660	432	702	911	619
Short-term	1,052	1,154	1,199	431	1,024
Cartera Total	**10,259**	**11,772**	**13,878**	**15,093**	**16,502**

Portfolio by Type of Risk

One of CAF's priorities is satisfying the credit requirements of the sovereign sector as a means of assisting public investment projects in shareholder countries. The portfolio assigned to this sector accounted for USD 13.2 billion at the end of 2012, representing 80% of the total. That amount reflects a coordinated effort with national governments, a product of the Institution's close relationship with its shareholder-clients, which is renewed periodically in programming missions that identify countries' development priorities.

The beneficiaries of loans with non-sovereign risk made up the remaining 20% of the portfolio. This reaffirms CAF's commitment to aiding productive sector growth, both public and private, and parlaying it into an improved level of regional competitiveness and quality of life. Granting loans to public enterprises and subnational governments, without sovereign guarantee, reflects the Institution's growing financial and managerial strength, which results of ongoing efforts to further decentralize internally and to improve the quality of local government administration.

USD **13.2** billion

Portfolio by sovereign risk type

Table 10 • **Portfolio Type of Risk (in millions of USD)**

	2008	2009	2010	2011	2012
Sovereign	7,543	8,870	10,518	12,069	13,230
Non-sovereign	2,716	2,902	3,360	3,023	3,273
Total	**10,259**	**11,772**	**13,878**	**15,093**	**16,502**

CAF Support for the Region's Productive and Financial Sectors

Throughout 2012, CAF kept its commitment to assisting the productive and financial sectors of its member countries. CAF deepened its relationship with the region's development banks, in particular COFIDE, CFN, BIESS and NAFINSA, through seminars on structured financing and proposals for co-financing projects, mostly in the energy sector. Likewise, its business with the region's private banks expanded with participation purchases in CAF loans and the development of new products, such as commitments to future loan purchases, carried out with private banks. This made it possible to provide long-term financing to enterprises and projects whose local markets don't cover their needs.

The work carried out with the regional banking system in 2012 allowed for the renewal of credit lines and approval of new ones. Among them: USD 100 million for a financing program directed at the productive sector through credit granted to the Development Bank of Minas Gerais in Brazil.

In the corporate sector, CAF entered Brazil's sugar-alcohol sector with long-term corporate loan to Usina Coruripe S.A. (Coruripe Mill Inc.). In Uruguay's agro-industrial sector, CAF participated in a short-term co-financing program for corporate clients.

The Institution also approved a corporate loan for the Cooperativa Rural de Electrificación (Rural Electrification Cooperative) in Bolivia, to finance construction of a transmission line to connect isolated systems.

And it granted a medium-term loan for infrastructure improvement at the Cooperativa de Servicios Públicos de Santa Cruz Ltda. (Santa Cruz Public Services Cooperative), also in Bolivia.

CAF increased its presence in the Paraguayan market with the approval of two highly significant financing operations: P&O Maritime Holdings S.A. and credit for Yguazú Cementos S.A., an operation co-financed with the Inter-American Development Bank.

In 2012 a partial guarantee for a 20-year bond issue denominated in soles (Peruvian currency) in Peru's capital markets was structured for the amount of USD 128 million. The October 2012 bond placement's objective was the financing of the H2Olmos project from the start of its construction phase.

Finally, the equity investments unit obtained approval and/or closure for nine investments for a total of USD 130 million. Among them is a company with regional reach dedicated to oil recycling and biofuels production; a regional agroforestry fund; an investment, via a subordinated loan, in an electricity transmission project in Peru; investments in energy and renewable energy funds; an investment in a fund of funds (basket of funds) in Mexico; and a co-investment with a private capital fund for the largest solar power generation project in Peru.

Regarding SMEs, 36 financing facilities were approved representing more than USD 250 million between lines of credit, direct asset investments, investments in funds and re-bonding.

Another 19 operations, worth close to USD 900,000, were approved with non-reimbursable technical cooperation funds.

The year 2012 also stands out for significant growth in the portfolio of risk capital funds.

Five investments in Brazil were approved for a total amount of USD 35 million to aid mostly SMEs related to technological innovation. At the same time, two investments of this nature were approved in Mexico for USD 13.5 million. Finally, an investment was approved in the first seed capital fund created in the Dominican Republic.

To assist micro-enterprises, 20 lines of credit, three subordinated loans and two equity investments in institutions specializing in microfinance were approved, for a total amount of USD 110.5 million.

Cooperation Funds

Technical cooperation is a financing tool for innovative operations with significant impact. It complements countries' technical capacity and contributes to sustainable development and regional integration, which is an impetus for CAF's renewed development agenda. It creates incentives for infrastructure development, competitiveness, integration of financial markets, trade integration, updating and exchange of technologies and the holistic formation of the human being.

In 2012, approvals for technical cooperation reached USD 39.8 million. The technical cooperation funds have their origin in CAF's net earnings or in third-party funds administrated by CAF.

Approvals

The Technical Assistance Fund (FAT) and the Human Development Fund (Fondeshu) support diverse strategic activities that supplement the traditional management of the Institution's business and include operations in matters related to competitiveness, integration infrastructure, social development, microfinance, governance, environment, humanitarian aid and culture.

CAF services those needs through programs of regional reach such as competitiveness support, assisting and distributing research, macroeconomic analysis and tracking of countries, microfinance, promotion of SMEs, strengthening financial markets, regional policies and public security.

Physical infrastructure for integration and other strategic themes for regional cohesion constitute strategic pillars of CAF's institutional mission. Among the most important are the Integration of South American Regional Infrastructure (IIRSA) and the Program for Sectorial Development of Infrastructure.

Regarding Governance, programs such as Governance and Policy Management, Leadership for Transformation and Modernization and Improvement

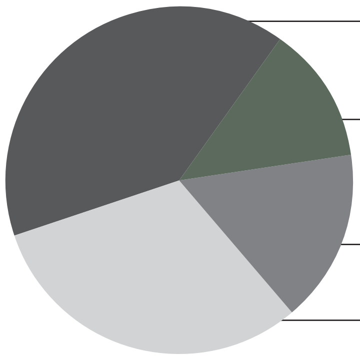
(continued on page 36)

Table 11 • **Approvals Via Technical Cooperation Funds Administered by CAF (in millions of USD)**

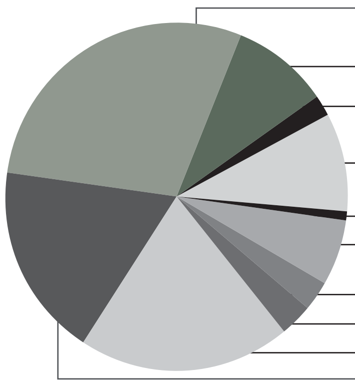
Technical Assistance Fund (FAT)	15.7
Human Development Fund (FONDESHU)	5.1
Fund for the Promotion of Sustainable Infrastructure Projects (PROINFRA)	12.5
Special Fund for Bolivia (FEB)	1.7
Special Fund for Ecuador (FEE)	0.8
Border Cooperation and Integration Fund (COPIF)	1.5
Other Funds	2.4
Total	**39.8**

Main Cooperation Funds

Technical Assistance Fund (FAT) Centralizes most of the special sources of financing. Its purpose is to provide support for projects and programs in shareholder countries.	**2012 Approvals:** **USD 15.7 million**
Human Development Fund (Fondeshu) Provides financial support for the implementation of high impact, innovative, and productive community projects aimed at society's most vulnerable.	**2012 Approvals:** **USD 5.1 million**
Fund for the Promotion of Sustainable Infrastructure Projects (Proinfra) This fund finances the adequate preparation, financial structure, and evaluation of sustainable infrastructure projects with a high impact on the regional, national, or local economies, and that consistently contribute to integration among shareholder countries.	**2012 Approvals:** **USD 12.5 million**
Special Fund for Bolivia (FEB) and Special Fund for Ecuador (FEE) Finance technical assistance and address the economic priorities of these countries. Created in 1998, both funds are included in CAF's Constitutional Agreement.	**2012 Approvals:** **FEB USD 1.7 million** **FEE USD 0.8 million**
Border Cooperation and Integration Fund (COPIF) Support for the timely identification, preparation, and execution of high-impact projects that promote sustainable development in the border regions of member countries, and that strengthen cooperation, dialogue, mutual respect and cross-border integration both at a bilateral and multilateral level.	**2012 Approvals:** **USD 1.5 million**
Spanish Fund for Technical Cooperation (FECT), Canadian Agency Fund (ACDI), General Fund for Italian Cooperation (FGCI) These agencies represent financing sources for the region's development through consultancies with Spanish, Canadian and Italian companies. The Spanish Ministry of Economy is the entity in charge of monitoring the operations of the Spanish contribution, the Canadian International Development Agency (ACDI) operates from the Canadian embassies in each of the requesting countries, and the Ministry of Foreign Relations of the Republic of Italy is the entity responsible for providing the final acceptance of the operations to be financed with FGCI resources.	**2012 Approvals:** **USD 2.4 million**



Graph 5 • **Origin of Operations Via Cooperation Funds**



Graph 6 • **Approvals Via Cooperation Funds by Strategic Area**

(continuation from page 34)
of Local Management (Prameg) have special relevance in the public and private sectors as well as civil society. At the same time they are considered important for generating knowledge and providing modern tools of great use to the public sector.

With respect to the social sector and the environment, CAF seeks to satisfy in the most direct way the needs of the least fortunate through special projects like Musica para Crecer (Growing Through Music), SOMOS: Sports Network for Latin American Development, Innovators of America, Promoters of Social Responsibility, Productive Transformation, among other projects.

Finally, approvals for activities financed with third-party funds managed and administrated by CAF exceed USD 1.3 million. Such resources were destined principally to the financing of consultancies developed by companies in donor countries.

Special Funds

CAF supports projects through other funds of a nature distinct from cooperation funds. Among them are the Business Investment and Development Fund (FIDE), the Compensatory Financing Fund (FFC), the Latin American Climate Change Program (PLACC) – created in 2012 from the Latin American Program on Carbon and Clean and Alternative Energy (PLAC+e) – and the Special Program for Financing of Clean Alternative Energy and Energy Efficiency (Propel).

FIDE helps strengthen micro, small and medium enterprises (MSME) through capital operations, quasi-capital and credit. CAF carries out these activities through alliances with risk capital funds, banks, large industries and guarantee funds, which in turn carry out equity investments in the region's MSMEs.

The fund's investment strategy provides financing, direct or indirect, to those small and medium enterprises (SMEs) in the region that have potential to be competitive, to be exporters or to substitute imports; that are positioned (or can position themselves) in global production chains or clusters; are innovative and efficient, especially in areas related to biodiversity, environmental services, new economy, health, education and the agricultural sector; and have ties to economic sectors with competitive advantages, or that incorporate and utilize modern technologies in their organization and productive processes.

In 2012, CAF approved seven new operations for a total amount of USD 18.9 million through FIDE, principally to operations helping MSMEs via investments in venture capital funds.

Through the Compensatory Financing Fund (FFC), CAF steers resources into reducing the financial cost of sovereign investment programs and projects, via a subsidy at the financial margin that doesn't affect profitability.

USD **1.3** million

Approvals of activities financed with third-party funds managed and administered by CAF

The fund's fundamental goal is promoting projects oriented toward mitigating regional asymmetries, helping marginalized populations and fostering regional infrastructure integration. It embraces all the sovereign investment programs and projects whose aim is to improve the financial conditions of member countries that agree to CAF financing.

In 2012, 30% of the total amount approved by the Institution, or USD 2.8 billion, was eligible for the FFC subsidy. By year's end, 34% of the portfolio had benefited from this fund, which during 2012 provided USD 37.5 million in subsidies to the portfolio's interest payments.

The Latin American Climate Change Program's (PLACC) goal is contributing to solutions to global warming by developing and assisting the following efforts in the region: the mitigation of greenhouse gases, adaptation to changing climate scenarios, and carbon markets. It also looks to strengthen basic knowledge and applied research on climate change for the region.

In 2012, the PLACC incorporated five new projects into its portfolio. They represent Certified Emissions Reductions (CERs) of 8 million tons of CO_2 equivalent, under the scope of three emissions reduction contracts sold to the Spanish Fund that CAF administers; and two management mandates for regional projects, developed with the intention of being sold in the international market once the United Nations issues the CERs. In this way, the PLACC administers, develops and markets the reduction of greenhouse gas emissions related to 40 operations in essential sectors for low carbon-emission development in Latin America. These sectors include energy, renewable energy, the capture and use of biogas, reforestation and mass urban transit.

In 2012, CAF, through the Special Program for Financing of Clean Alternative Energy and Energy Efficiency Projects (Propel), began disbursements to the Las Pizarras Hydroelectric Plant project in Peru. A long-term loan for USD 8 million was also approved for the Hidrotopo Hydroelectric Plant in Ecuador. Four mandates were signed to assemble financing for solar power, mini-hydro and biomass projects in Argentina and Ecuador, which were incorporated with eight other projects in the region that are in the stage of evaluation and structuring. Additionally, Propel continues to establish and strengthen alliances with institutions, promoters and financiers, regional as well as extra-regional, interested in developing clean energy and energy efficiency projects in Latin America.

Shareholder Countries

Shareholder Countries

Argentina	40
Bolivia	46
Brazil	52
Colombia	58
Ecuador	64
Panama	70
Paraguay	76
Peru	82
Uruguay	88
Venezuela	94

Other Shareholder Countries

Chile	100
Costa Rica	100
Spain	100
Jamaica	102
Mexico	102
Portugal	103
Dominican Republic	103
Trinidad and Tobago	103

Argentina

During 2012, CAF approved operations for Argentina totaling USD 839 million, of which 71% (USD 600 million) involved sovereign risk transactions and 29% (USD 239 million) involved non-sovereign risk transactions and non-reimbursable cooperation.

Regarding sovereign risk transactions, in 2012 CAF continued its technical and financial support for the roads and highways sector, the telecommunications satellite sector, the water and sanitation sector and the urban infrastructure sector.

In the roads sector, the Regional Road Development Program II was approved for an amount of USD 250 million; it continues improving connectivity between provinces in northern Argentina.

The country's northern cities and regions also benefited from two efforts meant to enhance quality of life by improving potable water and sanitation infrastructure, as well as urban infrastructure in general. The first component was serviced with the Norte Grande Water and Sanitation Infrastructure Program, which received CAF financing of USD 150 million. Urban infrastructure continued to be financed with the third phase of the Municipal Multi-Works Program in the amount of USD 75 million, which will expand urban road works and public lighting, improve green spaces, upgrade sewage systems and community equipment, among other things.

In 2012, CAF approved USD 50 million for the telecommunications sector through financing of the second stage of the Argentine Geostationary Telecommunications Satellite System (SSGAT), whose objective is the development, manufacture and orbiting of the second and third satellites of the SSGAT fleet. The credit will also finance the ground control station located in Benavídez, in Buenos Aires Province, and construction of a complex for test trials of the satellite systems in the installations of INVAP, in the city of Bariloche in Río Negro Province. In this way, CAF continues building its presence in Argentina as an important promoter of the telecommunications and space sector.

In line with its permanent support for strengthening public administration in Argentina, CAF in 2012 approved USD 75 million for the Program to Assist Investment and Public Credit Management Processes, whose fundamental goal is helping the Argentine Government enhance financial administration by improving the management of public investment and the public credit system.

In the corporate domain, CAF approved a total of USD 135 million to maintain its support of the Argentine financial system. Among them: the Bank of Investment and Foreign Trade (BICE), Banco Itau Argentina, Banco de Galicia y Buenos Aires and Banco Supervielle.

Argentina 2012 Figures (in millions of USD)

	2012	2008-2012
Approvals	**839**	**4,851**
Sovereign Risk	600	3,297
Non-sovereign Risk	239	1,554
Disbursements	**464**	**2,195**
Sovereign Risk	347	1,732
Non-sovereign Risk	117	463
Portfolio	**2,117**	
Sovereign Risk	1,851	
Non-sovereign Risk	266	

Construction project for a soy bean crushing plant with an annual capacity of 4.95 million tons

Approvals in Argentina

Argentine Geostationary Telecommunications Satellite System Program – Second Stage

CLIENT/EXECUTOR: EXECUTOR: REPUBLIC OF ARGENTINA/MINISTRY OF FEDERAL PLANNING, PUBLIC INVESTMENT AND SERVICES

TOTAL AMOUNT: USD 50 MILLION | **TERM:** 12 YEARS

Objective: Finance the development and manufacture of 3 geostationary telecommunications satellites, their placement in orbit and start-up, as well as move ahead with improvement of the ground control station from which the program is operated.

Regional Road Development Program II

CLIENT/EXECUTOR: REPUBLIC OF ARGENTINA/MINISTRY OF FEDERAL PLANNING, PUBLIC INVESTMENT AND SERVICES

TOTAL AMOUNT: USD 250 MILLION | **TERM:** 15 YEARS

Objective: Contribute to the strengthening of the Argentine Republic's road infrastructure.

Municipal Multi-Works Program Phase III

CLIENT/EXECUTOR: REPUBLIC OF ARGENTINA/MINISTRY OF FEDERAL PLANNING, PUBLIC INVESTMENT AND SERVICES

TOTAL AMOUNT: USD 75 MILLION | **TERM:** 12 YEARS

Objective: Promote investments in basic municipal infrastructure in sectors with the highest quantitative and qualitative deficit.

Norte Grande Water and Sanitation Infrastructure Program

CLIENT/EXECUTOR: REPUBLIC OF ARGENTINA/MINISTRY OF FEDERAL PLANNING, PUBLIC INVESTMENT AND SERVICES

TOTAL AMOUNT: USD 150 MILLION | **TERM:** 12 YEARS

Objective: Support the improvement of potable water and sewage systems, wastewater treatment and construction of water regulation works.

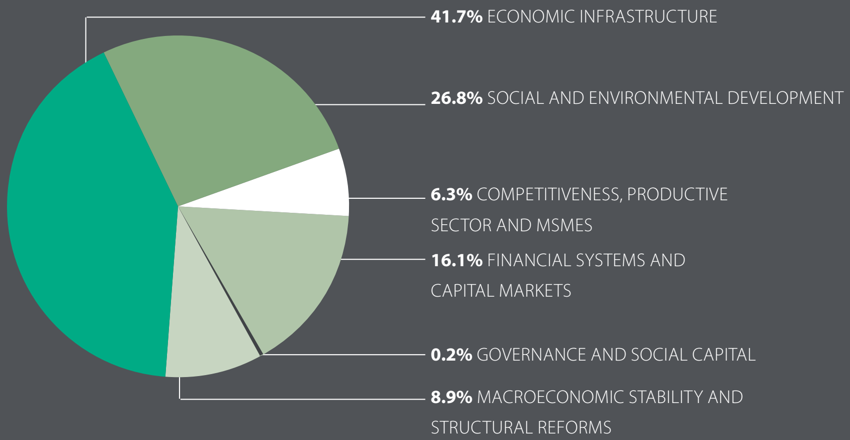
Program to Assist Investment and Public Credit Management Processes

CLIENT/EXECUTOR: REPUBLIC OF ARGENTINA/MINISTRY OF ECONOMY AND PUBLIC FINANCE

TOTAL AMOUNT: USD 75 MILLION | **TERM:** 12 YEARS

Objective: Contribute to the optimization of public investment and public credit management processes, as well as strengthen financial administration processes.

Approvals by strategic area 2012



TOTAL: USD **839** million

Uncommitted Revolving Credit Line
CLIENT: MOLINOS RIO DE LA PLATA S.A.

TOTAL AMOUNT: **USD 30 MILLION** | TERM: **VARIOUS**

Objective: Finance pre-exports.

Uncommitted Revolving Credit Line
CLIENT: VICENTIN, S.A.I.C.

TOTAL AMOUNT: **USD 20 MILLION** | TERM: **VARIOUS**

Objective: Finance trade and working capital.

Uncommitted Revolving Credit Line
CLIENT: BANK OF INVESTMENT AND FOREIGN TRADE (BICE), BANCO DE GALICIA Y BUENOS AIRES, BANCO ITAU ARGENTINA, BANCO SANTANDER RIO AND BANCO SUPERVIELLE

TOTAL AMOUNT: **USD 135 MILLION** | TERM: **VARIOUS**

Objective: Finance foreign trade operations, working capital and investment in capital assets.

Partial Guarantee of Credit
CLIENT: ISOLUX CORSÁN ENERGÍAS RENOVABLES, S.A.

TOTAL AMOUNT: **USD 50 MILLION** | TERM: **12 YEARS**

Objective: Finance the installation, start-up, operation and maintenance of four wind-driven electric power plants (Loma Blanca I, II, III and IV).

Capital Investment
CLIENT: CONTIGO MICROFINANZAS S.A.

TOTAL AMOUNT: **USD 0.5 MILLION** | TERM: **VARIOUS**

Objective: Foster the growth of this microfinance institution to serve markets that don't have access to this type of service.

Capital Investment in Mutual Guarantee Societies
CLIENT: AVALES DEL CENTRO, SOCIEDAD DE GARANTÍA RECÍPROCA

TOTAL AMOUNT: **USD 2 MILLION** | TERM: **VARIOUS**

Objective: Support SME access to financing in the interior of the Republic of Argentine.

Other Operations with Cooperation Resources
VARIOUS CLIENTS

TOTAL AMOUNT: **USD 1.8 MILLION** | TERM: **VARIOUS**

The Pinco Truncado extra-high-tension power line will bring about electrical interconnection in various zones of the country

Other Contributions to Argentina's Sustainable Development

Infrastructure

- Approval of technical cooperation operations in two of Argentina's largest metropolises in the area of urban mobility and transport, which help formulate and implement the Transport System Plan for the City of Cordoba and the Integrated Mobility Plan for Gran Mendoza. These two operations, in addition to those already underway in the cities of Buenos Aires and Comodoro Rivadavia, allow CAF to position itself in the country as a cornerstone for knowledge and financial potential in terms if projects in the transport and urban mobility sector.
- Approval of technical cooperation for the Plan for Multiple Use of the Bermejo River Basin Water Resources. This project is very important for Argentina, not only for the basin's economic potential, but also because the focus of the work will serve as a pilot project and reference for future studies in the rest of the country.

Governance

- Support seminars, congresses and events that cover diverse themes linked to strategic areas for Argentina.
- Training for 262 employees from the public sector during the fifth edition of the Governance and Policy Management Program. The initiative seeks to contribute to the development of their capabilities and to the design of processes of change that bring satisfactory levels of governance on the part of local government authorities, technical teams and members from civil society.
- The city governments of Corrientes and Salta are carrying out the Regional Program for Updating and Improvement of Local Management (Prameg).

SMEs and Microfinance

- Support for the Argentine Network of Microfinance Institutions (RADIM) for the implementation of a plan to train credit officials and sessions for sharing best practices among the institutions.
- Sponsorship of the Sixth Annual Microfinance Conference.
- Supporting the seminar titled "The Region's Guarantees and Development: Toward the Consolidation of Guarantee Systems and the Formation of Regional Reinsurance," organized jointly with the Latin American Guarantee Association (ALIGA).
- Training in the microfinance sector through activities that promote entrepreneurial spirit. Also, support for the Innovation Congress and the Program for Investment in Transitory Business Shares.

USD **1.8** million

Granted by CAF to Argentina in cooperation funds

Bolivia

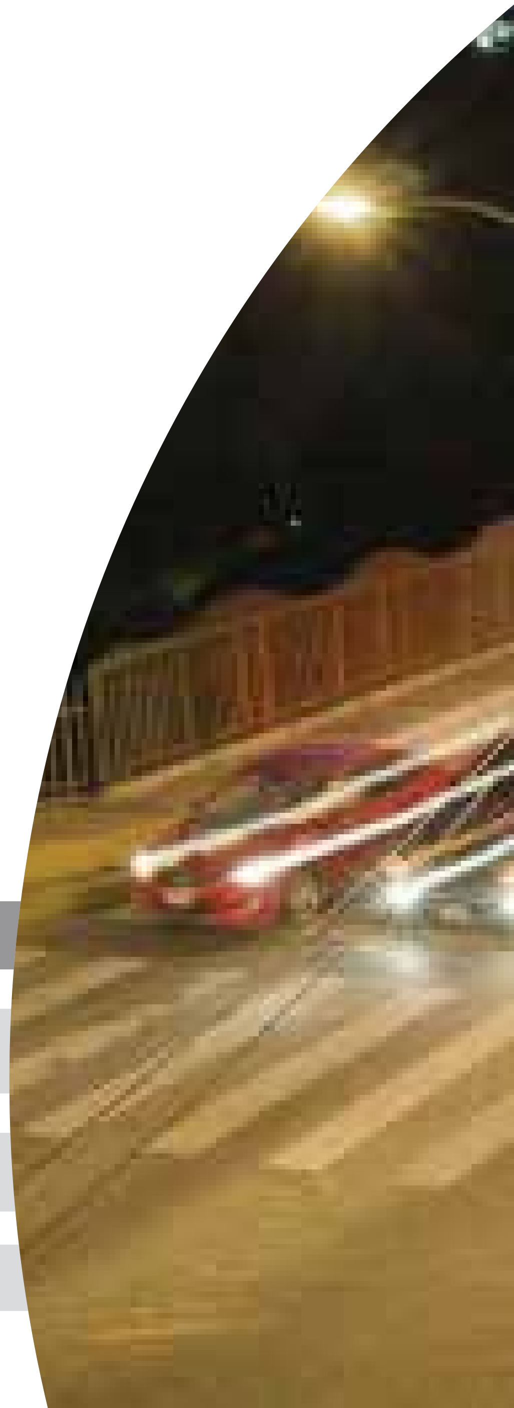
In 2012, CAF approved operations for Bolivia totaling USD 485 million, of which 79% (USD 385 million) involved sovereign risk transactions and 21% (USD 100 million) involved non-sovereign risk transactions and non-reimbursable technical cooperation.

Particularly notable was USD 272 million for economic infrastructure and integration, which represented 56% of the total. CAF approved financing of the Uyuni-Tupiza and Chacapuco-Ravelo highways; the construction project for the Sacaba-Chinata and Quillacollo-Suticollo sections of the Ruta F-04 four-lane highway, as well as the rural infrastructure program for Santa Cruz Province.

The principal goal was supporting vitally important road projects for Bolivia, improving connectivity in the country's interior and with bordering nations, while incorporating sustainable environmental management and road renovation and safety. Likewise, the effort sought to extend the delivery of electrical power to rural zones of Santa Cruz through by financing projects in various rural towns, with the aim of improving productive conditions in zones of influence.

Meanwhile, 29% of the approvals were in the area of social and environmental development. Among them were two loans for USD 134 million to provide continuity for projects promoting food sovereignty and improved living and health conditions. The goal is to increase the area of cultivated agricultural land through irrigation projects and enlarging the coverage and quality of potable water services in all the country's municipalities, especially rural communities.

The Institution assigned 15% of the total approvals (USD 72 million) to projects in the productive and financial sectors. Of this amount, USD 25 million was sent to the financial sector in credit lines for financial entities specializing in credit, while USD 33.6 million went to SMEs and micro-businesses. A credit line was renewed to finance capital operations in the agricultural sector.



Bolivia 2012 Figures (in millions of USD)

	2012	2008-2012
Approvals	**485**	**2,389**
Sovereign Risk	385	1,913
Non-sovereign Risk	100	476
Disbursements	**338**	**1,517**
Sovereign Risk	304	1,337
Non-sovereign Risk	34	180
Portfolio	**1,605**	
Sovereign Risk	1,511	
Non-sovereign Risk	94	

The Trillizos Bridges united the city of La Paz from east to west

Approvals in Bolivia

Construction Project for the Uyuni-Tupiza Highway

CLIENT/EXECUTOR: PLURINATIONAL STATE OF BOLIVIA/BOLIVIAN HIGHWAY ADMINISTRATION

TOTAL AMOUNT: USD 108.2 MILLION | TERM: 15 YEARS

Objective: Consolidate Bolivia's principal tourist destination, the Uyuni Salt Flats.

Construction Project for the Sacaba-Chinata and Quillacollo-Suticollo Sections of the Ruta F-04 Four-Lane Highway

CLIENT/EXECUTOR: PLURINATIONAL STATE OF BOLIVIA/BOLIVIAN HIGHWAY ADMINISTRATION

TOTAL AMOUNT: USD 33.6 MILLION | TERM: 15 YEARS

Objective: Contribute to the development and launch of the zone's productive, commercial and tourist activity, by improving and increasing existing infrastructure.

Construction Project for the Chacapuco-Ravelo Highway

CLIENT/EXECUTOR: PLURINATIONAL STATE OF BOLIVIA/ BOLIVIAN HIGHWAY ADMINISTRATION

TOTAL AMOUNT: USD 75 MILLION | TERM: 15 YEARS

Objective: Provide permanent, safe and comfortable road access in the surrounding area and, at the same time, contribute to the development of the Jaime Mendoza Diagonal Highway (DJM), making a reliable and safe connection between Bolivia and its neighbors Argentina, Paraguay, Peru and Chile viable.

Rural Infrastructure Program for Santa Cruz

CLIENT/EXECUTOR: PLURINATIONAL STATE OF BOLIVIA/AUTONOMOUS GOVERNMENT OF SANTA CRUZ DEPARTMENT

TOTAL AMOUNT: USD 35 MILLION | TERM: 15 YEARS

Objective: Support the economic and social development of Santa Cruz Department via the construction and improvement of roads and bridges, and the completion of rural electrification systems.

More Investments for Water Program - MIAGUA (Phase 2)

CLIENT/EXECUTOR: PLURINATIONAL STATE OF BOLIVIA/ ENVIRONMENT AND WATER MINISTRY

TOTAL AMOUNT: USD 18.5 MILLION | TERM: 16 YEARS

Objective: Support Government strategies for reducing poverty and achieving local control over the food supply via investments in irrigation, potable water and sanitation.

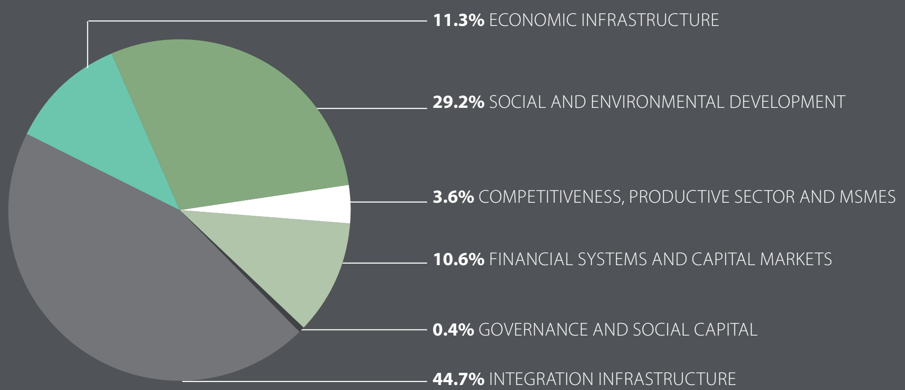
More Investments for Water Program II - MIAGUA II

CLIENT/EXECUTOR: PLURINATIONAL STATE OF BOLIVIA/ ENVIRONMENT AND WATER MINISTRY

TOTAL AMOUNT: USD 115 MILLION | TERM: 16 YEARS

Objective: Support Government strategies for reducing poverty and achieving local control over the food supply via investments in irrigation, potable water and sanitation.

Approvals by Strategic Area 2012



TOTAL: USD 485 million

Corporate Loan
CLIENT: COOPERATIVA DE SERVICIOS PÚBLICOS DE SANTA CRUZ LTDA. SAGUAPAC (PUBLIC SERVICES COOPERATIVE OF SANTA CRUZ)

TOTAL AMOUNT: USD 8 MILLION | TERM: 8 YEARS

Objective: Financing for infrastructure improvement that has a positive impact on conditions of coverage and quality of potable water and sanitation services for the Santa Cruz population.

Corporate Loan
CLIENT: COOPERATIVA RURAL DE ELECTRIFICACIÓN-CRE (RURAL ELECTRIFICATION COOPERATIVE)

TOTAL AMOUNT: USD 20 MILLION | TERM: 8 YEARS

Objective: Finance works from the 2012-2015 investment plan.

Uncommitted Revolving Credit Line
CLIENT: ADM SAO

TOTAL AMOUNT: USD 10.5 MILLION | TERM: 1 YEAR

Objective: Finance trade and working capital.

Uncommitted Revolving Credit Line
CLIENT: NATIONAL BANK OF BOLIVIA, BANCO SOLIDARIO, BANCO UNIÓN, BANCO ECONÓMICO, BANCO LOS ANDES POSCREDIT AND BANCO FIE

TOTAL AMOUNT: USD 51.5 MILLION | TERM: VARIOUS

Objective: Finance trade, working capital and projects of investment in MSMEs.

Uncommitted Revolving Credit Line
CLIENT: COOPERATIVA JESÚS NAZARENO LTDA, FUNDACIÓN PROMUJER AND FFP ECO FUTURO

TOTAL AMOUNT: USD 3.5 MILLION | TERM: VARIOUS

Objective: Finance micro and small businesses in Bolivia.

Capital Investment
CLIENT: IMPULSOR FONDO DE INVERSIÓN CERRADO

TOTAL AMOUNT: USD 3.6 MILLION | TERM: 8 YEARS

Objective: Investment fund with positive impact in the development of SMEs in Bolivia's productive sector.

Other Operations with Cooperation Resources
VARIOUS CLIENTS

TOTAL AMOUNT: USD 2.8 MILLION | TERM: VARIOUS

Somos, Sports Network for Latin American Development, drives social inclusion through soccer

Other Contributions to Bolivia's Sustainable Development

Infrastructure

- Technical strengthening of the Bolivian Highway Administration (ABC), through a workshop on types of contracting and financing for the conservation and maintenance of highways.

Social Development

- Humanitarian aid responding to the effects of the climate phenomenon known as La Niña, by rebuilding damaged infrastructure throughout the country.
- Help in technical, economic, social and environmental evaluation of water projects in the Mi Agua program that the Plurinational State of Bolivia is completing with CAF financing. The program seeks to improve allocation and quality of water in all of the national territory for approximately 2.5 million inhabitants.
- Development of the tourism sector, with the Implementation of Tourism Strategy for the Uyuni Salt Flats, Potosi, and development of a Roadmap for the Tourism Development Management Organization (OGD) of Tarija Province.
- Completion of the Learning Skills Program in public and private schools. In 2012, 257 primary school teachers were trained.

Social Sustainability

- Organizing the fourth version of the Carrera La Paz 3600, a 10K running race that introduces new features each year and constitutes an important cornerstone of high-level sport.
- Supporting Bolivia's social integration through sport in the Fifth Cycling Tour of Bolivia.
- Publication and distribution of "Los Alteños" in Santa Cruz, whose images reflect the daily life and soul of a growing city, El Alto.

Environment

- Partial financing of the preparation of the Study of Pre-investment in Integrated Solid Waste Management for the Metropolitan Area of Santa Cruz Province.
- Support for Solid Waste Management projects in the Uyuni Salt Flats and adjacent zones. This initiative plans and executes the collection, recycling and disposal of solid waste, in coordination with all actors in the region.
- Assist with the preparation of the National Sustainable Development Plan for the Conservation of Five Endangered Species through the "Noah's Ark" project of the World Wildlife Foundation.

SMEs and Microfinance

- Increase the coverage and depth of financial services in Bolivia's marginalized rural zones, through the "Rural Microfinance In Your Cell Phone" project.
- Completion of the First National Encounter "Laying Bridges Between Microfinance and Health."

Governance

- Training of 604 civil society leaders with a vision of national and civic-democratic values, within the framework of the eighth edition of the Leadership for Transformation Program.
- Training of 209 public managers in the twelfth edition of the Governance and Policy Management Program. This initiative has a theoretical-practical focus on generating abilities and skills that lead to steering and managing processes and actions of change, as well as establishing strategies for conflict resolution.
- Completion of an integrated diagnosis for moving ahead with land registry modernization in the Viacha-La Paz municipality, as part of the Regional Program for Updating and Improvement of Local Management (Prameg).

Competitiveness

- Expediting the successful issue of sovereign bonds in international markets. Bolivia, for the first time in almost 100 years, placed USD 500 million in those markets.
- Financing the Research and Registry of Small Business and Productivity in Bolivia project, whose goal is to formalize businesses that make important social contributions in terms of productivity, jobs and household well-being.
- Completion of the First National University Contest for Business Innovation Ideas Bolivia 2012.
- Completion of the International Bolivia Enterprise Forum –"The role of universities and their entrepreneurial capacity. International experiences" –through which the academic role as catalyst of entrepreneurial activity was demonstrated.
- Strengthening of good corporate government practices in public sector enterprises.
- Completion of events that strengthen business development. Among them: the Fourth International Taxation Congress, the Fifth Bolivia Gas and Energy Congress, the Magisterial Conference of the Former Treasury Minister of Colombia, and the Fourth Bolivian Conference on Economic Development.

Culture

- Support for the Ninth International Festival of Baroque Music "Misiones de Chiquitos," which reclaims and enriches the musical cultural patrimony of the Chiquitos region and promotes tourism development in Santa Cruz Province.
- Assistance to the Philharmonic Society of La Paz for the Classical Bolivia project, which offers professionalization opportunities to children and young Bolivians who demonstrate classical music talent.
- Boosting the artists exchange program, through residencies and curatorships in Santa Cruz Province.
- Participation in and resource contribution to the "Long Night of Museums" event, which in its sixth edition, stimulated cultural interest through music, dance, theater, visual arts and literature, in all of La Paz's cultural spaces.
- Assisting the spread of Cochabamba's cultural patrimony, via the recovery of historic spaces and their transformation into centers dedicated to art and culture.
- Support for the exhibiting and public ownership of archeological finds in the Chungamayu-Sud Yungas Valley, in La Paz Province.

USD **2.8** million

Granted to Bolivia by CAF in cooperation funds.

Brazil

In 2012, CAF approved a total of USD 1.9 billion in operations for Brazil, contributing to initiatives of high social and productive impact, and strengthening the country's financial system. Some 32% (USD 607 million) involved sovereign risk transactions and the remaining 68% (USD 1.3 billion) involved non-sovereign risk and non-reimbursable cooperation.

Regarding sovereign risk transactions, CAF focused its support principally on the roads and logistics sector, the development of tourism and sports infrastructure, and the environmental sector and response to natural disasters.

In the roads and logistics sector, USD 200 million were approved for the Transportation, Logistics and Environment Program in the state of São Paulo, whose mission is the improvement and expansion of the roads network while enhancing access to and safety on the highways.

To develop tourism infrastructure, two operations were approved for USD 133.5 million. The first, for USD 112 million, is the West Coast Tourism Development Program for Ceará state, which will finance integrated development and add value to tourism projects, generating new employment and income opportunities while improving local quality of life. The second, for USD 21.5 million, is the National Tourism Program for the Municipality of Manaus, whose goal is to increase Punta Negra's value as it improves the competitiveness of the city's tourism destinations.

For the development of sports infrastructure, USD 120.7 million was approved to the Rio de Janeiro state government for the Maracaná Stadium Reform for Refurbishment Project, in preparation for the 2014 Soccer World Cup and the 2016 Summer Olympics.

For the purpose of natural disaster preparedness, and as part of the Regional Facility approved to confront emergencies related to natural phenomena, CAF approved USD 100 million to the Rio de Janeiro state for the reconstruction of the municipalities affected by the intense rains of January 2011.

CAF also approved USD 52.5 million for the Igarapés de Manaus Social and Environmental Program in Manaus, the capital of Amazonas state, geared toward the environmental recovery of degraded areas.

The Institution sent USD 260 million directly to the corporate sector. A highlight is CAF's participation is a syndicated loan for USD 60 million to Usina Coruripe Açúcar e Álcool (Coruripe Sugar and Alcohol Plant) to expand production capacity and renovate sugarcane plantations, as well as assistance to the Norberto Odebrecht construction firm (USD 200 million) through a line of credit for the issue of partial guarantees of credit and for the financing of

Brazil 2012 Figures (in millions of USD)

	2012	2008-2012
Approvals	**1,903**	**8,386**
Sovereign Risk	607	1,406
Non-sovereign Risk	1,297	6,979
Disbursements	**1,028**	**5,190**
Sovereign Risk	282	558
Non-sovereign Risk	746	4,631
Portfolio	**1,258**	
Sovereign Risk	558	
Non-sovereign Risk	700	

short-term working capital. With this, CAF fulfills the need for new guarantors of construction projects important to the region, particularly in the infrastructure sector.

CAF also granted revolving credit lines for USD 1 billion, through the financial sector, with the aim of financing investment projects, foreign trade operations and working capital in the productive sector, to respond in a timely fashion to Brazil's favorable economic growth. Among them was USD 100 million for the Minas Gerais Development Bank (BDMG) to finance the state's productive sector.

Capital investments were also carried out during 2012 in diverse funds for an aggregate amount of USD 36 million.

West Coast Tourism Development Program for Ceará state

Approvals in Brazil

Transportation, Logistics and Environment Program, State of São Paulo

CLIENT/EXECUTOR: STATE OF SÃO PAULO/STATE SECRETARIAT FOR LOGISTICS AND TRANSPORTATION

TOTAL AMOUNT: USD 200 MILLION | TERM: 16 YEARS

Objective: Contribute to the economic and social development of São Paulo state, by improving and expanding the road network.

West Coast Tourism Development Program for Ceará state

CLIENT/EXECUTOR: STATE OF CEARÁ/CEARÁ STATE TOURISM SECRETARIAT

TOTAL AMOUNT: USD 112 MILLION | TERM: 12 YEARS

Objective: Promote and launch an economic, social and tourism development strategy in the zone of influence for the 12 municipalities located throughout the coastal area, situated to the west of the city of Fortaleza.

Maracanã Stadium Reform and Refurbishment Project for the 2014 World Cup

CLIENT: STATE OF RIO DE JANEIRO/STATE PUBLIC WORKS SECRETARIAT

TOTAL AMOUNT: USD 120.7 MILLION | TERM: 15 YEARS

Objective: Reform and refurbish Maracaná Stadium for the 2014 World Cup and the 2016 Summer Olympic Games. The stadium is expected to hold the opening and closing ceremonies of those events.

Igarapés de Manaus Social and Environmental Program

CLIENT/EXECUTOR: STATE OF AMAZONAS/AMAZONAS STATE INFRASTRUCTURE SECRETARIAT

TOTAL AMOUNT: USD 52.5 MILLION | TERM: 15 YEARS

Objective: Support urban design for Igarapés de Manaus, including investments in basic sanitation systems, rainwater drainage, paving access roads, construction of parks and multi-sport facilities, and investments in environmental recovery.

National Tourism Program for the Municipality of Manaus-PRODETUR

CLIENT/EXECUTOR: MUNICIPALITY OF MANAUS/ MUNICIPAL INFRASTRUCTURE SECRETARIAT

TOTAL AMOUNT: USD 21.5 MILLION | TERM: 16 YEARS

Objective: Improve quality of life, considering that sustainable tourism development in regions with tourism potential generates new job and income opportunities and adds value to tourism products.

Regional Financing Facility for Immediate Response to Emergencies Caused by Natural Phenomena

CLIENT/EXECUTOR: STATE OF RIO DE JANEIRO/STATE PUBLIC WORKS SECRETARIAT

TOTAL AMOUNT: USD 100 MILLION | TERM: 12 YEARS

Objective: Facilitate timely financing in Rio de Janeiro state to deal with the effects of torrential rains that occurred in January 2011.

Financing Program for the Productive Sector

CLIENT: BANCO DE DESENVOLVIMENTO DE MINAS GERAIS S.A. (MINAS GERAIS DEVELOPMENT BANK)

TOTAL AMOUNT: USD 100 MILLION | TERM: 10 YEARS

Objective: Financing projects and eligible expansions in Minas Gerais state through loans, endorsements and guarantees.

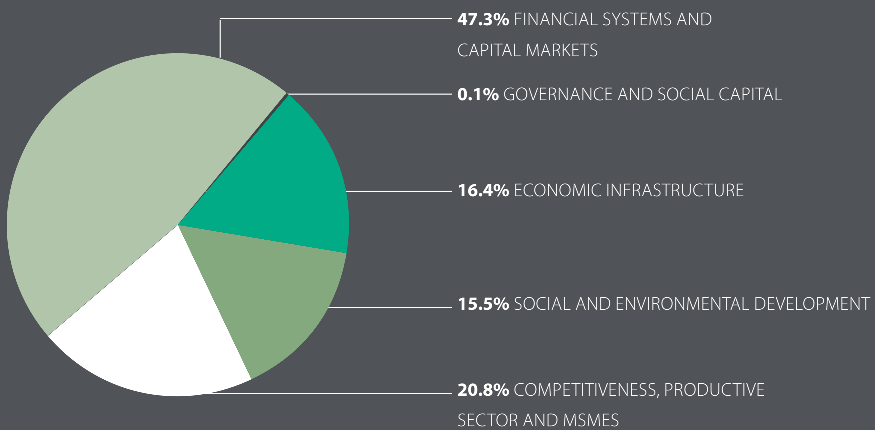
Corporate Loan

CLIENT: USINA CORURIPE AÇUCAR E ÁLCOOL

TOTAL AMOUNT: USD 60 MILLION | TERM: 8 YEARS

Objective: Expand production capacity at the Campo Florido mill and renovate sugarcane plantations.

Approvals by Strategic Area 2012



TOTAL: USD 1.9 billion

Uncommitted Revolving Credit Line

CLIENT: CONSTRUCTORA NORBERTO ODEBRECHT, S.A.

TOTAL AMOUNT: USD 200 MILLION | TERM: VARIOUS

Objective: Finance working capital to service the operative cycle, and issue partial guarantees of credit on top of surety bonds issued by the insurance carrier AIG.

Uncommitted Revolving Credit Line

CLIENT: BANCO BRADESCO, BANCO DO BRASIL, BANCO ITAÚ UNIBANCO, BANCO SANTANDER BANESPA, HSBC BRASIL

TOTAL AMOUNT: USD 900 MILLION | TERM: VARIOUS

Objective: Foreign trade operations, working capital and investments in capital goods

Capital Investment

CLIENT: DLM BRAZIL IT, FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES (FIP)

TOTAL AMOUNT: USD 10 MILLION | TERM: 7 YEARS

Objective: Encourage the creation and/or migration of technologies based on "Software as a service" in small and medium Brazilian technology companies.

Capital Investment

CLIENT: STRATUS CAPITAL PARTNERS, FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES (FIP)

TOTAL AMOUNT: USD 10 MILLION | TERM: 10 YEARS

Objective: Support medium-size Brazilian industrial companies.

Capital Investment

CLIENT: CAPITAL TECH II, FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES (FIP)

TOTAL AMOUNT: USD 8 MILLION | TERM: 8 YEARS

Objective: Capitalize on the economic potential in the information technology, health and biotechnology and clean technology sectors in the states of São Paulo and Rio de Janeiro, through investment in Brazilians SMEs that contribute innovative processes to the economic, social and technological development of Brazil.

Capital Investment

CLIENT: CVENTURES PRIMUS, FUNDO DE INVESTIMENTO EM EMPRESAS EMERGENTES INOVADORAS (FUND FOR INVESTMENTS IN EMERGING INNOVATIVE ENTERPRISES)

TOTAL AMOUNT: USD 4 MILLION | TERM: 10 YEARS

Objective: Financing Brazilian SMEs through equity investments in innovative enterprises.

Capital Investment

CLIENT: NASCENTI, FUNDO DE INVESTIMENTO EM EMPRESAS EMERGENTES INOVADORAS

TOTAL AMOUNT: USD 3.5 MILLION | TERM: 7 YEARS

Objective: Financing Brazilian SMEs through capital investments in innovative enterprises.

Other Operations with Cooperation Resources

VARIOUS CLIENTS

TOTAL AMOUNT: USD 1 MILLION | TERM: VARIOUS

Música para Crecer (Growing through Music) Program

Other Contributions to Brazil's Sustainable Development

Social Inclusion

- Support for the Maré Development Networks Association (Associação Redes de Desenvolvimento da Maré) for the completion of a census on the socioeconomic reality of the residents of the Maré community in the city of Rio de Janeiro. The emphasis is on identifying entrepreneurs as well as social, educational, economic, cultural, environmental and public security indicators for a Local Integrated Development Plan.
- Assistance to the Social Action Institute for Brazilian Music (ASMB) to train music teachers in Rio de Janeiro communities as a means of promoting social inclusion.
- Support for the creation of a post-graduate and doctoral course in Public Policy, Innovation and Development Policy at the Federal University of Rio de Janeiro (UFRJ), the National Institute of Science and Technology (INCT), in association with the Multidisciplinary Institute for Development and Strategies (MINDS).
- A framework cooperation agreement with the Foundation for Support of the University of São Paulo (FUSP), geared toward joint efforts for the development of courses, training and studies, as well as the promotion of sport as a tool of social preparation and inclusion.

Environment

- Support for the Program for Technical Training and Institutional Strengthening of Latin American Governments to monitor and control Amazon deforestation, through the National Institute for Space Research (INPE) and the Foundation for Space Science, Application and Technologies (FUNCATE).

Governance

- Support for the Sixth Meeting of the Brazilian Forum on Public Security, to foster debate on public safety, with an eye toward the 2014 World Cup and 2016 Olympics to be held in Brazil.
- To help strengthen public administration, CAF backed the "Metropolitan Dialogues" seminar in Rio de Janeiro on the legal and institutional framework of the metropolitan areas of Brazil's state capitals.

Competitiveness

- Support for Brazil's Ministry of Science and Technology which, together with the U.N.'s Economic Commission for Latin America and the Caribbean (ECLAC/CEPAL), conducts training on Innovation Policies for Science, Technology and Innovation Managers, in third countries. In this case, activities held in Bolivia, with the participation of more than 60 experts from the Bolivian government as well as professors and public policy formulators.
- Assistance to the "Brazil-China in Transition Seminar," organized by the Brazil-China Business Council, with the goal of encouraging the investment and trade atmosphere between the two countries.

SMEs and Microfinance

- Support for the 2012 ABVCAP Congress, to foster new business development opportunities and facilitate strategic alliances.
- Support for the Central Banks of Brazil's Fourth Seminar Forum on financial inclusion.
- Assistance to the ABCRED annual seminar "The role of microcredit institutions in the expansion and mass use of microcredit in Brazil."

Cooperation Agreements

- A framework cooperation agreement with the Roberto Marinho Foundation to support education, training and public awareness in matters of competitiveness, environmental sustainability and cultural identity.
- A framework cooperation agreement with the Federal Savings Banks (Caixa Econômica Federal, CEF) for joint efforts in education, sports, public security, the environment and health, among others, which seek sustainable development for the region's countries as well as the exchange of information and experiences.
- A framework cooperation agreement with the "Social Action for Music" institution to promote social inclusion and integration for at-risk children and youths through music.
- A framework cooperation agreement signed with the Oswaldo Cruz Foundation (FIOCRUZ) to expand information exchange on health and public policy, and to aid sustainable and inclusive development in the region's countries.
- A framework cooperation agreement with the Funding Authority for Studies and Projects (FINEP) to implement programs, projects and activities that foster innovation and technology in Brazil and CAF's member countries.

USD 1 million

Granted by CAF to Brazil in cooperation funds

Colombia

CAF approved operations totaling USD 841 million in 2012 through lines of credit, foreign trade initiatives, working capital financing and capital investments, all directed to the non-sovereign sector and to non-reimbursable cooperation.

Among the highlights were renewed credit lines for the development entities FINDETER and BANCOLDEX, for USD 250 million; renewed lines of credit of USD 550 million for the commercial banking system; and capital investments, with cooperation resources, of USD 1.5 million for Contactar, Banco de la Mujer de Popayán and Opportunity International.

Through the Territorial Entities Program (Cities with a Future), an analysis was prepared of eight medium-size cities and four provinces to identify development catalysts, as well as strategic projects for moving forward with each territorial entity in order to strengthen CAF's presence there. In particular, the analysis identified the need to guarantee the municipalities' budget autonomy as well as their debt capacity.

The Program of Support for Businesses of Exporting Excellence completed its first phase, promoting the growth of a group carefully selected from among small, medium and medium-large enterprises, currently exporters, in order to turn them into world-class companies.

Additionally, the Infrastructure for Climate Change Congress and the Cities and Climate Change Conference were organized and had large regional impact. CAF also approved LAIF (Latin American Investment Facility) technical cooperation resources to advance studies of Cali's green corridor. And it coordinated a study carried out by Fedesarrollo on transportation infrastructure for the Colombian Chamber of Infrastructure.

Colombia 2012 Figures (in millions of USD)

	2012	2008-2012
Approvals	**841**	**6,822**
Sovereign Risk	-	2,103
Non-sovereign Risk	841	4,719
Disbursements	**855**	**6,112**
Sovereign Risk	22	625
Non-sovereign Risk	833	5,487
Portfolio	**1,850**	
Sovereign Risk	1,084	
Non-sovereign Risk	766	

Modernization of the Eldorado International Airport that serves the city of Bogota

Approvals in Colombia

Uncommitted Revolving Credit Line

CLIENT: BANCO DE COMERCIO EXTERIOR DE COLOMBIA (COLOMBIAN FOREIGN TRADE BANK) - BANCOLDEX, CITIBANK COLOMBIA, BANCOLOMBIA, BANCOLOMBIA-PANAMA, BBVA COLOMBIA, BANCO CORPBANCA, FINANCIERA DE DESARROLLO TERRITORIAL (TERRITORIAL DEVELOPMENT FINANCIER) - FINDETER, BANCO DAVIVIENDA AND BANCO DE OCCIDENTE

TOTAL AMOUNT: **USD 800 MILLION** | TERM: **VARIOUS**

Objective: Finance foreign trade operations, working capital and investments in capital goods.

Uncommitted Revolving Credit Line

CLIENT: LEASING PERÚ

TOTAL AMOUNT: **USD 15 MILLION** | TERM: **VARIOUS**

Objective: Finance foreign trade operations, working capital and investments in capital goods.

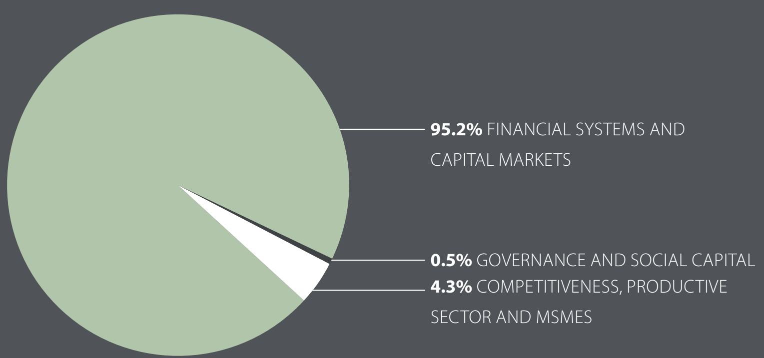
Uncommitted Revolving Credit Line

CLIENT: BANCO DE LAS MICROFINANZAS BANCAMÍA, S.A.

TOTAL AMOUNT: **USD 15 MILLION** | TERM: **VARIOUS**

Objective: Finance investment projects and working capital for the development of small and micro-businesses.

Approvals by strategic area **2012**



TOTAL: USD **841** million

Uncommitted Revolving Credit Line

CLIENT: OPPORTUNITY INTERNATIONAL, COLOMBIA, S.A.

TOTAL AMOUNT: USD 0.5 MILION | TERM: VARIOUS

Objective: Finance investment projects and working capital for the development of small and micro-enterprises.

Uncommitted Revolving Credit Line

CLIENT: FUNDACIÓN DE LA MUJER

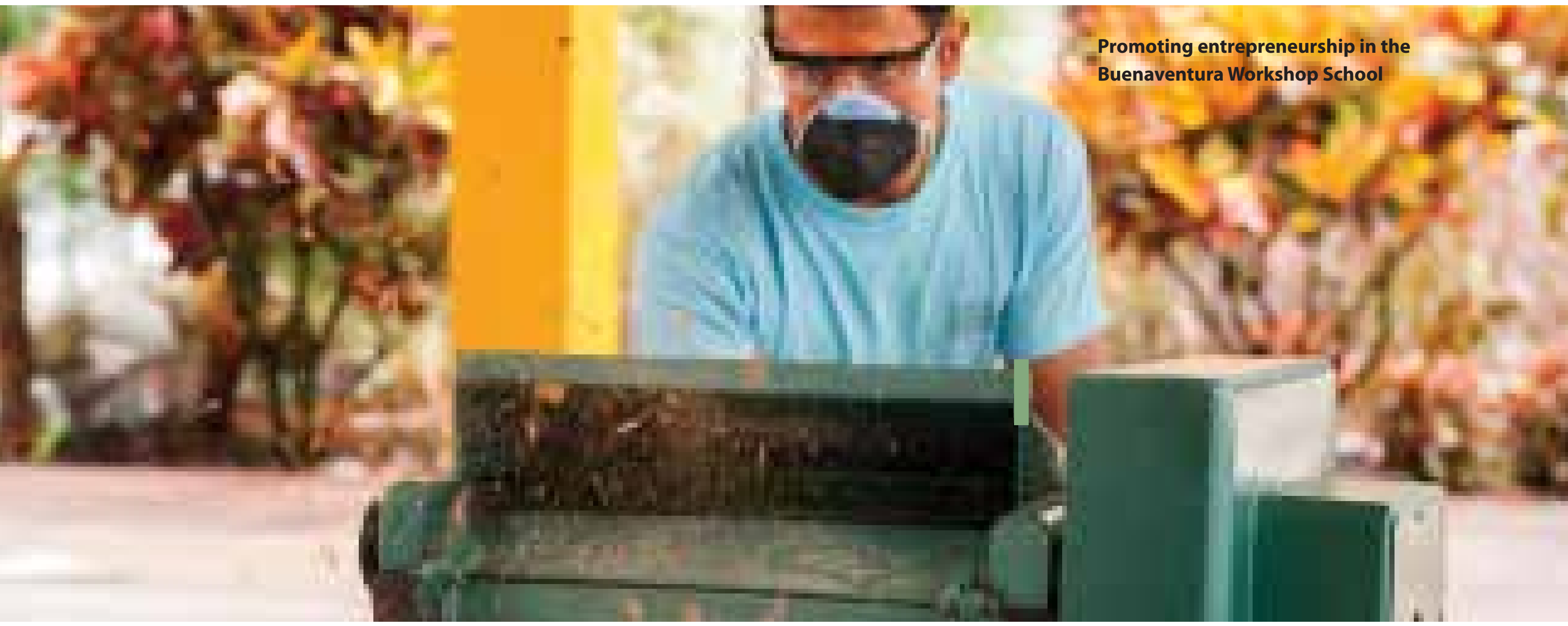
TOTAL AMOUNT: USD 6 MILLION | TERM: VARIOUS

Objective: Finance investment projects and working capital for the development of small and micro-enterprises.

Other Operations with Cooperation Resources

VARIOUS CLIENTS

TOTAL AMOUNT: USD 4.1 MILLION | TERM: VARIOUS



Promoting entrepreneurship in the Buenaventura Workshop School

Other Contributions to Colombia's Sustainable Development

Infrastructure

- Financing detailed Phase III engineering studies of the new Tienditas International Bridge over the Táchira River.
- Action plans to improve the bi-national Villa Silvania-Tienditas border pass and complementary studies of the new bridge over the Táchira River.
- Ongoing support for policies, plans and strategies for road safety.
- A program to improve prison and penitentiary capacity in Colombia.
- Assistance to the First National Urban Forum-Colombia: the Road to the Sixth Global Urban Forum.
- Support for supplementing the Master Plan for Mobility for the Barranquilla Metropolitan Area.
- Studies for the Bogotá Light Metro Network.
- Studies for road planning and toll highway demand estimation in Medellín and its metropolitan area.
- Support of the Ninth National Infrastructure Congress.
- Sponsorship of the "Capital markets and transportation infrastructure financing" seminar, which identified the challenges facing capital markets in financing the country's transportation infrastructure.

Integration

- Assistance to the Center for Strategic Thinking of the Colombian Foreign Relations Ministry.

Social Development

- Starting up effective management models and using sport as training tools for social prevention and rehabilitation.
- Implementation of the Integrated Training Program through Sport for the social preparation and inclusion of 1,500 children and adolescents in Buenaventura.
- Start-up of the Workshop School as a mechanism of social inclusion and formation of youths in Buenaventura, through technology transfer from the entrepreneurship model of Colombia.

Governance

- Support for Financial Superintendency to update the Corporate Government Country Code.
- Training 152 local public sector employees through the Governance and Policy Management Program.
- Completion of the Regional Program for Updating and Improvement of Local Management (Prameg) in the city governments of Cali and Cúcuta.
- Strengthening the intervention, management and execution strategy that Private Social Investment Management will implement in the National Agency for Overcoming Extreme Poverty.
- Designing a credit program for the technical and institutional strengthening of land registry in intermediate cities.

Environment

- Strengthening territorial capacity for municipal planning and adaptation to climate change scenarios in the middle and lower Magdalena-Cauca basin.
- Improving quality of life for 150 farming families located in moorland ecosystems, through self-management and preservation of environmental services, organic production and bio-commerce for export.
- Support for the development of the Course on Strategic Environmental Evaluation, focused on fostering technical abilities and improving processes for decision-making for the country's development.
- Through the Latin American Program for Carbon and Clean and Alternative Energy (PLAC+e), 550,000 tons of greenhouse gas emissions reductions were acquired, thanks to the structuring of carbon credits with the Doña Juana landfill. The Cormagdalena MDL program, which represents 1.2 million tons of captured CO2 in the Alto Magdalena, also moved ahead. Finally, the Barranquilla Transmetro and Cali MIO rapid transit systems were included in the U.N.'s Clean Development Mechanism (CDM) register.

Competitiveness

- Assistance extended to the Foreign Trade Ministry to hold the Sixth Competitiveness of the Americas Forum.
- Support for the Chamber of Commerce of Barranquilla to hold the "Expo-Management Caribbean" Seminar.
- Strengthening the National Competitiveness System through the new National Competitiveness Agenda and the Regional Competitiveness Plans.
- Supporting the development of the National Congress of Confecámaras (Confederation of Chambers of Commerce).
- Competitive development of strategic cluster value chains in Barranquilla.
- Development of Stage II of the Program for Businesses of Export Excellence.
- Support for the 24th National Congress of Exporters: "Free Trade Accord of Business Agreements."

SMEs and Microfinance

- Celebration of the Third Microfinance Industry Congress in Colombia.
- Assistance to the Education Ministry and the Banking Association (ABC) for articulating financial education and formal education for financial inclusion.
- Sponsorship of the "Tenth Meeting of the International Financial Education Network (EF) of the Organization for Economic Cooperation and Development (OECD)," held by the OECD and Fogafin.
- Support for the Ministry of Agriculture and Rural Development, together with USAID, in evaluating Colombia's system of agriculture and livestock financing.
- Holding the Forum on SME Access to Equity Markets in the Mercado Iberoamericano.
- Structuring the microfinance sector strategy, taking into account credit products, guarantees and investments of capital and technical cooperation.

USD **4.1** million

Granted by CAF to Colombia in cooperation funds.

Ecuador

In 2012, CAF approved operations for Ecuador totaling USD 766 million, of which 66% (USD 502 million) involved sovereign risk transactions, and 34% (USD 264 million) involved non-sovereign risk and non-reimbursable cooperation, meant to contribute to high-impact social and productive initiatives, as well as strengthening the country's financial system.

Among the highlights of the year's approvals were support for the country's transportation infrastructure through projects such as: the Route for Integration of the Valleys Project (Live Route) of the Metropolitan District of Quito, Phase II that will result in better traffic flow to the New Quito International Airport, or NAIQ (USD 100 million); the first Quito Metro line, a fundamental axis for the improvement of mobility in the city's metropolitan district within the mass transit network, which will benefit quality of life (USD 150 million); the Airport Improvement Program (USD 31 million); the second phase of the Road Works Program in densely populated peripheral and low-income areas of Guayaquil (USD 46 million); and the Program of Support for Public Investment in Road Infrastructure (USD 75 million).

With these projects and programs, CAF continues to be a key player in the process of Ecuador's modernization, transformation and development, serving priority needs for the most vulnerable sectors of the country.

Additionally in 2012, in the corporate and private financial institution sphere, USD 26 million was approved for Cementos Lafarge, under the "mechanism of commitment to future purchase." This serves as catalyst and complement to the Ecuadorean financial system, with the aim of carrying out projects that require longer terms than what traditional banking will finance.

To assist the private banking system, a subordinated loan was approved for Banco del Pichincha for USD 10 million, which should strengthen this financial institution's assets.

Also, guarantees were approved for foreign trade transactions, and food processor Procesadora Nacional de Alimentos C.A. (PRONACA) was chosen as the first client to take advantage of this financial mechanism.

Ecuador 2012 Figures (in millions of USD)

	2012	2008-2012
Approvals	**766**	**3,915**
Sovereign Risk	502	2,742
Non-sovereign Risk	264	1,173
Disbursements	**736**	**2,757**
Sovereign Risk	367	1,645
Non-sovereign Risk	369	1,112
Portfolio	**2,649**	
Sovereign Risk	2,529	
Non-sovereign Risk	120	

Reorganization of the Ecuadorean long-line fishing fleet and adoption of best fishing practices

Approvals in Ecuador

Route for Integration of the Valleys Project (Live Route) of the Metropolitan District of Quito, Phase II

CLIENT/EXECUTOR: MUNICIPALITY OF THE METROPOLITAN DISTRICT OF QUITO/EMPRESA PÚBLICA METROPOLITANA DE MOVILIDAD Y OBRAS PÚBLICAS (TRANSPORTATION AND PUBLIC WORKS)

TOTAL AMOUNT: **USD 100 MILLION** | TERM: **15 YEARS**

Objective: Provide an access route for residents in the valleys of Tumbaco and Cumbayá and NAIQ users.

First Quito Metro Line Project

CLIENT/EXECUTOR: REPUBLIC OF ECUADOR/ MUNICIPALITY OF THE METROPOLITAN DISTRICT OF QUITO

TOTAL AMOUNT: **USD 150 MILLION** | TERM: **15 YEARS**

Objective: Support the construction of a safe, economical, fast and ecologically sustainable system to serve as a structural axis for the city's Integrated Mass Transit System and to improve mobility in the Metropolitan District of Quito.

Airport Improvement Program

CLIENT/EXECUTOR: REPUBLIC OF ECUADOR/MINISTRY OF TRANSPORTATION AND PUBLIC WORKS

TOTAL AMOUNT: **USD 31 MILLION** | TERM: **12 YEARS**

Objective: Optimize current operating conditions at airports run by the General Directorate of Civil Aviation, to provide better service to users, under adequate conditions of safety and comfort, and guarantee the population's connectivity in five zones of the country.

Road Works Program in Densely Populated Zones of Guayaquil, Phase II

CLIENT/EXECUTOR: REPUBLIC OF ECUADOR/ MUNICIPALITY OF GUAYQUIL

TOTAL AMOUNT: **USD 46 MILLION** | TERM: **10 YEARS**

Objective: Improve quality of life in the most low-income sectors of Guayaquil, providing quality public infrastructure through improved access to homes, places of work and business as well as public services.

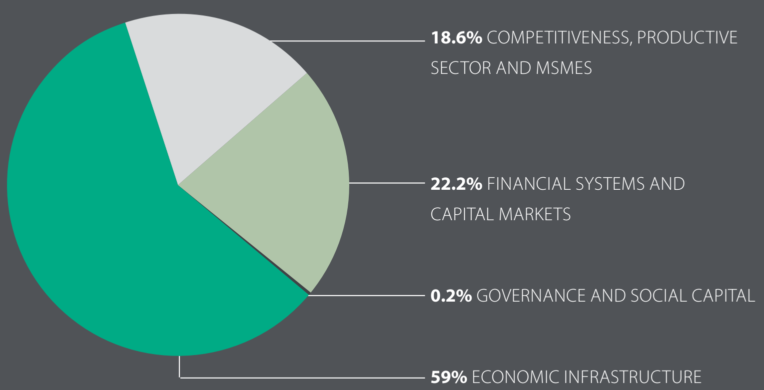
Program of Support for Public Investment in Road Infrastructure-Sector Wide Approach Loan

CLIENT/EXECUTOR: REPUBLIC OF ECUADOR/FINANCE MINISTRY

TOTAL AMOUNT: **USD 75 MILLION** | TERM: **12 YEARS**

Objective: Support public investment in preserving and maintaining the country's road network.

Approvals by strategic area **2012**



TOTAL: USD 766million

Corporate Loan
CLIENT: ALPINA PRODUCTOS ALIMENTICIOS (FOOD PRODUCTS) –ALPIECUADOR

TOTAL AMOUNT: USD 6.6 MILLION | TERM: 6 YEARS

Objective: Restructure financial liabilities originating from the purchase of fixed assets.

Corporate Loan
CLIENT: HIDRO SANBARTOLO S.A.

TOTAL AMOUNT: USD 25 MILLION | TERM: 10 YEARS

Objective: Support the country's energy development through the construction of a hydroelectric plant for the production of economical and non-polluting energy.

Commitment to Future Purchase
CLIENT: LAFARGE CEMENTOS, S.A.

TOTAL AMOUNT: USD 26 MILLION | TERM: N/A

Objective: Allow the commercial banking system grant loans of longer-than-usual terms, mitigating the risk of mismatch.

Uncommitted Revolving Credit Line
CLIENT: REPUBLIC OF ECUADOR/NATIONAL FINANCIAL CORPORATION (CFN)

TOTAL AMOUNT: USD 100 MILLION | TERM: VARIOUS

Objective: Finance foreign trade operations, working capital and capital goods investments.

Uncommitted Revolving Credit Line
CLIENT: PROCESADORA NACIONAL DE ALIMENTOS C.A. - PRONACA

TOTAL AMOUNT: USD 10 MILLION | TERM: VARIOUS

Objective: Finance foreign trade operations, working capital and capital goods investments.

Uncommitted Revolving Credit Line
CLIENT: OTECEL

TOTAL AMOUNT: USD 25 MILLION | TERM: VARIOUS

Objective: Finance foreign trade operations, working capital and capital goods investments.

Uncommitted Revolving Credit Line
CLIENT: BANCO BOLIVARIANO, BANCO DE GUAYAQUIL, BANCO DE LA PRODUCCIÓN - PRODUBANCO, BANCO INTERNACIONAL, BANCO DEL PICHINCHA AND BANCO PROCREDIT

TOTAL AMOUNT: USD 170 MILLION | TERM: VARIOUS

Objective: Finance foreign trade operations, working capital and capital goods investments.

Other Operations with Cooperation Resources
VARIOUS CLIENTS

TOTAL AMOUNT: USD 1.4 MILLION | TERM: VARIOUS

The Productive Job Placement Program seeks to improve income-generating skills

Other contributions to Ecuador's sustainable development

Infrastructure

- Continued support for expansion of Ecuador's road network, road access to the NAIQ, infrastructure for marginalized zones en Guayaquil and modernization of airports. These projects should help to satisfy the population's needs and their quality of life.

Social Development

- The culmination of studies for the development of social and productive infrastructure projects in the city and province of Esmeraldas.
- Training 227 primary school teachers, from public and private schools, through the Learning Skills Program.

Social Sustainability

- Together with the Working Child Center, the "Productive Job Placement Program" was approved through technical cooperation that seeks to improve income-generating skills for 320 socially marginalized youths and their families in Quito, via an integrated training program for carpentry and confectionary work.
- Together with the Fundación Humana Pueblo a Pueblo (People to People), an operation was approved to develop the "Colta Farmers Club." This project seeks to improve incomes for 300 families through the implementation of the "farmers clubs" methodology in the municipality of Colta and Chimborazo Province.

Environment

- Feasibility study on the transformation, reorganization and adoption of best practices for the Ecuadorean long-line fishing fleet, to be completed with the World Wildlife Fund, the world's largest independent conservation organization.
- Completion of the project to strengthen the Environmental Management System (SMA) of the Procredit S.A. bank in Ecuador.
- Strengthening the institutional capacity of Ecuador's Environment Ministry.
- Holding the workshop seminar "New Sustainable Financing Alternatives in Ecuador and the Region: A Focus on Emerging Markets."

Governance

- An agreement, for the eleventh consecutive year, with the Universidad Católica Santiago de Guayaquil for the Governance and Policy Management Program, to train more than 200 participants from different provinces of the country.

- The Leadership for Transformation Program, now in its sixth edition, in alliance with the Escuela Superior Politécnica del Litoral. Participating were more than 500 citizens from seven strategic cities around the country: Azogues, Esmeraldas, Guayaquil, Portoviejo, Quevedo, Riobamba and Zamora.

- To increase the public sector's institutional strength, assistance was offered to the Otavalo municipality in an analysis of municipal administration and management, as well as land registry and territorial information-gathering by districts.

- Supporting the Ibarra municipality in the implementation of a single-window trade assistance system.

Competitiveness

- Continued support to the Fundación RUNA in its effort to improve guayusa leaf productivity in the Napo and Pastaza provinces. The initiative has produced important results in improving income and quality of life for producers. It has also launched the export of guayusa and processed guayusa products.

- Expansion of the project to strengthen productive capacity, processing and marketing of Andean grains and cereals, leading to an important increase in household incomes for more than 1,000 producers in southern Ecuador, as well as the export of quinoa and its finished products.

- Signing of an agreement to promote business development in the city of Cuenca and the Azuay region, focused on strengthening local productive capacity of wood furniture and electrical appliance chains, improving the business climate and developing public policies of support for the city's productive sectors.

- Start-up of the productive development project for the dairy chain in Carchi Province, in partnership with the Fundación Alpina and the provincial government. The initiative has produced quality–of-life benefits for the 900 families of the region's small and medium producers, as well as increased productivity and improved quality of milk and its other dairy products.

- A workshop on good corporate governance practices for public and private enterprises, with the participation of the Quito Stock Market (Bolsa de Valores) and four public enterprises that have been strengthened thanks to CAF cooperation.

- Start of a project to design a financing scheme for supply chains, in alliance with Fundación CODESPA. The project involves the development of operational mechanisms for a potential financing vehicle and the rating of supply chains and financial institutions that might be included in the financing scheme.

SMEs and Microfinance

- Support for the 12th Microfinance Forum organized by the Rural Financial Network. This event, held in the city of Manta, provided a space to discuss microfinance promotion and development matters for the region.

USD **1.4** million

Granted by CAF to Ecuador in cooperation funds.

Panama

In 2012, CAF approved operations for Panama totaling USD 328 million, of which USD 276 involved sovereign risk transactions and USD 52 million involved non-sovereign risk and non-reimbursable cooperation, meant to contribute to high-impact social and productive initiatives, and to strengthen the country's financial system.

Among the most significant operations approved in 2012 were USD 100 million granted to the country's transportation infrastructure, through the second phase of the Panama Metro Project, a starting point for a future mass transit network to serve the Panama City metropolitan area. By supporting the project, CAF continued to establish itself as a key player in this country's ambitious process of modernization, transformation and development. Additionally, CAF channeled USD 176 million to the social sector through the second phase of the Panama City and Bay Sanitation Project, with the goal of financing construction of the second module for its wastewater treatment plant.

Both projects contribute in a significant way to government efforts to improve living conditions and spur economic, social and productive growth.

A total of USD 52 million was also approved through revolving lines of credit to various financial institutions in Panama, for initiatives of high socio-productive impact, through the financing of foreign trade operations, working capital and capital investments.

Panama Figures 2012 (in millions of USD)

	2012	2008-2012
Approvals	**328**	**1,991**
Sovereign Risk	276	1,355
Non-sovereign Risk	52	636
Disbursements	**256**	**479**
Sovereign Risk	224	404
Non-sovereign Risk	32	75
Portfolio	**479**	
Sovereign Risk	431	
Non-sovereign Risk	48	

The Panama Metro will be a modernization milestone for the city

Approvals in Panama

Panama Metro Project - Phase 2

CLIENT/EXECUTOR: REPUBLIC OF PANAMA/PANAMA METRO SECRETARIAT

TOTAL AMOUNT: USD 100 MILLION | TERM: 16 YEARS

Objective: Finance the construction of the city's first metro line, increase public transportation use and generate a reorganization of vehicular flow.

Panama City and Bay Sanitation Project - Phase 2

CLIENT/EXECUTOR: REPUBLIC OF PANAMA/HEALTH MINISTRY

TOTAL AMOUNT: USD 176 MILLION | TERM: 16 YEARS

Objective: Improve sanitary conditions and reduce contamination of urban rivers in the Panama City metropolitan area.

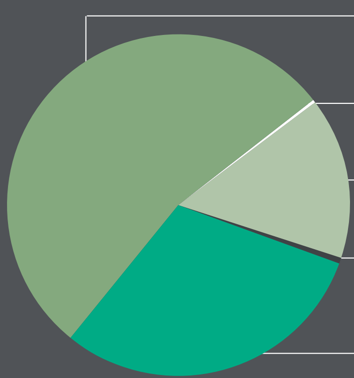
Uncommitted Revolving Credit Line

CLIENT: BBVA PANAMÁ, GLOBAL BANK CORPORATION AND MULTIBANK

TOTAL AMOUNT: USD 50 MILLION | TERM: VARIOUS

Objective: Finance foreign trade, working capital and capital goods investments.

Approvals by Strategic Area **2012**



TOTAL: USD 328 million

Uncommitted Revolving Credit Line
CLIENT: BANCO DELTA S.A.

TOTAL AMOUNT: USD 1 MILLION | TERM: VARIOUS

Objective: Finance small and microbusiness activities in Panama.

Other Operations with Cooperation Resources
VARIOUS CLIENTS

TOTAL AMOUNT: USD 1.2 MILLION | TERM: VARIOUS

Professional Qualification Program CREER, in alliance with Odebrecht in Panama

Other Contributions to Panama's Sustainable Development

Social Development	• Learning Skills Program, in alliance with IUGT Internacional, conducted in Panama City. In 2012, 220 primary school teachers. from public and private schools were trained.	
Social Sustainability	• For International Human Rights Day, for the second consecutive year, a concert was given by the Youth Symphony Orchestra from the National Culture Institute (INAC) with the participation of 140 members from Panama's different provinces. It was performed as part of the Música para Crecer (Growing Through Music).	• Start of the SOMOS Program that supports technology transfer and the start-up of an integrated training system through sport for the social preparation and inclusion of 1,200 children and adolescents.
Environment	• Support for the program of courses and degrees at the Ciudad del Saber (City of Knowledge), specifically basic technical-environmental activity as a tool of knowledge-building about the process of environmental analysis.	• Financing of a mangrove park on the grounds of the Panama Bay and Panama City water treatment plant, as part of a water clean-up project.

Competitiveness

- The Seventh Competitiveness Forum, held annually in the National Competitiveness Center. The event serves as a platform for discussion, analysis and consensus-building in Panama's public and private sectors. Its goal is to identify obstacles that limit competitiveness and to set forth a plan of action to overcome them.
- Support for Expocomer 2012, which featured a forum/workshop called "Panama Challenges and Opportunities, in search of a common development agenda," aimed at evaluating the effects of the region's economic and financial crisis.
- Contribution to the Free Trade Agreements-TPC Panama and the United States forum.
- Support for the Development Opportunities TIC project for Panama's logistics sector, requested by the Ministry of Commerce and Industry with the support of the Panamanian Technologies Chamber (CAPATEC). It will identify and promote business opportunities for Panamanian technological goods and services destined for the international logistics sector.
- Assistance to the Governmental Innovation Authority through a consultancy for Improving Technical Infrastructure for Competitiveness.
- The Innovators of America contest, which fosters innovation in the fields of social entrepreneurial, cultural and scientific development.
- Panama Entrepreneur Forum: "The Role of Public Policies and Innovation," held in May in the City of Knowledge with the support of MSMEs and the U.N. Conference on Trade and Development (UNCTAD).

Governance

- The Governance and Management Policy Program, in alliance with the University of Panama, George Washington University and other colleges from countries that have been CAF members since 2001. In 2012, 150 public sector employees were trained.
- Continued support for Panama's Commerce and Industry Ministry for the analysis and implementation of the new Business Restructuring Regimen.
- Support for the Leadership for Transformation Program, carried out with IUGT Internacional, which strengthens countries' governance. In its third year, it graduated 600 people from four provinces and 147 towns.

SMEs and Microfinance

- Assistance to the Stock-Market Seminar BOLCEN, held by the Panama Stock Market.

USD **1.2** million

Granted by CAF to Panama in cooperation funds.

Paraguay

In 2012, CAF approved operations for Paraguay totaling USD 189 million, of which 40% (USD 75 million) involved sovereign risk transactions and 60% (USD 114 million) involved non-sovereign risk and non-reimbursable cooperation.

After completing the necessary procedures for Paraguay's incorporation as a full CAF member, the next step in securing the Institution's presence in that country was opening the CAF office in Asunción in 2012 to offer greater outreach.

In the sovereign sphere, CAF directed resources to the Treasury Ministry to help the Paraguayan government complete public policy objectives drawn up in the Strategic Economic and Social Plan 2008-2013.

In the non-sovereign sphere, CAF maintained increasing participation in the corporate sector with the approval of two loans for a total of USD 83 million.

The first went to P&O Maritime Holdings S.A. for USD 33 million, to finance two barges to transport iron ore on the Paraná River. The second, for USD 50 million with co-financing from the Inter-American Development Bank, went to Yguazú Cementos S.A. for construction of a cement production plant.

Through the financial and microfinance sector, CAF also granted lines of credit to different banks and financial groups for a total of USD 30 million, to finance MSMEs in investment projects, foreign trade operations and working capital in order to respond in a timely manner to the country's favorable economic growth.

Paraguay Figures 2012 (in millions of USD)

	2012	2008-2012
Approvals	**189**	**457**
Sovereign Risk	75	235
Non-sovereign Risk	114	222
Disbursements	**47**	**152**
Sovereign Risk	4	98
Non-sovereign Risk	43	54
Portfolio	**135**	
Sovereign Risk	89	
Non-sovereign Risk	46	

Financing barges to transport iron ore on the Parana River

Approvals in Paraguay

Programmatic Loan of Support for the Strategic Economic and Social Plan 2008-2013

CLIENT/EXECUTOR: REPUBLIC OF PARAGUAY/ TREASURY MINISTRY

TOTAL AMOUNT: USD 75 MILLION | TERM: 12 YEARS

Objective: Strengthen tracking of the Government's macroeconomic and financial management, improve the planning process and support public sector decentralization.

Corporate Loan

CLIENT: P&O MARITIME HOLDING S.A.

TOTAL AMOUNT: USD 33 MILLION | TERM: 10 YEARS

Objective: Partially finance investment in two barges for transporting iron ore on the waterways of the Paraná and Paraguay Rivers.

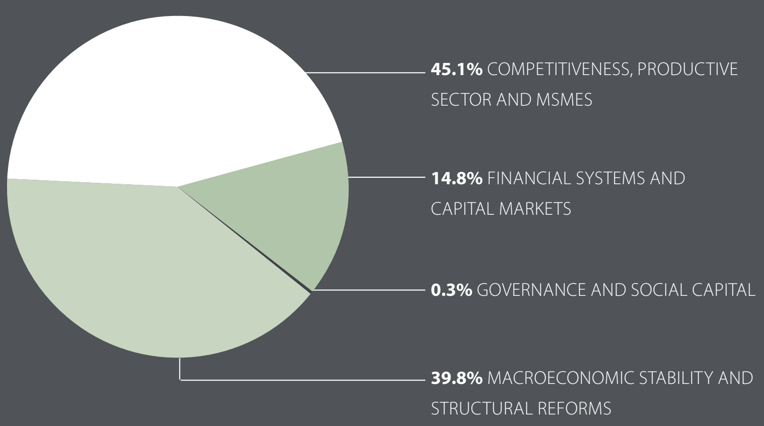
Corporate Loan

CLIENT: YGUAZÚ CEMENTOS S.A.

TOTAL AMOUNT: USD 50 MILLION | TERM: 9 YEARS

Objective: Partially finance the construction of a cement production plant.

Approvals by strategic area **2012**



TOTAL: USD 189 million

Uncommitted Revolving Credit Line
CLIENT: BANCO REGIONAL, VISIÓN BANCO, BANCO AMAMBAY AND BANCO CONTINENTAL

TOTAL AMOUNT: USD 28 MILLION | TERM: VARIOUS

Objective: Finance MSMEs in investment projects, foreign trade operations and working capital.

Uncommitted Revolving Credit Line
CLIENT: GRUPO INTERNACIONAL DE FINANZAS - INTERFISA FINANCIERA

TOTAL AMOUNT: USD 2 MILLION | TERM: VARIOUS

Objective: Finance Paraguayan MSMEs.

Other Operations with Cooperation Resources
VARIOUS CLIENTS

TOTAL AMOUNT: USD 0.6 MILLION | TERM: VARIOUS

Support for early education in the border region of Chaco

Other Contributions to Paraguay's Sustainable Development

- The Institution helped the Ministry of Public Works and Communications design a Rehabilitation and Maintenance Program for Route No. 9 and access roads, which will keep the roadway in good condition. This operation seeks to solve a problem that has arisen on the principal highway of the country's western region, which currently affects transportation and logistics tied to the cattle industry and related products, as well as integration with Bolivia and Argentina.

- Technical cooperation for the Treasury Ministry to strengthen the guarantee fund for MSMEs. This operation was framed within the CAF strategy for promoting financial inclusion, the financing of investment in SMEs, and the formalization of public policies alongside promotion of financial regulation. The project achieves synergies with the working guideline of a guarantees scheme contained in the Financial Regulation program, and it coincides with development of the Mercosur retro-guarantees scheme.

- Within the framework of CAF's Música para Crecer (Growing Through Music) program, a strategic alliance agreement was signed with the Fundación Mangoreum S.A., in collaboration with the Education and Culture Ministry, whose purpose is developing social, cultural, educational activities, including those aimed at the musical training of children and adolescents, and promote social integration and access to culture.

USD **0.6** million

Granted by CAF to Paraguay in cooperation funds.

Peru

In 2012, CAF approved operations for Peru totaling USD 1.7 billion, of which 76% (USD 1.3 billion) involved non-sovereign risk transactions and non-reimbursable cooperation, and 24% (USD 416 million) involved sovereign risk.

In the sovereign sector, CAF steered USD 16 million to the second stage of the Program to Strengthen Social and Environmental Management of the Indirect Impacts of the Southern Interoceanic Road Corridor. Its goal is to bolster management of the conservation and sustainable use of Andean-Amazon ecosystems in the influence zone of this highway axis.

The Contingent Credit Line for USD 400 million to aid the Republic of Peru's debt management strategy efforts was renewed. This preventive standby financing instrument provides financial resources in case the conditions for accessing international capital markets conflict with the goals of public debt strategy or the country's fiscal and monetary management.

CAF maintained an important presence in the non-sovereign corporate sector by approving USD 200 million in lines of credit for working capital to important businesses such as Relapasa, Petroperú and Graña y Montero. As for structured financing, one highlight was a loan for the electrical utility Empresa de Generación Eléctrica de Junín S.A.C., whose goal is to build a transmission line and two hydroelectric plants of 39 megawatts in Junín province. Also important is CAF's participation as an equity investor in the Tacna and Panamericana solar projects, with total capacity of 40 MW.

CAF has maintained its support for the development of the financial system through financing of foreign trade and working capital, with approvals for USD 660 million, which represents 38% of the year's approvals. USD 385 million was also approved for capital investments and to renew credit lines for COFIDE.

To finance institutions specializing in microfinance, CAF approved USD 47 million, which accounts for 2.7% of total approvals. Those resources expanded access to financial services directed at both the microenterprise sector and disadvantaged segments of the population.

Peru Figures 2012 (in millions of USD)

	2012	2008-2012
Approvals	**1,749**	**9,372**
Sovereign Risk	416	3,627
Non-sovereign Risk	1,333	5,745
Disbursements	**618**	**6,597**
Sovereign Risk	156	1,769
Non-sovereign Risk	462	4,828
Portfolio	**2,670**	
Sovereign Risk	1,895	
Non-sovereign Risk	775	

Support for the energy agenda. Ethanol plant located in the Piura region

Approvals in Peru

Program to Strengthen the Environmental and Social Management of the Indirect Impacts of the Southern Interoceanic Road Corridor - Stage II

CLIENT/EXECUTOR: REPUBLIC OF PERU/MINISTRY OF THE ENVIRONMENT

TOTAL AMOUNT: USD 16 MILLION | TERM: 8 YEARS

Objective: Strengthen the competitiveness of environmentally sustainable productive systems related to local economic activities.

Uncommitted Revolving Credit Line

CLIENT: REFINERÍA LA PAMPILLA S.A.A. (FUEL REFINERY)

TOTAL AMOUNT: USD 50 MILLION | TERM: VARIOUS

Objective: Finance foreign trade operations, working capital and capital goods investments.

Uncommitted Revolving Credit Line

CLIENT: GRAÑA Y MONTERO (CONSTRUCTION)

TOTAL AMOUNT: USD 75 MILLION | TERM: VARIOUS

Objective: Issue letters of guarantee (avals), including bridge loans.

Uncommitted Revolving Credit Line

CLIENT: PETRÓLEOS DEL PERÚ - PETROPERÚ S.A

TOTAL AMOUNT: USD 75 MILLION | TERM: VARIOUS

Objective: Finance foreign trade operations, working capital and capital goods investments.

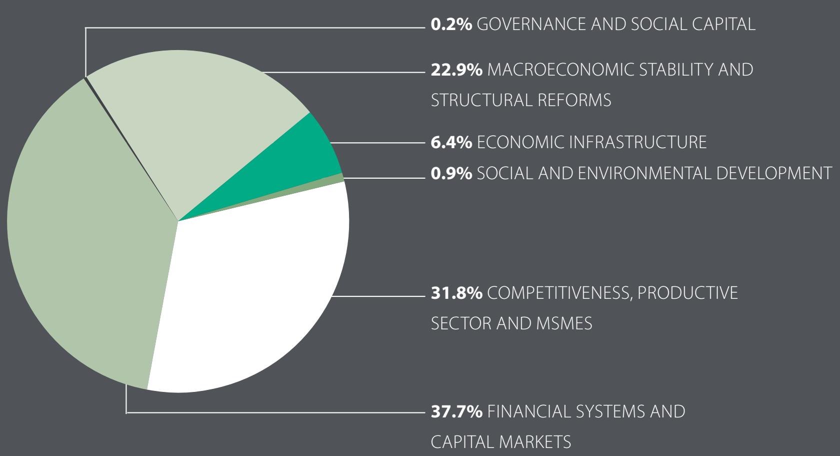
Corporate Loan

CLIENT: EMPRESA DE GENERACIÓN ELÉCTRICA DE JUNÍN S.A.C.

TOTAL AMOUNT: USD 23 MILLION | TERM: 15 YEARS

Objective: Expand the energy matrix through the use of renewable energy resources.

Approvals by strategic area **2012**



TOTAL: USD **1.7** billion

Capital Investment

CLIENT: PROYECTOS SOLARES T&P

TOTAL AMOUNT: USD 6 MILLION | TERM: 20 YEARS

Objective: Investments in electrical energy projects.

Corporate Loan

CLIENT: GRUPO ENERGÉTICO, S.A.

TOTAL AMOUNT: USD 8 MILLION | TERM: 10 YEARS

Objective: Construction of a mini hydroelectric plant.

Uncommitted Revolving Credit Line

CLIENT: BANCO DEL CRÉDITO DEL PERÚ, BANCO INTERAMERICANO DE FINANZAS, BBVA BANCO CONTINENTAL, BANCO INTERNACIONAL DEL PERÚ - INTERBANK AND SCOTIABANK PERÚ

TOTAL AMOUNT: USD 660 MILLION | TERM: VARIOUS

Objective: Finance foreign trade operations, working capital and capital goods investments.

Uncommitted Revolving Credit Line/ Capital Investment

CLIENT: CORPORACIÓN FINANCIERA DE DESARROLLO - COFIDE

TOTAL AMOUNT: USD 385 MILLION | TERM: VARIOUS

Objective: Finance foreign trade operations, working capital and capital goods investments.

Uncommitted Revolving Credit Line

CLIENT: FINANCIERA CRÉDITOS AREQUIPA, EDPYME NUEVA VISIÓN, MIBANCO - BANCO DE LA MICROEMPRESA, CAJA MUNICIPAL DE AHORRO Y CRÉDITO AREQUIPA, CAJA MUNICIPAL DE AHORRO Y CRÉDITO TACNA, FINANCIERA EDYFICAR Y CAJA RURAL DE AHORRO Y CRÉDITO NUESTRA GENTE

TOTAL AMOUNT: USD 47 MILLION | TERM: VARIOUS

Objective: Finance trade, working capital and investment projects in MSMEs.

Contingent Credit Line

CLIENT/EXECUTOR: REPUBLIC OF PERU/ECONOMY AND FINANCE MINISTRY

TOTAL AMOUNT: USD 400 MILLION | TERM: VARIOUS

Objective: Back the National Government's public debt strategy through a preventive financing instrument.

Other Operations with Cooperation Resources

VARIOUS CLIENTS

TOTAL AMOUNT: USD 4.1 MILLION | TERM: VARIOUS

Tacna and Panamericana solar projects with total capacity of 40 MW

Other Contributions to Peru's Sustainable Development

Infrastructure

- Assistance to the Provincial Municipality of Trujillo in the design and implementation of an integrated urban transit system in the city of Trujillo.
- Initial support for medium-size cities, such as Piura and Cajamarca, which are in the process of urban expansion and are experiencing territorial imbalances and problems in their transit and transportation systems.
- Support for the validation of public transit demand along the main corridor of the BRT-Arequipa project and recommendations for justifying public transportation routes.
- Assistance to the Ministry of Transportation and Communications in the review of its structure and internal operations.
- Sponsorship of the international seminar "New focuses for the establishment of transit systems in the cities of Lima and Callao."
- Assistance to the Ministry of Energy and Mines in updating Peru's hydroelectric potential.

Social Development

- Backing the central Government in the preparation and execution of a rural poverty reduction strategy in the sierras of Peru.
- Sponsorship of the Third Inter-American Forum on the City and Financing of Residential Real Estate: city, housing and urban land.
- Support for the Report on Human Development Peru 2012 from the U.N. Development Program.

Environment

- Support for the Protected Natural Areas Service (SERNANP) to finance the promotion of organic products from natural areas protected by the State and its buffer zones.
- Assistance for carrying out the "Facilitation of financing for businesses based on biodiversity and support for the development of market activities in the Andean region" project, to foster development of biodiversity markets and genetic resources, together with the Global Environment Fund (GEF) and the U.N. Environment Program (UNEP).

Governance

- Support for the Pontificia Universidad Católica del Perú (Pontifical Catholic University of Peru) and the Universidad de San Martín de Porres (USMP) for a new edition of the Governance and Policy Management Program. In 2012, 462 participants were trained.
- The Leadership for Transformation Program, part of the initiative to strengthen democratic culture and governance in the country, in alliance with the Government Institute at the USMP. A total of 612 natural leaders were trained in 2012.
- Assistance to the Foreign Relations Ministry for a roundtable debate on the establishment of the Center for Democracy Studies in South American countries.
- The Regional Program for Updating and Improving Local Management (Prameg). The city governments of La Victoria and Ate, in Lima province, were selected to take part in implementing a pilot plan.

Competitiveness

- Assistance to the Superintendent of the Stock Market (SMV) to update good corporate governance practices for Peruvian companies.
- Support for the 2012 edition of the Business Plan Competition (BiD Challenge), and financing of "Enterprise Now," an educational program that provides scholarships to students, mostly from the provinces, for training in entrepreneurship, democracy and market economy.
- Support for the project of the Secretariat General of the Andean Community titled "Realization of the Andean entrepreneurial encounter and joint Andean participation in the food fair for the Chinese market."
- Assistance to the Secretariat General of the Andean Community for the preparation of the "Study of Tracking Indicators in the formal economy of the Andean Community countries for the application of public policy."
- Support for the Annual Conference of Education Executives.
- The 16th International Symposium of the Universidad del Pacífico and the Centro de Estudios Internacionales and the 10th Hemispheric Meeting of International Councils.

Financial Sector

- Support for strengthening Municipal Funds that offer savings products to low-income populations in rural zones.

SMEs and Microfinance

- Assisting with the training seminar "Internationalization policy for SMEs via a collaborative cluster strategy."
- Support for the preparation of the Microfinance in Peru report.

USD **4.1** million

Granted by CAF to Peru in cooperation funds.

Uruguay

In 2012, CAF approved operations for Uruguay totaling USD 729 million, of which 96% (USD 700 million) involved sovereign risk transactions and 4% (USD 29 million) involved non-sovereign risk and non-reimbursable cooperation.

Support for a policy of diversifying Uruguay's energy matrix –through the signing of an agreement to build a combined-cycle power generation plant and approval of a program to strengthen Uruguay's electrical sector– was a significant development in 2012. The USD 200 million financing successfully completed aid to the Uruguayan electrical sector with an integrated focus, bringing together power generation, distribution and transmission.

In terms of social and environmental development, USD 100 million was approved for the Potable Water and Sanitation Improvement and Rehabilitation Program, aimed at improving Uruguayans' quality of life through sustainable expansion and enhancement of water delivery, quality, efficiency and reliability. This operation includes an institutional fortification component for the company in charge of providing the water services.

A USD 400 million Contingent Credit Line was also renewed for the Eastern Republic of Uruguay (Uruguay's official name) so the State can maintain financing capacity in case of dramatic shifts on the international scene that affect the country's macroeconomic performance. In 2012, the Government did not have to tap into this credit line.

Regarding non-sovereign risk, in 2012 CAF approved a USD 15 million line of credit to finance exports by Cereoil (a grain exporting company) and renewed another for USD 12 million to issue partial guarantees of credit, surety bonds, completion avals or advance payments for Teyma Uruguay, a company building a cellulose plant in Uruguay. This complements CAF's efforts to foster the country's economic infrastructure and social development, as well as its productivity and capacity.

Uruguay 2012 Figures (in millions of USD)

	2012	2008-2012
Approvals	**729**	**2,687**
Sovereign Risk	700	2,558
Non-sovereign Risk	29	129
Disbursements	**9**	**704**
Sovereign Risk	8	702
Non-sovereign Risk	1	2
Portfolio	**332**	
Sovereign Risk	332	
Non-sovereign Risk	-	

Strengthening and internationalization of supply chains in the farming sector

Approvals in Uruguay

Uruguayan Energy Sector Strengthening Program

CLIENT/GUARANTOR/EXECUTOR: ADMINISTRACIÓN NACIONAL DE USINAS Y TRANSMISIONES ELÉCTRICAS - UTE / REP ÚBLICA ORIENTAL DEL URUGUAY / ADMINISTRACIÓN NACIONAL DE USINAS Y TRANSMISIONES ELÉCTRICAS - UTE

TOTAL AMOUNT: USD 200 MILLION | **TERM:** 12 YEARS

Objective: Improve the quality and increase the reliability of the Uruguayan electrical system, at the urban as well as rural level.

Program for the Improvement and Rehabilitation of the Potable Water and Sanitation Systems of Uruguay

CLIENT/GUARANTOR/EXECUTOR: ADMINISTRACIÓN DE LAS OBRAS SANITARIAS DEL ESTADO - OSE / REPÚBLICA ORIENTAL DEL URUGUAY / ADMINISTRACIÓN DE LAS OBRAS SANITARIAS DEL ESTADO - OSE

TOTAL AMOUNT: USD 100.2 MILLION | **TERM:** 15 YEARS

Objective: Improve Uruguayans' quality of life through sustainable expansion and enhancement of coverage, quality, efficiency and reliability of potable water and sanitation systems.

Uncommitted Credit Line

CLIENT: CEREOIL URUGUAY

TOTAL AMOUNT: USD 15 MILLION | **TERM:** VARIOUS

Objective: Pre-export financing.

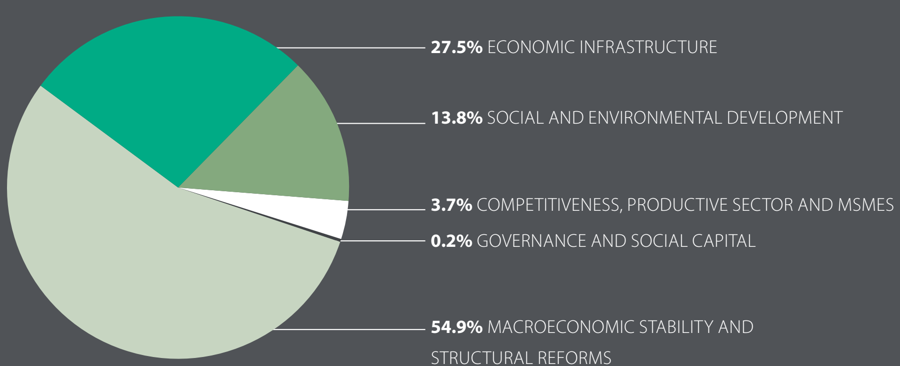
Uncommitted Revolving Credit Line

CLIENT: TEYMA URUGUAY S.A.

TOTAL AMOUNT: USD 12 MILLION | **TERM:** VARIOUS

Objective: Issue surety bonds, avals and guarantees via different institutions and companies for faithful completion, payment to suppliers, cash and materials advances, among others.

Approvals by strategic area **2012**



TOTAL: USD **729** million

Contingent Credit Line

CLIENT/EXECUTOR: EASTERN REPUBLIC OF URUGUAY/ MINISTRY OF ECONOMY AND FINANCE

TOTAL AMOUNT: USD 400 MILLION | TERM: VARIOUS

Objective: Back the public debt management strategy through a preventive financing instrument in case access to international capital markets shuts down.

Other Operations with Cooperation Resources

VARIOUS CLIENTS

TOTAL AMOUNT: USD 1.3 MILLION | TERM: VARIOUS

Improvement of Customs procedures and access control at the port of Montevideo

Other Contributions to Uruguay's Sustainable Development

Infrastructure

- Designing private capital linkage schemes for infrastructure projects.
- Institutional strengthening of the Corporación Vial (Roads Corporation) de Uruguay.
- Implementation of pavement design methods.
- Infrastructure Information System – SIIUR.
- Master Plan for the Montevideo Agro-foods Park.

Integration

- Creation of three Bi-national Citizen Service Centers on the Uruguay-Brazil border.
- Defining an investment program to improve territorial integration between Argentina and Uruguay.
- Creation of the Uruguay-Argentina border Observatory.

Social Development

- Support for the José Artigas Youth Orchestra Foundation through the Música para Crecer (Growing Through Music) program.
- An agreement with the Fundación Celeste on a Social Action Program for Sport.
- Support for the urban recovery and integration project in the Casavalle zone.
- Design and implementation of the Water + Work: regularization of housing settlements plan.

Environment

- Technical assistance for the National Protected Areas System (SNAP), with the help of the National Environment Director for the Ministry of Housing, Territorial Planning and Environment and executed through the Interdisciplinary Center for Development Studies. Goal: measures for responding to climate-change vulnerability in Valle del Lunarejo and other protected areas of Uruguay.

Governance

- Debut of the Regional Program for Updating and Improvement of Local Management in the municipalities of Paysandú and Maldonado.

Competitiveness

- Strengthening and internationalization of supply chains in the farming sector. Offered help to 455 producers, among them fruit growers, beekeepers and rabbit breeders, and had a positive impact on production, exports, job creation and quality improvement.
- Support for the Mercosur Economic Research Network, through a forum on research and sustainable development policy proposals, within the framework of new productive strategies and the international integration of Latin American countries.
- Support for the Uruguayan Network of Fair and Sustainable Cities and the second Citizen Perception Poll in Uruguay.
- Integrated support for the Uruguayan Government's sectorial plans for productive development. This initiative measures and records, in diverse scenarios, the eventual components of sectorial efforts of almost USD 25 million through loans and non-reimbursable funds.
- Support for the Mercociudades Summit. The event promotes and communicates regional integration benefits among participant city officials, who will be in charge of citizen campaigns.
- Customs improvement of access procedures and controls at the Montevideo port. This study seeks an information-based technology solution for enhancing the use of infrastructure and automatic controls.
- Development of products and networks for financial inclusion.

USD **1.3** million

Granted by CAF to Uruguay in cooperation funds.

Venezuela

In 2012, CAF approved operations for Venezuela totaling USD 327 million, all of it involving sovereign risk transactions and technical cooperation resources.

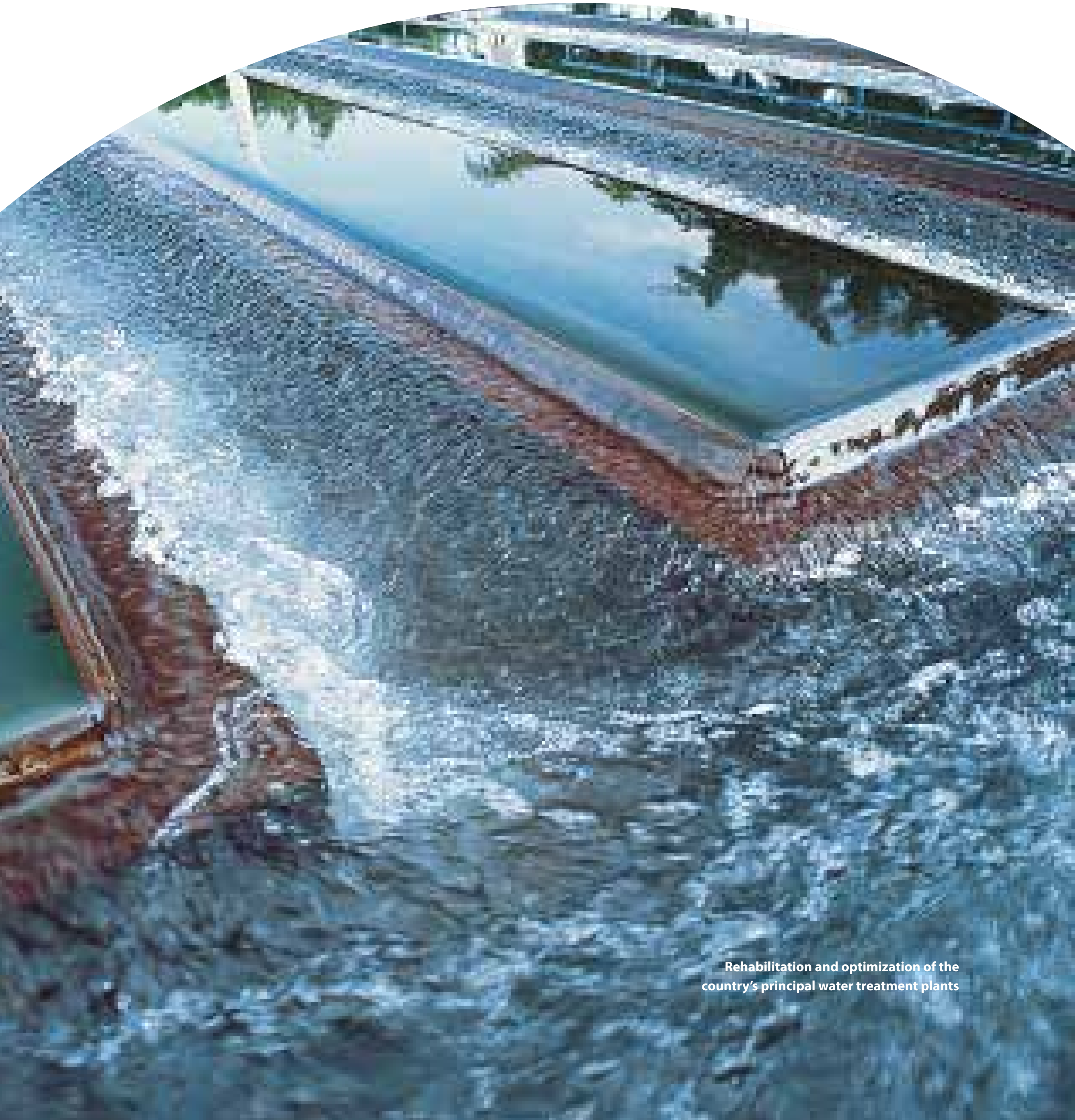
CAF continued assisting the Bolivarian Government of Venezuela's efforts to renovate water treatment plants that serve the country's large urban centers. CAF approved USD 100 million for the second phase of the Program for the Rehabilitation and Optimization of Large Water Treatment Plants in Venezuela, aimed at improving the country's potable water supply, reliability and quality, involving a first group of plants selected from the seven largest.

As part of CAF's commitment to the National Youth Orchestra System of Venezuela (FESNOJIV), USD 210 million was approved to build and equip the second phase of the Simón Bolívar Social Action for Music Complex. This grand cultural-educational complex will be located near Caobos Park in Caracas. It will host academic-musical and cultural activities that improve living conditions for Venezuelan youths, especially the most disadvantaged.

CAF also approved USD 15 million for the Integrated and Sustainable Development Project for the arid zones of Nueva Sparta and Sucre states. Its goal is reducing poverty and extreme poverty levels while satisfying residents' basic needs. It involves building capacity for governance and land ordinance, investment in productive assets, and services for improving current practices and developing sustainable alternatives. Other goals include more diversified income-generation and food security, as well as increased financial inclusion and the protection of assets for economic sustainability and risk management for families and communities.

Venezuela 2012 Figures (in millions of USD)

	2012	2008-2012
Approvals	**327**	**3,195**
Sovereign Risk	325	3,133
Non-sovereign Risk	2	62
Disbursements	**359**	**2,620**
Sovereign Risk	357	2,614
Non-sovereign Risk	2	6
Portfolio	**2,816**	
Sovereign Risk	2,816	
Non-sovereign Risk	-	



Rehabilitation and optimization of the country's principal water treatment plants

Approvals in Venezuela

Simón Bolívar Social Action for Music Complex Project - Phase II

CLIENT/EXECUTOR: REPÚBLLICA BOLIVARIANA DE VENEZUELA/FUNDACIÓN MUSICAL SIMÓN BOLÍVAR

TOTAL AMOUNT: **USD 210 MILLION** | TERM: **18 YEARS**

Objective: To build and equip the Simón Bolívar Social Action for Music Complex to improve living conditions for Venezuelan youths.

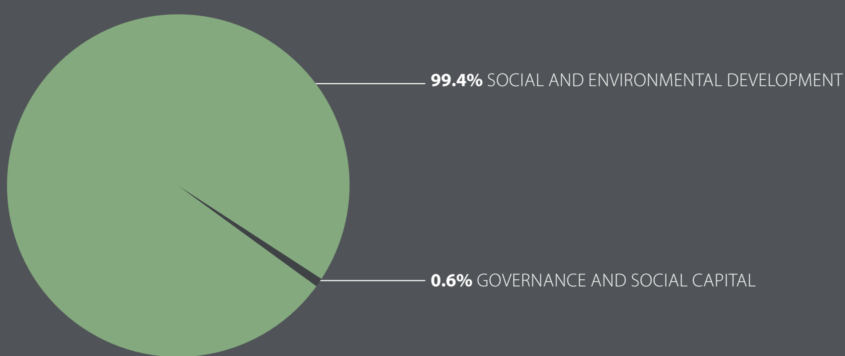
Intregrated and Sustainable Development Project for the Arid Zones of Nueva Esparta and Sucre states - PROSANESU

CLIENT/EXECUTOR: REPÚBLICA BOLIVARIANA DE VENEZUELA/MINISTRY OF POPULAR POWER FOR AGRICULTURE AND LANDS

TOTAL AMOUNT: **USD 15 MILLION** | TERM: **12 YEARS**

Objective: Contribute to the reduction of poverty and extreme poverty levels, and satisfy residents' basic needs in the arid and semi-arid zones of the Nueva Esparta and Sucre states.

Approvals by strategic area **2012**



TOTAL: USD 327 million

Program of Rehabilitation and Optimization for Venezuela's Largest Water Treatment Plants - Phase II

CLIENT/EXECUTOR: REPÚBLICA BOLIVARIANA DE VENEZUELA/COMPAÑIA ANÓNIMA HIDROLÓGICA VENEZUELA (HIDROVEN)

TOTAL AMOUNT: USD 100 MILLION | TERM: 15 YEARS

Objective: Improve Venezuela's potable water supply, reliability and quality through renovation and optimization of the country's seven largest water treatment plants.

Other Operations with Cooperation Resources

VARIOUS CLIENTS

TOTAL AMOUNT: USD 2 MILLION | TERM: VARIOUS

Support for micro-entrepreneurs through promotion and training in the entrepreneurial culture

Other Contributions to Venezuela's Sustainable Development

Infrastructure

- Technical cooperation with the mayor's office in the Libertador municpality of Caracas, consulting on the basic design of a transit corridor exclusively for buses - BRT - and of the first phase of a network of bicycle lanes. The aim of the Urban Transformation Corridors program is to get the city involved in urban structuring, using integration and sustainability criteria, in order to overcome its principal problems. The recovery and creation of public spaces, sidewalk reconstruction, street lighting, urban furnishings, landscaping, parks, construction of pedestrian walkways, a strengthened public transit system and street planning are some of the program's goals.

Social Development

- The Learning Skills Program in public and private schools in Miranda state and Libertador. In 2012, 224 primary school teachers were trained.

Environment

- Technical cooperation for the "Integrated and Sustainable Environmental Management in Libertador" program. Among the specific objectives are:

  a) Analyze the municipality's solid waste sources.

  b) Characterize the municipality's solid wastes and their sources.

  c) Set solid waste projections for the municipality (including new housing developments).

  d) Characterize the market for potentially recyclable solid waste.

  e) Analyze the techno-economic feasibility of the recycling.

  f) Prepare management proposals for recyclable solid waste.

  g) Design routes and schedules for garbage collection.

  h) Study of the location of plasma gasification plants.

  i) Estimate the energy those plants would produce and design a plan for their use by the municipality.

  j) Design the Municipal Environmental Sustainability Office.

Governance

- Technical cooperation for the formulation of "Digital Government Strategy," to foster public administration that's centered around service to Venezuelan society within the framework of the Government's policy priorities. It will determine the current state of electronic government and identify gaps and opportunities for priority action in the short, medium and long terms. It also proposes an E-Government strategy that includes large-scale incorporation of TIC (Trusted Internet Connection) potential for public administration.
- The Governance and Policy Management Program, with the Universidad Católica Andrés Bello, to strengthen democratic institutions. In 2012, 2,117 public sector employees were trained.
- The Leadership for Transformation Program, offered in different cities and states. The initiative emphasizes the importance of ethics and democratic values. In 2012, 605 potential leaders were trained.

Competitiveness

- Support for "Green Bodegas: a model focusing on gender." The project strives to minimize poverty gaps and gender inequality, giving poor women who are heads of household access to resources for starting and developing income-generating enterprises in the Caracas boroughs of Libertador, El Hatillo and Sucre. It uses a green entrepreneurial model that encourages and empowers women's participation in marketing cleaning products with reusable plastic containers.

SMEs and Microfinance

- Stimulating productive initiatives via the National Mutual Guarantees System. This fosters MSMEs and Venezuelan cooperatives through management training and specialized consulting systems that integrate them into the market. Through technical cooperation, CAF bolsters Venezuela's MSME sector with a helping hand from public agencies such as FONPYME (Mutual Guarantee Fund for SMEs), the Fund for Industrial Restructuring (FONDOIN), the Mutual Guarantee Societies (SGR), Petróleos de Venezuela (PDVSA) and the Banco del Tesoro (Treasury Bank), as well as international development organizations like the Spanish Agency for International Development Cooperation (AECID).

USD 2 million

Granted by CAF to Venezuela in cooperation funds.

Other Shareholder Countries

Chile

Costa Rica

Spain

Jamaica

Mexico

Portugal

Dominican Republic

Trinidad and Tobago

Chile

In 2012, CAF was present in Chile at major seminars and regional events, including the International Conference on Analysis of Chilean-Asian Economic Relations: Lessons for Latin America, organized by the Corporation for Latin American Studies (CIEPLAN) in March.

As part of PASOS por la Inclusión (Steps for Inclusion), along with the Fundación Dialoga, the Urban Indigenous Entrepreneurial Leaders program was held in Chile to develop microenterprises that benefit 150 indigenous families through stronger productive, economic and financial capacity, with indigenous leadership and identity.

To improve competitiveness, technical cooperation resources helped lay the groundwork for an emerging stock market in the country.

Costa Rica

Throughout 2012, CAF supported the Program for Investments in the Atlantic Corridor. In the microfinance sector, a credit line was extended for Banco Improsa, S.A. to continue expanding its help for Costa Rican SMEs.

Spain

CAF activities in Spain increased significantly in 2012. As a result, the Madrid office increased its executive team and took on a renewed and ambitious agenda that makes it a focal point for CAF in Europe.

Besides its vigorous relationship-building with public, private and academic institutions, CAF was present at important events such as the 22nd Iberoamerican Summit, held in Cádiz in November 2012. Among the forums that CAF actively took part in were the 14th Foro Latibex that promotes capital markets in Latin America, EU LAC in Hamburg and G-NEXID in Qatar, within the framework of UNCTAD.

Other Shareholder Country Figures 2012 (in millions of USD)

	2012	2008-2012
Approvals	**1,119**	**2,924**
Sovereign Risk	700	1,430
Non-sovereign Risk	419	1,494
Disbursements	**259**	**1,383**
Sovereign Risk	28	144
Non-sovereign Risk	231	1,239
Portfolio	**592**	
Sovereign Risk	136	
Non-sovereign Risk	456	

In 2012 Trinidad and Tobago became a full CAF member

In the private sector, in response to the economic and financial crisis, Spanish companies have significantly increased their interest in Latin America. This gives CAF an opportunity to make itself a strategic partner for Spain in the region, to work with government agencies and offer assistance to the Spanish private sector. As a result, a fund is being created, with the Institute of Official Credit (ICO), to help internationalize Spanish SMEs in Latin America. Another initiative is a co-investment fund founded with the Spanish Agency for International Development Cooperation (AECID), using a EUR 50 million contribution from the Development Promotion Fund of Spain (FONPRODE) and an equal or greater amount from CAF for MSME assistance in the region.

As part of its relationship with the European Commission (CE), CAF has become a strategic ally in the region as the manager of various Latin American Investment Facility (LAIF) projects in the area of water and the environment. Up to now, EUR 31 million in non-reimbursable funds have been obtained for numerous CAF projects, financed along with the German development bank KFW and the French Development Agency. Along the same lines, the CE has invited CAF to opt for the non-reimbursable funds of the recently created Caribbean Investment Facility (CIF), which begins operations in 2013.

In its commitment to produce and share knowledge, CAF continues reinforcing its relationships with think tanks and top-flight European academics, through the signing and renewal of agreements with Oxford University, Sciences Po, Universidad de Alcalá de Henares, Canning House and Real Instituto Elcano, among others.

Jamaica

In Jamaica, CAF in 2012 continued its support of the electric power company West Kingston Power Partners, a USD 10 million project approved in 2010, through disbursements totaling USD 1.1 million.

Mexico

The year 2012 saw a substantially strengthened relationship between CAF and Mexico. The country contributed additional capital totaling USD 100 million, helping make the Institution more financially solid.

In Mexico, CAF approved a total of USD 82 million mainly through capital investments and financial and corporate credit lines. Among them is an capital investment in the Fondo de Fondos II (Fund of Funds II), whose principal aim is fostering venture capital through an instrument that lets Mexican pension funds invest in the country and the rest of Latin America. In the microfinance sector, four investments totaling USD 19 million were approved to offer help and technological services to sectors at the base of the pyramid.

In 2012 CAF also endorsed a credit line in Mexican pesos for the equivalent of USD 10 million.

Portugal

In response to the difficult economic situation Portugal is experiencing, CAF in 2012 took the initiative of approaching Portuguese institutions to open channels for assistance.

Besides holding meetings with the country's principal private banks and the Caixa Geral (the Portuguese state-owned banking corporation), CAF maintained close contact with GPEARI (the Finance Ministry's Planning, Strategy, Evaluation and International Relations agency), the Treasury of Portugal, SOFID (Sociedade para o Financiamento do Desenvolvimento, Instituíção Financeira de Crédito, S.A.) and SPGM-Sociedade de Investimento, S.A.

Thanks to this initiative, CAF hopes to offer credit lines and issue guarantees and co-guarantees for MSMEs at the local and regional level in Latin America.

CAF is also considering approaching universities and think tanks to position itself as an institution committed to the promotion of knowledge about Latin America and reinforce its relationship strategy.

Dominican Republic

In 2012, CAF approved USD 300,000 in the Dominican Republic for a seed capital fund dedicated to financing dynamic companies and creating a network of angel investors. It renewed a USD 10 million line of credit for Banco BHD for financing foreign trade, working capital and capital goods investments.

Throughout the year, CAF disbursed resources totaling USD 27 million to support the Urban Development and Habitat Program.

In the microfinance arena, CAF also approved technical cooperation resources to foster agents and peer-to-peer channels for the financial inclusion of rural women.

Trinidad and Tobago

One of the most outstanding developments for CAF in 2012 was Trinidad and Tobago's agreement to become a full member of the Institution. The accord involves a capital contribution of USD 323 million, of which USD 107 million was already used during 2012 to help make CAF financially stronger.

With the incorporation of Trinidad and Tobago as the Institution's eleventh full member, CAF strengthens its presence in the Caribbean and deepens its dimension as the region's development bank.

Approvals in Other Shareholder Countries

Chile

Other Operations with Cooperation Resources

VARIOUS CLIENTS

TOTAL AMOUNT: USD 0.4 MILLION | TERM: VARIOUS

Costa Rica

Uncommitted Revolving Credit Line

CLIENT: BANCO IMPROSA

TOTAL AMOUNT: USD 10 MILLION | TERM: VARIOUS

Objective: Finance MSMEs in Costa Rica.

Mexico

Uncommitted Revolving Credit Line

CLIENT: CONSEJO DE ASISTENCIA AL MICROEMPRENDEDOR S.A. DE C.V. SOFIPO

TOTAL AMOUNT: USD 3 MILLION | TERM: VARIOUS

Objective: Provide financing for investment and working capital to micro and small business.

Uncommitted Revolving Credit Line

CLIENT: BANCO COMPARTAMOS S.A.

TOTAL AMOUNT: USD 10 MILLION | TERM: VARIOUS

Objective: Finance MSMEs in Mexico.

Capital Investment

CLIENT: EVERCORE MEXICO CAPITAL PARTNERS III, L.P.

TOTAL AMOUNT: USD 10 MILLION | TERM: 10 YEARS

Objective: Invest in Mexican enterprises with high growth potential.

Capital Investment

CLIENT: FONDO DE FONDOS MÉXICO II, L.P.

TOTAL AMOUNT: USD 40 MILLION | TERM: 15 YEARS

Objective: Foster the venture capital sector in Mexico through an instrument in which Mexican pension funds can participate.

Capital Investment

CLIENT: MEXICO VENTURES I, LP

TOTAL AMOUNT: USD 10 MILLION | TERM: 12 YEARS

Objective: Provide financing to SMEs.

Capital Investment

CLIENTE: ADOBE SOCIAL MEZZANINE FUND I, LP

TOTAL AMOUNT: USD 2 MILLION | TERM: 10 YEARS

Objective: Provide financing to SMEs.

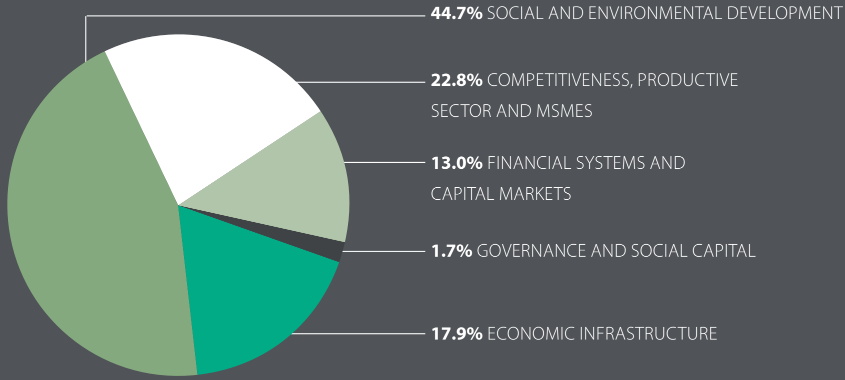
Capital Investment

CLIENT: LATIN IDEA MEXICO VENTURE CAPITAL FUND III, LLC

TOTAL AMOUNT: USD 4 MILLION | TERM: 10 YEARS

Objective: Provide financing to SMEs.

Approvals by strategic area **2012**



Capital Investment

CLIENT: ÍNDIGO 1 FICAP

TOTAL AMOUNT: USD 3 MILLION | TERM: 10 YEARS

Objective: Provide financing to SMEs.

Other Operations with Cooperation Resources

VARIOUS CLIENTS

TOTAL AMOUNT: USD 0.1 MILLION | TERM: VARIOUS

Dominican Republic

Uncommitted Revolving Credit Line

CLIENT: BANCO BHD

TOTAL AMOUNT: USD 10 MILLION | TERM: VARIOUS

Objective: Finance foreign trade operations, working capital and capital goods investments

Capital Investment

CLIENT: FONDO DE CAPITAL SEMILLA DE COINVERSIÓN CON INVERSIONISTAS ÁNGELES

TOTAL AMOUNT: USD 0.3 MILLION | TERM: 10 YEARS

Objective: Provide financing to SMEs that exhibit dynamic entrepreneurship in the Dominican Republic.

Other Operations with Cooperation Resources

VARIOUS CLIENTS

TOTAL AMOUNT: USD 0.1 MILLION | TERM: VARIOUS

Multinational

Global Program of Pre-investment in Infrastructure

CLIENT: CAF SHAREHOLDER COUNTRIES

TOTAL AMOUNT: USD 200 MILLION | TERM: 12 YEARS

Objective: Finance studies on pre-investment in infrastructure projects and public and private services.

Uncommitted and non-Revolving Regional Contingent Credit Line for Response to Natural Disasters Resulting from Natural Phenomena

CLIENT: CAF SHAREHOLDER COUNTRIES OR SUBNATIONAL ENTITIES WITH SOVEREIGN GUARANTEE

TOTAL AMOUNT: USD 500 MILLION | TERM: 12 YEARS

Objective: Finance response to disasters resulting from natural phenomena, including first response to victims and restitution of critical services.

Revolving Credit Line

CLIENT: BANCO LATINOAMERICANO DE COMERCIO EXTERIOR - BLADEX

TOTAL AMOUNT: USD 100 MILLION | TERM: VARIOUS

Objective: Finance foreign trade operations and infrastructure projects in the region.

Revolving Credit Line

CLIENT: CORPORACIÓN INTERAMERICANA PARA EL FINANCIAMIENTO DE INFRAESTRUCTURA - CIFI

TOTAL AMOUNT: USD 35 MILLION | TERM: VARIOUS

Objective: Finance foreign trade operations, working capital and capital goods investments.

Capital Investment

CLIENT: AGF LATIN AMERICA FUND L.P.

TOTAL AMOUNT: USD 5.1 MILLION | TERM: 9 YEARS

Objective: Risk capital fund focused on SMEs in the Southern Cone's agro-industrial sector.

Capital Investment

CLIENT: SOCIEDAD DE INVERSIONES PARA LA MICROEMPRESA EN CENTRO AMÉRICA Y EL CARIBE - SICSA

TOTAL AMOUNT: USD 0.4 MILLION | TERM: 7 YEARS

Objective: Financing micro and small enterprises.

Capital Investment

CLIENT: MORINGA FUND, S.C.A. SICAR

TOTAL AMOUNT: USD 10 MILLION | TERM: 15 YEARS

Objective: Support the application of leading-edge technologies for sustainable agriculture and forestry management.

Uncommitted Revolving Credit Line

CLIENT: ABENGOA S.A.

TOTAL AMOUNT: USD 128 MILLION | TERM: 3 YEARS

Objective: Assist sustainable development projects in the infrastructure, environment and energy sectors.

Capital Investment

CLIENTE: LATIN POWER IV, LP

TOTAL AMOUNT: USD 10 MILLION | TERM: 10 YEARS

Objective: Support investment in electrical generation, electrical transmission and energy infrastructure businesses and projects with a focus on gas pipelines.

Capital Investment

CLIENT: CLEAN TECH LATINOAMERICA FUND II L.P.

TOTAL AMOUNT: USD 10 MILLION | TERM: 10 YEARS

Objective: Invest in renewable energies and clean technologies in Latin America and the Caribbean.

Other Operations with Cooperation Resources

VARIOUS CLIENTS

TOTAL AMOUNT: USD 18.5 MILLION | TERM: VARIOUS

CAF'S Agenda for Comprehensive Development

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Achieving quality growth should be based on macroeconomic stability, microeconomic efficiency, social equality and environmental balance.

Infrastructure

Energy

Social Development

Social Sustainability

Environmental Sustainability and Climate Change

Productive, Financial and SME sectors

Competitiveness, Public Policies and Productive Transformation

Socioeconomic Research

Institutional Development

CAF's comprehensive vision for sustainable development is the product **of an important program of research and knowledge-sharing** nurtured by the Institution's own scholarly efforts.

CAF's Comprehensive Development Agenda aims to achieve high, sustained, sustainable and quality growth in Latin America: high in order to narrow the development gap with respect to high-income countries and to compensate for population growth; sustained in order to ensure the continuation of economic progress and social improvements over time; sustainable in order to safeguard the viability of natural capital from generation to generation, respect cultural diversity and foster the region's democratic governance; and quality because it should benefit the greatest share of the population in a way that is fair, most of all to the poor and disadvantaged.

At the same time, improved microeconomic efficiency and productivity should result in a transformation of Latin America's economies and increase their comparative national advantages.

That requires greater availability and quality of diverse forms of capital, as well as more investment in all forms of capital –human, social, natural, physical, productive and financial– if productivity is to be increased and inequality is to be reduced.

The many regional and international integration efforts that are underway in Latin America, and which CAF promotes, are especially important for creating economic growth that is less vulnerable to the vicissitudes of the international economy.

Since the early 1990s, CAF has advanced broader South American and Latin American integration efforts by enlarging its shareholder group, which today includes 18 countries.

Integration has political, social and economic dimensions. It encourages economies of scale and in turn greater efficiency and productivity; at the same time it promotes a more competitive international presence through more coordinated regional markets, which in effect become large "domestic" Latin American markets.

CAF's integrated vision for sustainable development is the product of an important program of research and knowledge sharing nurtured by the Institution's own scholarly efforts, including constant engagement with Latin America's public, private and academic sectors. The strategic programs presented here reflect that awareness.

CAF's infrastructure agenda works to create a more physically, economically and socially connected continent.

Infrastructure

CAF's efforts in the transportation, telecommunications and logistics sectors help shareholder countries build and maintain sustainable, efficient and updated infrastructure as a basic condition of meeting the region's goals of economic competitiveness and social inclusion.

CAF's infrastructure agenda aims to develop better physical links between Latin America's distinct regions, as well as those inside each country. The goal is to create a more physically, economically and socially connected continent. This is a fundamental instrument of economic growth, as well as social development and poverty reduction.

CAF pays special attention to equipping the continent's cities, where more than 80% of the population lives, to foster greater urban mobility, efficiency, inclusion and quality of life.

To achieve those goals, the Institution works to develop and disseminate knowledge about new financing mechanisms for public and private investment, adapted

CAF has been **a pioneer in promoting a risk culture** in Latin America and in conducting studies and programs on natural threats and their mitigation.

to the region's particular conditions. It also plans infrastructure projects with technical consulting from specialized agencies.

Here we present the main strategic lines of our infrastructure agenda.

Innovation and sustainability of road infrastructure

The road infrastructure agenda is geared toward sharing best management practices in urban and interurban projects and optimizing available resources. In support of this effort, CAF published the second edition of Integrated Development in Latin America(IDeAL 2012), which was presented at the Iberoamerican Summit in Cádiz on November 17, 2012. The principal goals are:

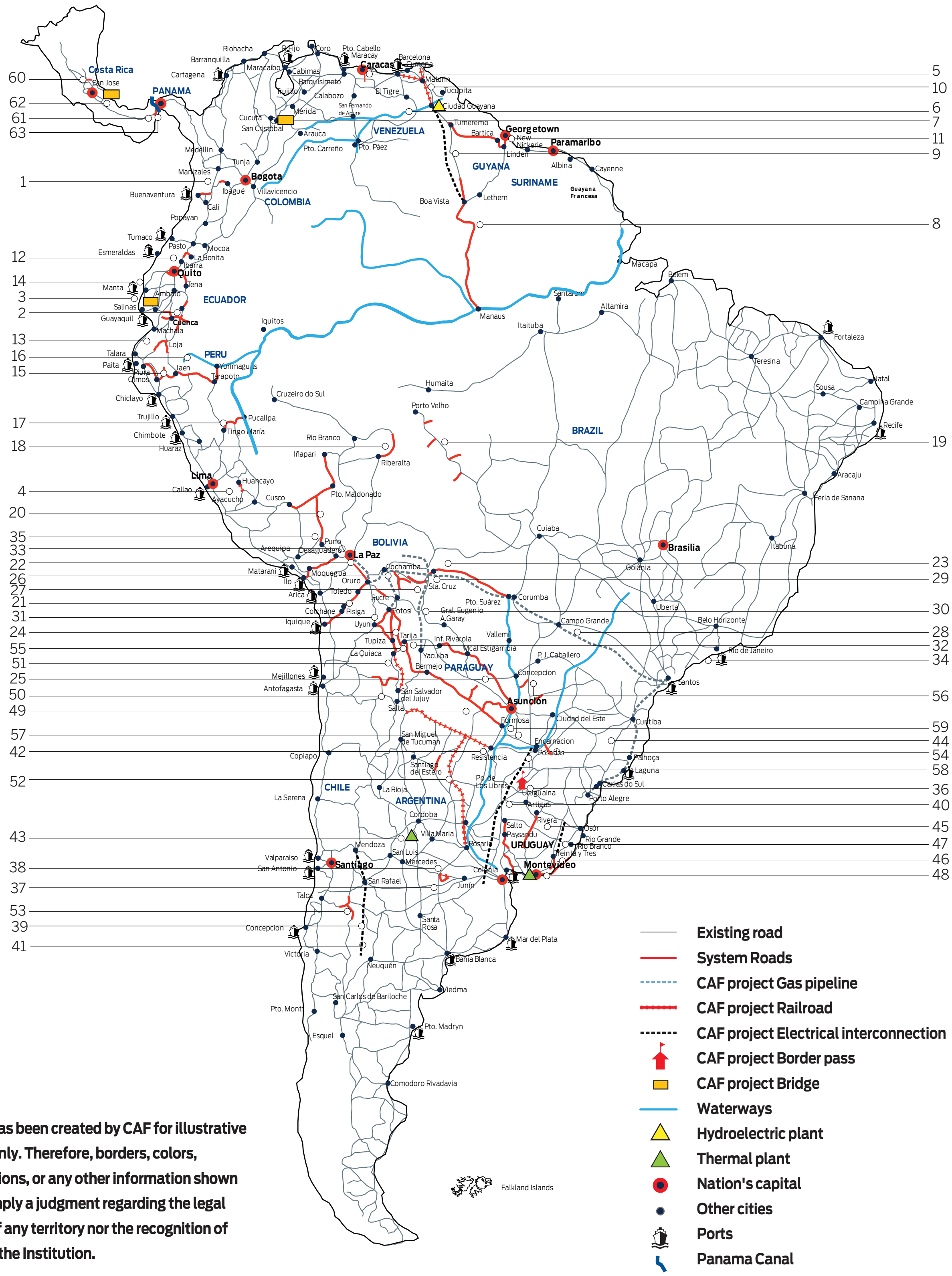
- Programs that improve the technical and administrative capacity of public and private institutions in charge of road projects, while learning about the roads sector via CAF research. The following programs bear mention:
  - **Road Safety.** Promotes improvements in Latin American and Caribbean road safety, focusing on the "safe system," technological innovation and sharing best practices among the region's countries and third countries, with an emphasis on reducing road accidents and their consequences.

    The program conducted hearings on road safety during CAF financing operations, as well as frequent meetings and contacts with international organizations that promote the program. Introductory courses were held at Road Safety Hearings in Bolivia, Colombia, Argentina, Uruguay, Peru, Panama and Ecuador. A Road Safety Plan for motorcycles in Buenos Aires was drawn up and applied to other cities. CAF also became a full member of the U.N. Road Safety Collaboration (presided over by the World Health Organization) and in joint road safety initiatives among development banks, such as the IDB.
  - **Geópolis.** To make Latin American development sustainable, it is vital to consider risk management, from project planning to execution. CAF has been a pioneer in promoting a risk culture in Latin America and in conducting studies and programs on natural threats and their mitigation. In 2012 it initiated Geópolis, a network to encourage a culture of prevention, to promote public policy on risk reduction in Latin America associated with natural phenomena, and to adapt infrastructure to climate change and seismic dangers. It identifies threats, reduces vulnerability and enhances citizens' ability to overcome destructive events, through specific project planning.
  - **Road maintenance and sustainability.** There is continued support for designing policies and strategies for urban and interurban road network maintenance. That includes help to national and subnational road agencies in adjusting their existing structures, creating reliable road network inventories and designing new contract models and management systems, all of which should increase job creation associated with road infrastructure maintenance. The program promotes discussion about innovation and technological development, in particular optimizing resources by using more economical, low-traffic pavement, as well as technical criteria and design guidelines for tackling the effects of climate change.

(continued on page 114)

Physical integration projects financed by CAF

		CAF Contribution	Total investment (Millions of USD)
Andean Axis			
1.	Colombia: Road Corridor Bogotá-Buenaventura	447.0	1,116.6
2.	Ecuador: Amazon Link with Colombia and Peru (Main Eastern Highway)	93.8	152.7
3.	Ecuador: Bridge Segment Project over the Babahoyo River	123.0	133.9
4.	Peru: Huancayo-Huancavelica Railroad restoration	14.9	18.8
5.	Venezuela: Rail Link between Caracas and the National Network	360.0	1,932.0
6.	Venezuela: Commercial Navigation Aid on the Orinoco-Apure River Axis	10.0	14.3
7.	Venezuela/Colombia: Studies for the Design of the New International Bridge and Access to the Villa Silvania (Colombia)-Tienditas (Venezuela) Border Crossing	0.9	0.9
Escudo Guayanes Axis			
8.	Brazil: Venezuela-Brazil Road Interconnection	86.0	168.0
9.	Brazil: Venezuela-Brazil Electrical Interconnection	86.0	210.9
10.	Venezuela: Ciudad Guayana-Maturín-Sucre state Railroad Studies	2.6	2.6
11.	Venezuela: Ciudad Guayana (Venezuela)-Georgetown (Guyana) Highway Studies	0.8	0.8
Amazon Axis			
12.	Ecuador: Central TransAndean Connection	33.7	54.5
13.	Ecuador: Southern TransAndean Corridor	70.0	110.2
14.	Ecuador: International Cargo Transfer Port in Ecuador at Manta Port	35.0	525.0
15.	Peru: Northern Amazon Road Corridor	110.0	328.0
16.	Peru: Pre-investment, Border Region with Ecuador	5.3	8.7
17.	Peru: Central Amazon Corridor (Tingo-María-Aguaytía-Pucallpa section)	3.5	13.6
Peru-Brazil-Bolivia Axis			
18.	Bolivia: Guayaramerín-Riberalta Highway	42.0	45.5
19.	Brazil: Road Intergration Program, Rondônia state	56.4	134.2
20.	Peru: Southern Interoceanic Road Corridor (sections 2, 3 and 4) and Guarantees for Private Structuring	1,004.5	2,091.0
Central Interoceanic Axis			
21.	Bolivia: Bolivia-Chile Road Integration Corridor	243.2	368.2
22.	Bolivia: Paz-Oruro Four-Lane Highway	250.0	265.1
23.	Bolivia: Santa Cruz-Puerto Suárez Road Integration Project (sections 3, 4 and 5)	280.0	585.5
24.	Bolivia: Bolivia-Argentina Road Integration Project	422.2	792.9
25.	Bolivia: Bolivia-Paraguay Road Integration Project	223.2	410.8
26.	Bolivia: "Y" Road Integration Program	97.3	141.3
27.	Bolivia: La Guardia-Comarapa Highway Renovation	21.0	34.7
28.	Bolivia/Brazil: Bolivia-Brazil Gas Pipeline	215.0	2,055.0
29.	Bolivia: Support Program for the PAST IV Transportation Sector	22.4	32.3
30.	Bolivia: Transnetwork Gas Pipeline	88.0	262.8
31.	Bolivia: Supplementary Road Works	70.0	73.0
32.	Bolivia: Sectorial Transportation Program	150.0	221.2
33.	Bolivia: Highway Upgrade Program	75.0	107.1
34.	Brazil: Supplementary Works Program for the Metropolitan Arch of Rio de Janeiro	200.0	334.0
35.	Peru: Bolivia-Peru Road Integration Project	48.9	176.6
Mercosur-Chile Axis			
36.	Argentina/Brazil: Los Libres-Uruguaiana Border Crossing Center	10.0	10.0
37.	Argentina: Buenos Aires-Santiago Corridor (Laguna La Picasa variant)	10.0	10.0
38.	Argentina: Buenos Aires-Santiago Corridor (Laguna La Picasa rail variant)	35.0	50.0
39.	Argentina: Buenos Aires-Santiago Corridor (access to Pehuenche Crossing, RN40 and RN145)	106.7	188.1
40.	Argentina: Rincón Santa María-Rodríguez Electrical Interconnection	400.0	635.0
41.	Argentina: Comahue-Cuyo Electrical Interconnection	200.0	414.0
42.	Argentina: Road Integration Works Program between Argentina and Paraguay	110.0	182.0
43.	Argentina: Embalse Nuclear Power Plant Useful Life Extension	240.0	1,026.7
44.	Brazil: Road Integration Project-Phase 1, Santa Catarina state	32.6	65.5
45.	Uruguay: Megaconcession for Principal Connection Routes between Argentina and Paraguay	25.0	136.5
46.	Uruguay: Road Infrastructure Programs	240.0	757.1
47.	Uruguay: National Electrical System Fortification Program	150.0	621.0
48.	Uruguay: Punta del Tigre Thermal Power Plant Project	208.0	814.4
Capricornio Axis			
49.	Argentina: RN81 Paving	90.2	126.2
50.	Argentina: Access to Jama Crossing (Argentina-Chile)	54.0	54.0
51.	Argentina: Studies for the Jujuy-La Quiaca Railroad renovation	1.0	1.0
52.	Argentina: Recovery and Improvement of the General Belgrano Railroad	326.0	408.0
53.	Argentina: Road Development Phase II Program: National Route No. 40	168.0	240.0
54.	Argentina: Regional Road Development II Program	250.0	357.0
55.	Bolivia: Tarija-Bermejo Highway Program	74.8	200.0
56.	Paraguay: Renovation and Paving of the Integration Corridors RN10 and RN11 and Supplementary works	19.5	41.9
Paraguay-Paraná Waterway Axis			
57.	Studies for the Improvement of Navigability, Institutional Management and Financial Operation of the Waterway (Argentina, Bolivia, Brazil, Paraguay and Uruguay)	0.9	1.1
58.	Argentina: Railroads Integration Works Program between Argentina and Paraguay	100.0	166.0
59.	Paraguay: Iron Ore River Transport Project for Productive and Commercial Integration between Brazil and Argentina	33.0	63.3
Mesoamerica			
60.	Costa Rica: Program of Investments in the Atlantic Corridor	60.0	80.2
61.	Panama: Highway Rehabilitation and Improvements Program	80.0	125.6
62.	Panama: Binational Bridge over the Sixaola River	5.5	13.4
63.	Panama: Panama Canal Authority, Expansion Program	300.0	5,250.0
Others		**210.0**	**812.0**
Total		**8,531.8**	**25,772.7**



This map has been created by CAF for illustrative purposes only. Therefore, borders, colors, denominations, or any other information shown does not imply a judgment regarding the legal situation of any territory nor the recognition of borders by the Institution.

(continued from page 111)

- Advise CAF's business units on reducing technical risk with adequate mitigation measures. This especially involves the Operations Rating System (CALIOPE) begun in 2012 for all transportation infrastructure projects. It is based on monitoring a project's risk factors and the special conditions defined in the loan contracts.

Transportation and Urban Mobility

As part of its goal of promoting sustainable cities, CAF responded to the renovation needs of urban transportation systems. The Institution has become an innovative problem solver for Latin America's cities.

In 2012 the Transportation and Urban Mobility Program bolstered CAF initiatives like Ciudades con Futuro (Cities with a Future), which approaches infrastructure and transportation as structural facets of urban development.

CAF contributes to **sustainable development and regional integration** by generating cutting-edge knowledge, research, analysis and by providing technical assistance.

CAF has generated cutting-edge knowledge, research and sectorial analysis through initiatives such as the Urban Mobility Observatory (OMU) for Latin America, which since 2007 has built a solid data base on 25 cities, used by experts, specialists and researchers. This helps CAF contribute to sustainable development and regional integration by providing reliable information about transportation and mobility in Latin American urban areas.

The Institution also extends help and advice to national and subnational governments on public policy, sharing best practices, conducting basic studies and preparing infrastructure projects in cities like Arequipa, Barranquilla, Buenos Aires, Caracas, Cajamarca, Córdoba, Cúcuta, Lima, Mendoza, Mexico City, Panama City, Piura and Trujillo.

When it comes to providing technical assistance for transit infrastructure projects and institution-building, success requires an atmosphere of consensus on goals and criteria. CAF promotes more solid institutions, partnership with the private sector and sticking to goals agreed upon by multidisciplinary teams.

In 2012, CAF's urban development agenda came together with financing for metro systems in Lima, Quito and Panama City, for bus transit systems in Colombian cities such as Barranquilla and Montería.

Information and Communication Technologies

Different CAF studies on the communications and information technology (IT) sector conclude that in Latin America there is a marked lack of networks guaranteeing universal communications access. Fixed broadband penetration is still considerably lower than in other regions of the world. As a result, broadband access disparities persist, principally for low-income populations, some public and educational institutions, and a large part of the productive sector that still hasn't incorporated advanced communications services and technologies.

To attack this problem, taking into account broadband's positive impact on growth and poverty reduction, CAF in 2012 undertook efforts to expand communications infrastructure as the best way to impact education, health, government and productive sector competitiveness.

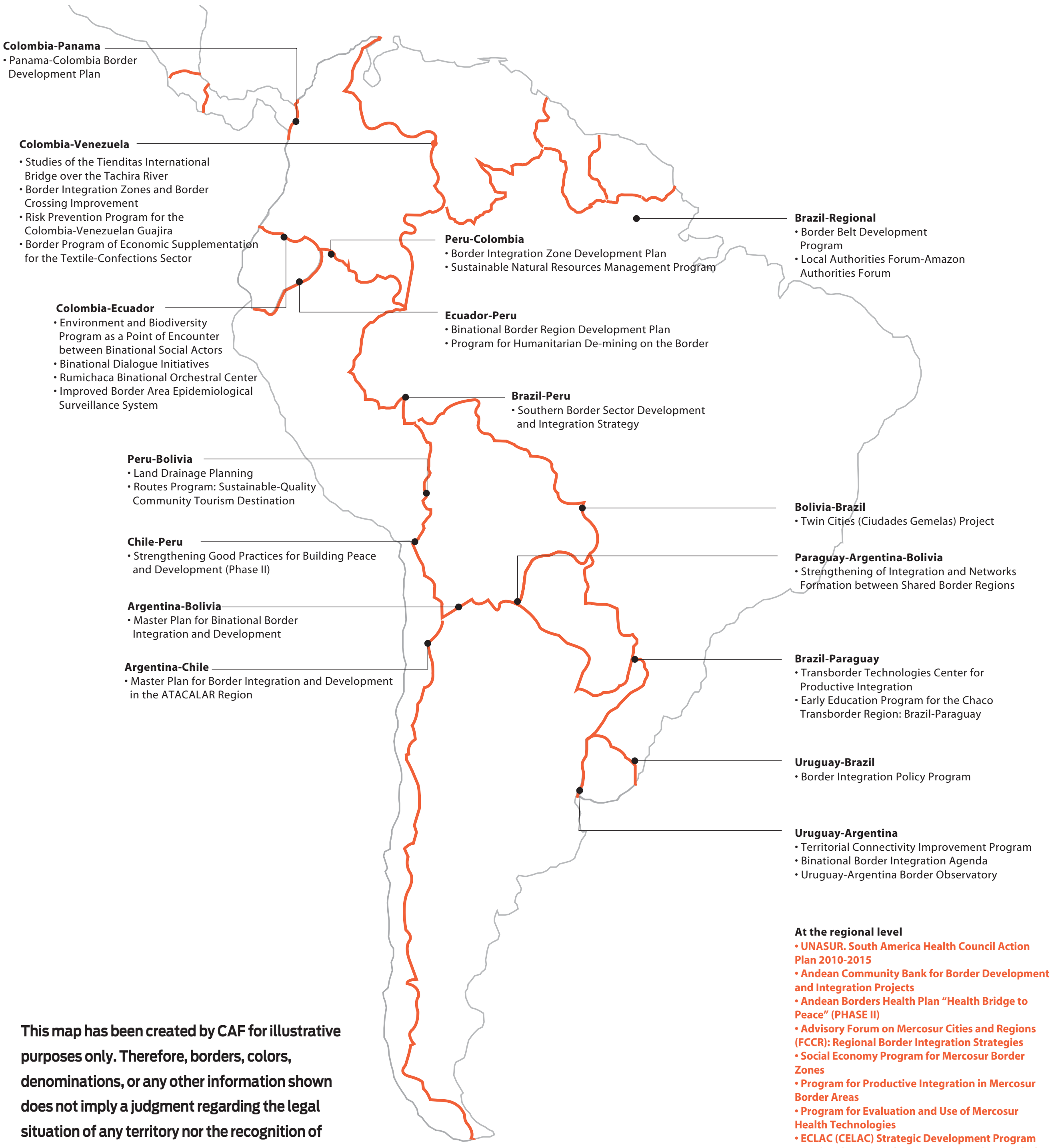
At the regional level, CAF in 2012 positioned itself as a benchmark on IT topics in Latin America with its strategy for bringing broadband to the masses. For greater regional integration, CAF took active part in working-group discussions on telecommunications in UNASUR and outlined support schemes for countries at the Connecting the Americas Summit, the region's most important IT policy forum. With the International Telecommunications Union, for example, it identified ways to help Latin America's transition to terrestrial digital broadcasting networks.

CAF also took on the design of broadband projects for low-income rural and urban communities by assessing different high-impact wireless infrastructure. Currently a series of pilot projects are being prepared in Bolivia, Ecuador and Venezuela.

Updated analysis was also begun to better understand the degree to which telecommunications infrastructure is developing and the advances in IT services for all of CAF's shareholder countries. That should yield a better evaluation of future investment needs for fostering integration and international competitiveness in Latin America through the IT sector.

Border Development and Integration Support Program (PADIF)

CAF advances a strategic border integration vision that encourages its shareholder countries to plan and coordinate the best use of shared potential, cooperation opportunities and stronger dialogue and mutual trust in border regions. Through PADIF, CAF conducts Binational Development and Border Integration Plans and fosters Border Integration Zones (ZIF), as well as subregional policies among the countries of UNASUR, CAN, Mercosur and Celac, geared toward promoting land-use planning, physical, economic and productive integration projects, sustainable human development, strengthened institutions and community cohesion.



This map has been created by CAF for illustrative purposes only. Therefore, borders, colors, denominations, or any other information shown does not imply a judgment regarding the legal situation of any territory nor the recognition of borders by the Institution.

GeoSUR

Starting in 2007, CAF rolled out the GeoSUR Program, together with the PanAmerican Geography and History Institute (IPGH) of the Organization of American States (OAS). It makes geographic information on Latin America and the Caribbean available, easily accessible, duly integrated, geo-referenced and standardized, to aid investments planning for infrastructure projects for local economic development and regional integration.

GeoSUR provides geographic services on a web platform, offering information on Latin American and Caribbean countries via official maps, aerial photos and geographic data prepared by diverse sources on topography, hydrology, population, population centers, environment and infrastructure, among other subjects.

Among the program's accomplishments are the first regional geographic portal for Latin America and the Caribbean, and the start-up of an innovative topographical processing service that is the first of its kind in the world for its geographic reach and high resolution.

Its regional map service is today a unique source of supranational geographic information that offers access to multiple international institutions that lack adequate means of producing their own data.

GeoSUR maintains international cooperation ties with the Global Network of Networks (GNON), the European Environmental Agency, INSPIRE, the Andean Community, the U.N. and UNASUR.

With the participation of 60 national information-providing institutions and 23 Latin American and Caribbean countries, GeoSur is the most advanced regional network for geographic and environmental information about developing countries. It has received such international recognition as the Presidential Award, the highest distinction awarded by ESRI, the world's largest geographic information systems company, and the 2012 NASIG prize for the development of geographic information systems in Venezuela. In 2012, it incorporated 20 new regional maps, helped finish the integrated map of Mesoamerica, began a detailed study of Peruvian hydroelectric energy and forged ties with Eye on Earth of the European Environmental Agency, and with the INSPIRE network of European geographic information.

Program of Collaboration with CG/LA Infrastructure

Latin America's infrastructure modernization is vital to economic development, opportunity creation and placing the region in ever more competitive global markets. Weak infrastructure growth is due to a lack of resources, but also technical skills, which has meant inadequate project preparation. Getting timely information and specialized knowledge to government agencies is a key to making the necessary leap for increasing competitiveness and social equality.

CAF, conscious of this shortcoming, is working with countries on different ways to strengthen technical capabilities, modernize institutional frameworks, improve project preparation and reduce information access disparities in the public and private sectors, improving management skills along the way.

Supporting CG/LA Infrastructure has led to the conceptual design of ViP (Visualizing Infrastructure Projects), a platform for enhancing the directive capacity of projects and linking them to global knowledge in a timely and assertive manner. It has a long-term focus, with the general aim of training project developers, lending them a key tool for accessing worldwide infrastructure knowledge quickly and efficiently. Aiding the effort is a powerful data base of projects supported by a system that makes some of the world's most qualified experts and enterprises available to project developers through intelligent networks.

Logistics and Port and Airport Competitiveness

Ports are the critical logistical nexuses for national and international trade, platforms for the flow of more than 80% of exports and imports. CAF's First-Class Ports Program (PDP) is set up to advance logistical platform improvements at ports and create competitive advantages for their countries.

The program initially involved Puerto Cabello (Venezuela), Cartagena and Buenaventura (Colombia), Guayaquil (Ecuador) and Callao (Peru). Recently it was extended to medium-size ports such as Paita, Matarani and Punta Lobitos (Peru), Altamira and Lázaro Cárdenas (Mexico), and there are future expansion plans for ports in other countries.

The PDP starts by identifying port communities, which usually have hundreds of businesses and public entities. It then holds technical hearings to evaluate port logistics processes and, based on the results, coordinates proposals to re-engineer them. The improvements in time-savings and efficiency let those ports provide higher quality service. The port Guarantee of Services Mark is an internationally recognized distinction that the program awards to ports that complete the pre-set goals. The Latin American Association of Port Quality (ALCP), which CAF backs, is the Guarantee Mark's administrative body.

Regarding airports, the CAF Logistics Program has defined a strategy based on the ports experience. These activities began in the middle of the last decade with studies of airports in the Andean subregion. Since then, other local and regional initiatives have helped to improve efficiency in moving merchandise and people, and to foster the economic integration of the member countries.

As a complement, in 2012 CAF developed a study, with help from the Spanish firm INECO, to analyze traffic demands as well as existing regulations and infrastructure, leading to measures that encourage air commerce between Latin American Pacific Basin Initiative countries and between them and Asia Pacific. This study undoubtedly will establish the basis for defining strategies, goals and individual and joint action plans for those countries in the future.

South American Infrastructure Integration Initiative (IIRSA)

South America's physical integration process received a new and significant impetus, reflected in the Declaration of Ministers at UNASUR's South American Infrastructure and Planning Council (Cosiplan, for which the IIRSA is a technical forum), which was held in Lima on November 16, 2012. In paragraph 2 of the Declaration, the Ministers "emphasize the need of the South American peoples to raise infrastructure to high standards, including related logistical services, in order to strengthen integration and regional union and thus improve efficiency at home while taking part in globalization." Further on, these officials "reaffirm the commitment to continue assisting physical infrastructure projects and enhance national and subregional logistics services, making it a priority in public policy and development strategy, for the connectivity and integration of its different areas." This signaled broad backing on their part for the Priority Integration Projects Agenda (API) adopted by Cosiplan.

In one of the more significant advances in the field of Indicative Planning that IIRSA promotes, regional studies were concluded in 2012 that resulted in the incorporation of Brazil's Northeast and West-central territory into the Amazon Hub. That expanded this Integration and Development Hub's area of influence to the east and the south, linking it with territory that currently forms part of the Peru-Brazil-Bolivia Hub. Similar backing went to the construction of the South American Fiber Optic Ring and the intensive use of communications and information technology as the most adequate instrument for overcoming technical limits and linking border and underdeveloped zones with more developed areas.

Among CAF's goals is fostering the development of sustainable energy systems for the region's countries, through project financing and specialized technical assistance.

Energy

In August 2012, the office of CAF's Vice President for Energy, as part of sectoral business operations, began reinforcing the bank's position as a principal multilateral financing source for the energy sector in Latin America and the Caribbean.

Among this new vice-presidency's goals is fostering the development of sustainable energy systems for the region's countries, through project financing and specialized technical assistance. It has laid out seven strategic lines of action: 1) support energy infrastructure, 2) regional energy integration, 3) support renewable energy, 4) foster efficient energy, 5) develop regional networks, 6) encourage technology patents and 7) rural electrification.

This approach should effectively promote sustainable development and integration, and make for stronger development hubs as the basis for building future integrated energy markets. It seeks to: encourage better quality and coverage of electrical services via policies, regulatory efforts, commercial strategies and infrastructure aimed also at reducing outages;

In 2012 CAF launched the Regional **Initiative for Technological Innovation**, whose goal is to establish a platform for generating renewable energy technology patents.

back studies and technical evaluations for developing alternative and renewable energy that enhances energy efficiency and mitigates the effects of climate change; contribute to building the region's energy institutions and public policies; push for the connection of regional networks that foster, through specific efforts, the creation of adapted knowledge, the sharing of experiences, support for issues of corporate governance and cooperation in the effort to deepen regional energy integration.

Among the energy integration efforts carried out in 2012 were the joint publication, with the Regional Energy Integration Commission, of a study identifying 12 new electrical interconnection projects in the region, and preparation of a feasibility study of Bolivia's electrical interconnection with neighboring countries. In that same arena, at the request of the Bolivian, Paraguayan and Uruguayan governments, CAF backed the preparation of a technical feasibility study on transporting natural gas from Bolivia to Paraguay and Uruguay, using Small LNG technology via the Paraguay-Paraná waterway. CAF also coordinated a joint study with key regional bodies related to the energy sector, aimed at a documented and integrated diagnosis of the challenges Latin America and the Caribbean face in the short, medium and long terms.

Regarding the generation and sharing of knowledge via electrical reports by sector from each nation, the Institution aided national plans and energy development. CAF also prepared a comparative study of power generation costs by technology source in order to follow the region's market trends. The first Regional Workshop on Second-Generation Renewable Energy was organized in Lima, Peru, with the participation of high-ranking officials from energy ministries.

Along those lines, CAF has pushed for raising hydroelectric potential in Latin America. Within the framework, the prospects were enhanced for small hydroelectric plants in Brazil's São Paulo state. Studies were begun for medium and large plants in Peru. In a second phase, a portfolio of projects with identifiable and usable potential should be prioritized.

In 2012, CAF launched the Regional Initiative for Technology Patents, whose goal is to establish a platform for generating renewable energy technology patents, on an international scale, from the Latin America and Caribbean region. It includes the creation of patent incubators, fostering new technologies, pilot projects and marketing for any intellectual property it generates. At the Rio + 20 conference, a cooperation agreement was signed with the Brazilian Studies and Projects Financier (FINEP), whereby each institution commit a USD 100 million investment to back technological innovation during the next three years. That is expected to result in the first regional gathering to present patentable technology ideas.

The Social Development Agenda is based on strategic guidelines for integrated assistance to the region's social sectors in accordance with basic priorities and needs.

Social Development

CAF in recent years has deepened its commitment to sustainable development in Latin America and has become one of the principal financing agents for the region's social sectors. CAF supports countries in improving their citizens' quality of life from an integrated and inclusive standpoint, linked in turn to three major focuses:

- Financing investment projects and programs with high social impact for improving living conditions for the most vulnerable populations, as well as reducing poverty, inequality and social exclusion.
- Technical assistance for enhancing the governability of social sectors, aiding public policy planning and ensuring the effectiveness, relevance and sustainability of those efforts.
- Generating applicable knowledge for social projects and programs through research, systemization and sharing of best practices.

In this sense, CAF structures its Social Development Agenda based on a series of strategic guidelines that bring integrated assistance to the region's social sectors in accordance with basic priorities and needs.

To help advance knowledge, CAF presented its strategic proposals at diverse international events and assembled them in the publication **"Drinking Water and Sanitation in Latin America and the Caribbean: Realistic Goals and Sustainable Solutions."**

Comprehensive Water Management

CAF assists the region in financing and preparing investment studies, projects and programs that contribute to improving quality of life, particularly for those with scant resources, through an integrated vision of the water cycle that focuses on four lines of action: 1) management and protection of basins; 2) drinking water, sanitation and wastewater treatment services; 3) agricultural irrigation and development; and 4) drainage, flood control and climate change. This approach emphasizes the need to take on two interconnected concerns at once: the deficiency the region faces when it comes to infrastructure and its financing, and the need for better institutional handling of water with respect to organization, legal frameworks, procedures, incentives and results.

Through the Integrated Water Program, projects for drinking water, basic sanitation and wastewater treatment were evaluated and approved. In collaboration with the German development bank KfW, technical cooperation resources were obtained from the European Commission's Latin America Facility for EUR 4 million, for pre-investment studies and technical assistance on water and sanitation projects. At various international events, CAF also presented its strategic proposals, among them the publication "Drinking Water and Sanitation in Latin America and the Caribbean: Realistic Goals and Sustainable Solutions," delivered at the Sixth Global Water Forum held in Marseilles, France. The second volume of the series "Reflections on Social Policy, Environmental Justice and Social Inclusion in Latin America: Universal Access to Water and Sanitation" was completed with the goal of spurring a broad public policy discussion about the drinking water and sanitation services deficit. It also advocates for universal access to urban services, with an emphasis on society's poorest and most vulnerable.

Comprehensive Natural Disaster Management

By seeking to cover all the stages of risk, from identifying and assessing it to rebuilding damaged infrastructure, CAF assists the region's countries with resources and technical advice that aid response, prevention, mitigation and reduction of the damages, effects and financial costs of natural disasters before they occur, as well as the resulting losses of physical, natural and social capital. In 2012, Brazil benefited via the Regional Financing Facility for Immediate Response to Natural Emergencies in Rio de Janeiro state. With help from the reinsurance company Swiss-Re, a workshop titled "Mechanisms of Risk Transfer in the Face of Natural Disasters" was held in Panama; its aim was to find adequate financial management for transferring risk from the public sector to capital markets and the private sector, and it culminated in the Research and Development Program to develop the capacity of an Early Alert System for Natural Disasters in Brazil. Finally, a new line of regional contingent credit was approved for USD 500 million to assist countries in adequate risk management as a timely response to increasingly frequent natural disasters in the region. The funds can be used for first response to victims, restoring critical services, preparing pre-investment studies and permanent reconstruction of infrastructure.

Comprehensive Urban Development

In 2012, CAF deepened its commitment to the comprehensive development of cities by establishing common guidelines for its efforts in urban zones. They take advantage of multi-sector synergies that arise from the Institution's various initiatives promoting urban development, productive transformation, environmental sustainability and strengthening institutions. CAF, along with the Integrated Urban Development Program, assists the region's cities in the housing, urban development, education, health and basic social services sectors, with an emphasis on the most vulnerable populations. Different financing, technical assistance, institutional improvement and knowledge management activities have been launched.

Urban development loan operations were approved in various cities. The second edition of the International Urban Development and Social Inclusion Contest was held with the goal of awarding and assisting projects in Latin American cities that improve quality of life through the conception and design of innovative, relevant, justified and workable initiatives. The 2012 prizes went to projects from the Dominican Republic and Peru. Other efforts included the design of an urban system for the Olmos territory (Peru) and participation in events like the Sixth Global Urban Forum held in Naples, Italy, where CAF and UN-Habitat presented results from research on urban inequality in Latin America.

Education Quality

Under the premise that quality education is one of the most effective instruments for the development of human capital, and that it also increases worker competitiveness and social justice, CAF promotes programs and projects focused on alternatives in higher technical education, technology and early education, as well as improvements in education infrastructure.

The launch of the CAF Schools Program stands out in this regard. Its goal is to support credit operations for school infrastructure by applying new technologies, and to restore the public value of education through greater inclusion, equality and quality. It integrates the following: 1) best construction and repair practices for school infrastructure; 2) educational applications and content, utilizing the technological platform caf.edu; and 3) remote and semi-onsite teacher training, technological as well as pedagogical, in conjunction with local universities. Higher technical and university education is also a principal line of work for CAF, through the Vocational and Technical Education Seminar as well as approval of the UNASUR Youth Program for Social Economy and Regional Integration, in collaboration with the University of Buenos Aires.

In the field of primary education, the Learning Skills Program was carried out for a second year, to improve teacher performance via tools and practical methods that guarantee active teaching in thinking, reading and writing and arithmetic skills.

In 2012, 948 teachers in Bolivia, Ecuador, Panama and Venezuela were trained.

Health

The health sector saw continued work in border integration programs, such as the Improved Epidemiological Surveillance System along the Colombia-Ecuador border, and the Strengthening of Prevention and Control of Foot-and-Mouth Disease in Border Zones. Technical cooperation was also approved for the Mercosur Working Health Group for evaluating and using sanitary technologies. With financing from the Italian General Cooperation Fund, the "Sanitary Plan for Andean Integration" was approved for the Hipólito Unanue Andean Health Organization (ORAS CONHU). This plan will yield Andean health policies, strengthened surveillance systems and response to borders, prevention plans for control of non-transmittable diseases, medication observatories and improved human resources, among others.

The social sustainability agenda aims to design and implement projects that strengthen skills and talents, with the goal of ensuring that participants become agents of their own development.

Social Sustainability

CAF, committed to reducing poverty and injustice in the region, channels resources to social inclusion initiatives that contribute to better quality of life for low-income populations. It designs and implements projects that strengthen skills and talents, with the goal of ensuring that participants become agents of their own development. It backs programs that focus on children in underprivileged communities, for whom music and sport are used as tools of integrated human development.

Today, CAF's social sustainability agenda is focused on three programs: i) PASOS (Steps) for Inclusion, ii) Música para Crecer (Growing through Music) and iii) SOMOS (We Are).

PASOS for Inclusion

This program generates added value through productive projects for the most vulnerable communities in the influence zone of projects financed by CAF. It fosters skills and talents, ensuring that the participants become agents of their own development. In 2012, the activities centered on three lines of action:

Rural socio-productive inclusion: strengthening communities so they generate incomes in a sustained way, as they integrate their productive efforts with value chains and improve quality of life. Also: developing productive, organizational and financial skills through a demand-oriented approach that ensures the sustainability of this effort.

Socio-productive urban inclusion: backs initiatives that generate work skills and urban, micro-entrepreneurial opportunities. The demand-oriented approach is fundamental for the sustainability of these operations.

Information and communications technologies for inclusion: social inclusion via the use of information technology in the telemedicine and tele-education areas. Many rural communities have trouble accessing the health and education systems, which is a big reason why the urban-rural inequality gap is so large.

Música para Crecer (Growing through Music)

For CAF, musical education is a key component of social responsibility. Since 2000, CAF has advanced a social action program recognized internationally for its high impact. The initiative now known as Música para Crecer's, uses orchestral and choral training as an integrated development and social inclusion tool for low-income youths. It consists of traveling workshops using new methodologies that make experienced Venezuelan instructors available to young people in beneficiary countries.

In 2012, 30 orchestral and choral workshops were held in Argentina, Bolivia, Brazil, Colombia, Ecuador, Panama, Paraguay, Peru, Uruguay and Venezuela. They taught 5,600 children and trained 575 teachers. An analysis of the program's principal partners was carried out to aid future efforts. A bibliographical review of the best studies linking music to holistic human development was also prepared, making available a document that empirically supports the Institution's investment in this subject.

One of Música para Crecer's more notable activities was the symphonic-choral concert "Latin America Plays and Sings to the Rhythm of Inclusion," directed by Maestro Gustavo Dudamel and the CAF Latin American Voices chorus. This concert displayed the year's important investment in the social inclusion of the region's children and youths through musical education, especially its choral component.

SOMOS: Sports Network for Latin American Development

With the goal of improving quality of life for girls, boys and teens through sport, CAF in 2012 formalized the start-up of the first Sports Network for Latin American Development, called SOMOS (We Are).

SOMOS replaces the sports social action program that CAF launched seven years ago, with the aim of establishing a platform for connection to, and exchange of, technical and financial resources among social, public and private persons and groups interested in promoting sport as a tool of prevention and social inclusion in Latin America.

In 2012, SOMOS added to its partner network the Celeste Foundation, directed by Diego Lugano, captain of the Uruguayan national soccer team. Resources for four new institutions were approved as well, with which the program can spread to seven countries in the region for a total participation of 28,600 girls, boys and youths and 850 coaches in the network's training process.

The SOMOS network promotes the social responsibility of private companies, such as Odebrecht in Panama, where in partnership with the New Generation Movement, initiated with CAF the first operations for construction of the Panama Metro.

As part of the United Nations Conference on Sustainable Development (Rio + 20), CAF organized the side event "Productive Transformation and Migration to Low-carbon Countries: Mechanisms and Financing."

Environmental Sustainability and Climate Change

CAF continues advancing the environmental sustainability agenda for Latin America, as well as financing strategies tied to that effort, assisting the environmental management of its shareholder countries and catalyzing the flow of available resources for moving toward a low-carbon economy.

Environmental and Social Institutional Management

The balance sheet of the Environmental and Social Institutional Management Unit –through which evaluations are conducted– reported 30 environmental and social evaluations and 60 tracking missions to operations that are in their administration and disbursement phases.

To certify those CAF-financed operations, evaluation and environmental and social tracking manuals were published for Infrastructure and Social and Environmental Development Operations, and for Industrial and Corporate Operations.

The Institutional Environmental Management Program (PIGA) was launched to reduce CAF's environmental footprint, as it optimizes the environmental performance of the Institution's operative and administrative processes. PIGA focuses on improving domestic environmental conditions, integrated solid waste management, the carbon footprint (considered the most important indicator since it involves the performance of the majority of operations), efficient use and conservation of water and energy, and the responsible use and conservation of office materials. Since 2010, measuring CAF's carbon footprint has marked a milestone in defining performance indicators, in line with Greenhouse Gas Protocol standards. An organizational environmental performance indicator was also established and has been incorporated into the Institution's Annual Incentive Program. Since PIGA's implementation, the carbon footprint has been reduced by more than 10%, particularly as a result of the energy savings in CAF offices.

Environmental Sustainability

As part of the United Nations Conference on Sustainable Development (Rio + 20), the side event "Productive Transformation and Migration to Low-carbon Countries: Mechanisms and Financing" was organized with the goal of linking public and private sector initiatives, as well as optimizing access to financing that yields dynamic solutions to the great challenges facing the formation of a new sustainable development agenda.

The Green Economic Cooperation for Sustainable Development forum was held, organized by CAF and the Republic of Korea, to take advantage of economic cooperation opportunities between Korea and Latin America. During the conference, a vision of the opportunities and challenges of productive transformation was presented in the Asia-Latin America context. High-profile panelists shared both regions' experiences.

CAF also approved technical assistance resources of about USD 3 million during the year to back projects and initiatives promoting policies, stronger institutions and productive capacity, as well as promoting and sharing knowledge in the areas of conservation, forests, hydro-resources, urban landscape, pollution control, biocommerce and productive transformation for migration to low-carbon economies.

On the subject of generating and spreading knowledge about environmental sustainability, the Institution prepared a publication on green growth indicators for Latin America, backed at the highest levels by the OECD, UNIDO (U.N. Industrial Development Program) and CAF. It also assisted with the publication of "Keeping Track of Our Changing Environment," edited as part of Rio + 20 and the Global Environmental Outlook (Geo-5) of the U.N. Environment Program. It is based on statistical evidence that illustrates the main environmental, economic and social changes since 1992.

Mitigation and Adaptation to Climate Change

In June of 2012, the Latin American Climate Change Program (PLACC) was created to aid Latin American countries in implementing mitigation and adaptation policies, plans and programs concerning climate change. Its strategies include mitigation as well as vulnerability and adaptation to climate change.

Through the year, PLACC brought nine new projects into its portfolio, which represent 7.976 million tons of reduced and certified CO2 in the form of three emissions reduction contracts and two mandates. In this way PLACC administers, develops and markets greenhouse gas emissions reductions related to 40 operations in sectors essential to Latin America's low-carbon development, such as energy efficiency, renewable energy, capture and use of biogas, reforestation and mass urban transit.

PLACC also won approval from the Latin American Carbon Financial Facility (LACFF) with money from the European Union's Latin American Investment Facility (LAIF), whose goal is to provide a guarantee fund for credit operations based on efforts that produce certificates of emissions reductions (CERs), which are in turn eligible for the European market for greenhouse gas emissions. This operation also has a technical assistance component dedicated to backing preparation of Nationally Appropriate Mitigation Actions (NAMA).

Mitigation program activities were begun with a request from a new NAMA effort, under the auspices of LAIF, which should be approved and documented toward the middle of 2013.

In the third quarter of 2012, a request was made to the U.N. Adaptation Fund to obtain CAF's certification as an implementing agency of the Fund. This will let CAF optimize the flow of resources for climate change adaptation projects in the region.

In November, the second Bogota Summit: Cities and Climate Change was held with the goal of fostering climate change mitigation and adaptation actions, and strengthening sustainable and humane urban environments. The Summit was attended by more than 50 delegations from Latin American cities and other regions around the world.

CAF finances the growth and improvement of productive business competitiveness, directly or through the financial systems of each country.

Productive, Financial and MSME sectors

CAF's Comprehensive Agenda seeks suitable equilibrium between the social and environmental dimensions of development, between macroeconomic stability and microeconomic efficiency, between the roles of the State and the economy's private sector, between the human and productive dimensions –all within the framework of policies and priorities established by each country, in the context of solid democratic institutionality. In that sense, assisting the private sector's development has always been one of CAF's strategic goals, due to its important contribution to quality economic activity and, specifically, to job creation, innovation, exports and building and operating the physical infrastructure the region requires.

Assisting the private sector has as its principal goal the **productive transformation of Latin American economies.**

Toward that end, CAF has established programs with specific aims for those segments of the private sector that are most strategically important to economic development, among them the productive, energy, infrastructure and financing sectors and those with a special focus on aiding MSMEs. For each client within those sectors, CAF seeks to offer financial services that best adapt their particular needs to the particular conditions of each market. As a result of that strategy, CAF carries out a very wide range of operations including: loans, lines of credit, guarantees, structured financing, subordinated credit, A/B credit, equity investments, technical cooperation and financial consulting.

Assisting the private sector has as its principal goal the productive transformation of Latin American economies. It helps our economies broaden the range of its productive and export products and services, while adding greater value to the comparative advantages our region offers, especially in natural resources.

CAF finances the growth and improvement of productive business competitiveness, directly or through the financial systems of each country. Besides that, it develops special programs that complement its financial management as it supports efficiency, productivity and competitiveness in productive sectors.

Latin American MSMEs generate more than half the region's jobs. But this important part of the private sector faces limits in its access to financing. CAF facilitates this access by financing and investing in microfinance institutions, credit guarantee funds and risk capital funds. These foster financial inclusion and promote entrepreneurship, as well as more equitable economic growth.

CAF also seeks to establish integral relationships with the region's public and private financial sectors that go beyond financing schemes and become true levers for productive transformation that are both efficient and contribute to Latin America's sustainable development.

In conjunction with the public, private and non-governmental (NGO) sectors, CAF supports the work of building and implementing national policies for entrepreneurship and innovation assistance.

Competitiveness, Public Policy and Productive Transformation

CAF designs and carries out programs that encourage business development and competitiveness, with productive and social inclusion criteria. They promote innovative entrepreneurship and generate knowledge that can replicate successful experiences, move resources from the international to the national and local levels, create institutional capacity and strengthen productive chains that lend businesses access to international markets.

Entrepreneurship and innovation are the points of departure for creating new productive enterprises that add to greater socioeconomic welfare. In conjunction with the public, private and non-governmental (NGO) sectors, CAF supports the work of building and implementing national policies for entrepreneurship and innovation assistance, through seminars and workshops in Argentina, Bolivia, Colombia, Panama, Peru, Uruguay and Venezuela. It also carries out strategic assistance to entrepreneurship and innovation networks, to strengthen national ecosystems that bring together business-related institutions.

CAF contributes to its member countries' integration processes by promoting international integration, at the Latin American level, to build up regional value chains. The Institution seeks to leverage efforts to reduce or eliminate obstacles and impediments that affect export performance and bring together actors from the public, private and academic sectors. Engaging these international integration subjects has in turn opened spaces for discussion about facilitating trade and trade policy decisions in the region, as well as a diagnostic study

of Latin America's situation in matters of trade and direct foreign investment.

Competitiveness and local economic development can be combined with cluster development, value chains and businesses that add value to products within a territorial framework in which business development is the highest goal. In 2012, CAF promoted productive supply chains for coffee, grain, fruit, vegetables and cocoa, as well as the plastic, wood and tourism sectors. They generated consensus on goals and routes to follow, collaboration schemes with large-size anchor businesses, help for integrating SMEs into international markets, and advancing business association stratagems that guarantee the sustainability of these efforts.

Another essential subject for the region's sustainable productive transformation is productive inclusion and the financial education of socially disadvantaged sectors. CAF encourages this shared-value initiative by formalizing the innovation of products, needs and markets, and by redefining value chains that small suppliers can join via anchor companies. By assisting small local producers especially, such as Ecuador's banana sector, guayusa leaf growers in Bolivia and small artisans in Colombia, the Institution is achieving inclusion for quality export products from the trade systems of each country. In another approach, studies were prepared offering an assessment of the current state of financial education that could lead to future cooperation with clearly determined goals.

Already established businesses require a set of practices, formal and informal, that govern relations between administrators and all those who invest resources in those organizations, be they public or private. This is why CAF considers it so important to incentivize good Corporate Government practices, through support programs and training for the region's diverse enterprises, especially State-Owned Enterprises . In 2012, about 20 enterprises were involved in all of Latin America. Alliances were also established with the region's various stock markets, such as those in Peru, Ecuador, Colombia, Argentina and Panama, to spread the use of best practices and encourage concrete measures.

Indirectly, and as part of the Latin American Observatory of Productive Transformation, which seeks to integrate these important subjects regarding Latin America's sustainable development through the production and sharing of knowledge and successful practices, seven successful cases were carried out. They involve CORFO in Chile, FINEP in Brazil and the Tecnológico de Monterrey in Mexico, as well as studies on the functions of local development agencies, the role of free trade agreements in Latin America, the development of inclusive markets in the region and the importance of corporate government in state property enterprises.

CAF's Research Support Program fosters the design and execution of public policy through the production and sharing of knowledge.

Socioeconomic Research

The link between research and economic development is very close. Research constitutes a direct vehicle for advancing societies and promoting their productive capacities. At the same time, an exchange exists between research processes and the start-up of effective policies for productive development: the region's public policy-makers digest research in order to make decisions that facilitate and stimulate economic and social development.

In keeping with this logic, CAF's Research Support Program (PAI in Spanish) fosters the design and execution of the region's public policies and development strategies, through the production and sharing of knowledge. The Institution benefits from work that engages topics of interest for its agenda and it takes part in the debate on important matters related to the economic and social development of Latin America.

In 2012, 14 publications were prepared through PAI. First, the 2012 Economy and Development Report (RED), "Public Finance for Development: Strengthening the connection between revenue and spending," was published in three different formats: in Spanish in print and digital, and a summary in English, available on the website.

Two editions of the FOCUS bulletin were also published. The first edition, published in January 2012, was dedicated to public security; it summarizes work commissioned by CAF on this topic (some of those studies were published in the magazine Perspectivas) and analyzes crime data arising from a CAF study. The second edition of the bulletin was published in June 2012 and describes the most important messages contained in RED 2012, while it also dedicates space to the principal results obtained in the CAF survey's section on taxes.

A series of CAF scholarly documents were published in digital form under the following research titles: "The impact of development policies on entrepreneurship: the case of Buenos Aires Emprende," by H. Ruffo; I. Butler; G. Galassi and G. González; "And exploratory study of entrepreneurial ventures in Argentina, their financing and first years' growth," by R. Pasquini; L. Mastroscello; F. Valli and R. Segovia; "Development policies for dynamic entrepreneurship in Latin America: trends and challenges," by H. Kantis; J. Federico and C. Menéndez; "Young businesses, entrepreneurship, and the dynamics of employment and output in Colombia's manufacturing industry," by M. Eslava and J. Haltiwanger; "Management practices, firm ownership, and productivity in Latin America," by R. Lemos and D. Scur; "Labor decisions in Latin America: the case of the entrepreneurs," by L. Gasparini; D. Jaume and P. Gluzmann; "Can a mining windfall improve welfare? Evidence from Peru with municipal level data," by A. Arreaza and A. Reuter; "The impact of taxes and social spending on inequality and poverty in Argentina, Bolivia, Brazil, Mexico and Peru: a synthesis of results," by L. Nora; G. Gray-Molina; S. Higgins; M. Jaramillo; W. Jiménez; V. Paz; C. Pereira; C. Pessino; J. Scott and E. Yañez; "Spillovers of health education at school on parents' physical activity," by L. Berniell; D. De la Mata and N. Váldes; "Development patrons in Latin America: a convergence or a fall into the middle income trap?" by P. Sanguinetti and L. Villar and "Reciprocity and willingness to pay taxes: evidence from a survey experiment in Latin America," by D. Ortega, L. Ronconi and P. Sanguinetti.

The Annual Research Support Program Contest on productivity and business talent in Latin America was also held. Fifty-five proposals were presented and four were selected. The winners were: i) "Distortions, resource misallocation and productivity in Latin America," by N. Guner (Universitat Autónoma de Barcelona) and G. Ventura (Arizona State University); ii) "The impact of development policies on entrepreneurship: the case of Buenos Aires Emprende," by H. Ruffo (IREAL de Fundación Mediterránea) and G. Galassi (IREAL de Fundación Mediterránea); iii) "Young businesses, entrepreneurship, and the dynamics of output and employment in Colombia's manufacturing industry," by M. Eslava (Universidad de los Andes) and J. Haltiwanger (University of Maryland); iv) "Financial Frictions, Occupational Choice and Economic Inequality," by L. Allub (Universidad Carlos III) and A. Erosa (Universidad Carlos III).

During the year, the principal conclusions and lessons of RED 2011, "Financial services for development: promoting access in Latin America," were shared in presentations at the Brookings Institution in Washington, D.C. (U.S.); at the Bank of Spain in Madrid (Spain); at the Conference on Development of the Financial System in Latin America, organized by the Central Bank of Montevideo (Uruguay); in the seminar "Market inclusion, stability and transparency" in La Romana (Dominican Republic); in the Microfinance for Latin America and the Caribbean Training Program in Cartagena (Colombia); at the Conference on Financial Inclusion, Central Bank of Ecuador, in Quito (Ecuador); at the Ibero-American Development Agency (ADI) Seminar in Barcelona (Spain); and in the Latin American Studies Institute (ILAS) in Beijing (China).

As part of preparations for the Perspectivas magazine issue on taxes and public administration, CAF, with the University of the Pacific, organized in May 2012 the Second International Seminar "Perspectives on Development" in Lima, Peru.

Preparation of RED 2013 moved forward, dedicated to productivity, entrepreneurial talent and development in Latin America. CAF also took active part in the 17th Annual Meeting of LACEA, held in Lima, Peru. This annual forum gathers the region's principal researchers and academics. CAF sponsored two sessions of research presentations: one on productivity and entrepreneurial talent and another on public security.

CAF economists also participated in various conferences and workshops: "Entrepreneurship and Development Workshop," World Bank, Washington (U.S.); Analysis of Chilean-Asian economic relations: lessons for Latin America," CIEPLAN, Santiago (Chile); Experimental Criminology Conference, Cambridge (England); American Society of Criminology conference, Chicago (U.S.); Meeting of the injustice and poverty network, New York (U.S.); Seminar "Youth and Values," Córdoba (Argentina).

Similarly, CAF sponsored and took active part in academic events organized by the new research network applied to public security, "América Latina Crime and Policy Network" (Alcapone) held in Berkeley, U.S. Finally, in 2012 CAF won recognition for its commitment to entrepreneurial education from the Junior Achievement organization.

In 2012 CAF created the Institutional Development and Special Affairs Directorate to assist public administration improvement processes and institutional quality in Latin America.

Institutional Development

A country's institutional quality is critical to the effectiveness of public policies and sustainable development. Given the numerous challenges any Latin American state faces today, CAF in 2012 created the Institutional Development and Special Affairs Directorate (DIAE) to contribute to improving public administration and institutional quality, take on the region's public security problems and contribute to the development and identification of young emerging leaders.

During 2012, CAF began developing capabilities in three new areas of work under the strategic vision of generating knowledge, increasing the Institution's visibility in these matters and fostering business opportunities.

Public Administration and Institutional Quality

In the past decade, Latin America has experienced important growth in its middle class, which today represents 152 million people (30% of the total population). Emboldened by the fruits of economic growth, this new middle class has raised its demands for government with more efficient development management, and which offers education, housing, health and job services. However, our institutions still present great challenges in their quality of management.

Regarding public administration and institutional quality, CAF advances an agenda focused on the principal governmental challenges, particularly in the area of decentralization and local government, training of government officials, transparency and corruption, and electronic government. Strategic alliances have been drawn up with the Economic Commission for Latin America and the Caribbean (ECLAC/CEPAL), the Institute for Applied Economic Research (IPEA) and the U.N. Development Program (UNDP).

One of the principal focuses of 2012 in the area of training government officials was rebooting the Governance and Policy Management Program. This program was designed by CAF and developed academically by George Washington University with the intention of creating a critical mass of public sector authorities and support teams that are able to contribute to sustainable social development. During 2012, 1,339 participants were trained. On the subject of decentralization, the Local Management Updating and Improvement Program (Prameg) is being bolstered; the action plan it designs gives local governments tools to improve public service and increase income, with the aim of democratizing municipal administration. Throughout the year, the program was carried out in 10 city governments in Argentina, Bolivia, Colombia, Ecuador and Peru.

Public Security and Democracy

Latin America's institutional weaknesses have aggravated the public security problem, which today represents one of the chief worries of the region's citizens. For that reason, CAF has dedicated important efforts to developing a public security and democracy agenda that administers proper programs and puts special emphasis on the subject. The topics of action focus on stronger information management, presenting solutions with a preventive and community emphasis, increasing citizen participation, taking part in the debate on democracy and building a regional perspective.

Among the year's efforts, cooperation with the Argentine Security Ministry stands out in terms of implementing a national information system and strengthening the work of community policing by a group of Buenos Aires neighbors. Work with the Organization of American States (OAS) and the Inter-American Dialogue was also carried out. Joint studies with the Woodrow Wilson Center were prepared, the UNASUR Center for Studies on Democracy was formed and the Carter Center was aided in its studies on democracy in the region.

Youths and Emerging Leaders

Currently, young people represent more than 30% of Latin America's population. As a result, the region will enjoy a demographic bonus that will peak in 2025; by then, for more than every three economically active persons there will be barely two dependent persons. This represents a great opportunity to develop a critical labor mass that pushes the region toward a new era of greater productivity, knowledge and development.

CAF recognizes the strategic importance of building a youth agenda that's dynamic and effective. The Institution is taking action focused on stronger entrepreneurship and innovation, developing networks of new leaders and training and promoting young leadership. In 2012, one priority was adjusting the reach and focus of the Leadership for Transformation Program, designed by CAF. Its goal is identifying, selecting and training natural leaders who have a vision for their countries and civic-democratic values, to let them exercise leadership with responsibility and knowledge of their countries' situations. In 2012, 2,205 people were trained.

A strategic alliance with the Ibero-American Youth Organization was also created to develop a youth survey and workshops for recognizing good entrepreneurship and innovation practices.

Throughout the year, CAF worked on strengthening ties between Latin American youth within the region and with other geographic zones, particularly Asia. The Third Young Latin American Leaders Workshop was held in Buenos Aires, Argentina, with more than 40 participants from the entrepreneurial, political and academic arenas, to debate the region's future. In Singapore, the First Latin America-Asia Emerging Leaders Workshop was held in association with the Centennial Group, the Asian Development Bank and the Government of Singapore. It attracted more than 50 youths from both regions, who shared an enriching exchange with a select group of former Latin American and Asian presidents on both regions' visions for development and democracy.

In recent years, the Institution has achieved a growing presence in global forums in North America, Europe and Asia.

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CAF's Presence in the Main Regional Integration Meetings

Throughout 2012, CAF continued its support of regional integration events while contributing in a substantive way to strengthening recent integration initiatives. By defining and executing integral work programs with the different regional organizations and initiatives, the Institution contributed decidedly to implementing subregional, regional and hemispheric agendas for integration and consensus. Likewise, throughout the year CAF established itself as an important bridge for stronger bi-regional integration between Latin America and Europe and Asia. It's worth noting the important dynamic the region displayed in strengthening integration as a means of intraregional cooperation and promoting common stances on the international agenda.

As a result of its presence and permanent technical assistance in the pursuit of a multilateral focus on the region, as well as the participation of CAF's President in each of the regional Presidential Summits, the Institution was a key part of the shareholder countries' priority integration projects. During 2012, CAF promoted concrete actions mainly to further the integration of the region's physical infrastructure and its energy markets, as well as financial and productive integration, financial assistance to MSMEs, and stimulus for the consolidation of productive value chains. At the same time, it fostered specific regional projects for environmental, social, educational and cultural development, as well as multiple programs for binational and subregional integration and transborder cooperation programs, focused on reducing imbalances.

It bears mentioning CAF's presence and active participation in the Joint Working Group on Summits (GTCC) and at the Sixth Summit of the Americas held in Cartagena, Colombia; at the meetings of the Summit of Mercosur Heads of State in Mendoza, Argentina and Brasília, Brazil; the 22nd Ibero-American Summit of Heads of State and Government in Cadiz, Spain; the Meetings of the Mechanisms and Regional Integration Organizations and the CELAC Ministerial Meetings for

Infrastructure, Telecommunications and Border Integration, Energy and Treasury; the UNASUR Ministerial Councils and the diverse working groups of the Andean Community and the Andean Integration System.

Through an integrated focus, one of complementarity and convergence, CAF in 2012 put in motion programs for work and cooperation in accord with distinct regional integration organization and secretariats. Among them were ventures advanced with various members of the Ministerial Council as well as the UNASUR Secretariat General, the OAS, the Ibero-American Secretariat General (SEGIB), the Ibero-American Youth Organization, the Organization of Ibero-American States for Education, the CAN (Andean Community) Secretariat General, the Andean Parliament, the Hipólito Unanue Andean Health Organization, the Mercosur Common Market Group, the Advisory Forum for Mercosur Municipalities, Federated States, Provinces and Departments, the Mercosur Social Institute, the Secretariats Pro-Tempore of the Summit of the Americas, the Iberoamerican Summit, CELAC, UNASUR, Mercosur, the Forum for Countries of the ARCO Initiative, the Roads for Prosperity in the Americans Forum and the Mesoamerican Initiative, the Latin American Integration Association (Aladi), the Latin American Energy Association (Olade), the Amazon Cooperation Treaty, the Caribbean States Association, the Economic Commission for Latin America and the Caribbean (ECLAC/CEPAL), the Latin American Social Sciences Faculty (Flacso), and also with an important network of multilateral institutions, academic entities and social organizations that promote programs and projects in the regional integrations sphere.

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1. VI Ordinary Meeting of the Council of UNASUR Heads of State and Government, Lima, Peru, November 30

2. VI Summit of the Americas, Cartagena, Colombia, April 14 and 15

3. XXII Ibero-American Summit of Heads of State and Government, Cadiz, Spain, November 16 and 17

4. XLIII Mercosur Presidential Summit, Mendoza, Argentina, June 28 and 29

Global Outreach

CAF in 2012 maintained a robust international agenda, geared toward developing the Institution's effective and integral international presence, with the goal of strengthening its catalytic role of promoting Latin America's global outreach.

The principal events of 2012 were the following:

- **The First CAF-Oxford University Conference, "Latin America in the New World Economic Order: Toward a New Development Model."** Oxford, United Kingdom, February 17. It analyzed Latin America's key political, economic and social challenges in the new global scene, with the presence of more than 250 experts, academics, public and private sector executives, business owners and members of the international financial community.

- **The "Learning from Latin America: Debt crises, Debt Rescues and When and Why They Work" Conference, organized by the University of London's Institute for the Study of Latin America.** United Kingdom, February 20. The event gathered academics and professionals familiar with past debt crises in Latin America and the rescue experiences, to develop a comparative perspective among an audience concerned about the current European crisis.

- **The "Latin America and Asia: Forging New Opportunities and Solutions in the World Economy" Conference.** Organized by Canning House, London, United Kingdom, February 21. The President of CAF held a magisterial conference oriented toward evaluating perspectives on growth that are becoming clearer in the ever more dynamic economic and trade association between Latin America and Asia.

- **The Fifth Global Leadership for Infrastructure Forum, organized by CG-LA.** London, United Kingdom, February 22-24. This forum, which promotes infrastructure megaprojects on a global scale, enjoyed CAF sponsorship and the participation of its President, Enrique García, as the keynote speaker.

- **Regional Seminar on Renewable Energy: Perspectives on Collaboration between Latin America and Europe, organized by CAF and the French Regional Cooperation.** Lima, Peru, March 1-2. This event promoted a specialized debate on recent, state-of-the-art technological solutions in energy markets, hoping to foster the introduction of renewable sources in the energy matrix of Latin American countries.

- **The 53rd Annual Meeting of the Assembly of IDB Governors.** Montevideo, Uruguay, March 15-19. CAF was present in the IDB's principal annual gathering, where it signed on to important agreements with other multilaterals and took part in the "Development Models in Latin America: the Search for Convergence and Complementarity" Forum, organized by the Latin American Integration Association.

- **The "Analysis of Chilean-Asian Economic Relations: Lessons for Latin America" International Conference.** Organized by CIEPLAN, Santiago de Chile, March 29. Results of the studies commissioned by CAF on Chile's economic relations with Asia-Pacific countries, with the participation of the Chilean free trade agreements negotiating team, recognized Latin American experts and Asian academics.

- **Sixth Summit of the Americas.** Cartagena de Indias, Colombia, April 14 and 15. As a member of the Joint Working Group on Summits (GTCC), which coordinates the support of 12 international institutions for the Summit of the Americas Process, CAF had an important presence at the VI Summit of the Americas, which approved important mandates on the fight against poverty, infrastructure, public security and developing new technologies.

- **World Economic Forum on Latin America.** Puerto Vallarta, Mexico, April 16-18. This gathering's purpose was to analyze the region's transformations in the new global context with public and private sector leaders. The CAF President participated in the panel on "Strategic Infrastructure" and put together a full agenda of bilateral meetings.

- **CAF-LatinFinance Analysts' Roundtable.** London, April 25. This event encouraged the exchange of opinions between CAF officials and analysts from London-based investment banks on CAF's positioning in international financial markets.

- **Latin Trade CFO Events.** Buenos Aires, Argentina, April 26. This forum was the first in a series that throughout the year brought business leaders together to discuss the perspectives and challenges of regional markets. CAF was also present at events held in Mexico City (May 24), Bogotá (July 25), São Paulo (August 16), Mexico City (November 15) and Miami (December 7).

International Seminar on Public Finance for Development, Montevideo, Uruguay, July 2.

"Productive Transformation Toward Low-Carbon Economies: Financing Mechanisms" Conference, as part of the Rio + 20 Summit, Rio de Janeiro, Brazil, June 17.

- **XLV Annual Asian Development Bank Meeting.** Manila, Philippines, May 2-5. CAF took part as an observer in this important annual event for the Asian region, as part of efforts to strengthen its cooperation relationship with the Asian Development Bank.

- **II CAF-ILAS Conference: "Changing Dynamics of the International Economy: Alternatives for Latin America and China."** Organized by CAF and the Institute for Latin America at the Chinese Social Sciences Academy, Beijing, China, May 8. Holding this forum as an important setting for dialogue attracted more than 250 government officials, politicians, diplomats, academics and business leaders from China and Latin America to discuss access to financial services, the middle-income trap and the State's role in development.

- **XXI Annual Conference on Energy.** Organized by the Institute of the Americas, La Jolla, United States, May 21-23. At this annual gathering on energy topics, CAF highlighted its contribution to financing the energy sector in Latin American countries.

- **XLII Annual Meeting of the Assembly of Governors of the Caribbean Development Bank.** Grand Cayman, May 21-25. CAF took part as an observer in the principal annual meeting of this multilateral financial institution for Caribbean countries.

- **Entrepreneurial Encounter on Infrastructure.** Organized by CAF and the Ibero-American Secretariat General, Madrid, Spain, May 28. Key actors in the public and private sectors of the Ibero-American countries analyzed the potential of public-private partnerships to accelerate infrastructure development.

- **XLII General Assembly of the Organization of American States.** Cochabamba, Bolivia, June 3-5. Food security with sovereignty was the central theme of debate for the Foreign Relations Ministers of the OAS member States.

- **Sol Linowitz Forum.** Washington, D.C. United States, June 7-8. This forum was the scene of the 30th Anniversary of the Inter-American Dialogue. CAF's President co-presided over the celebration in the Casa de las Americas, where the President of Colombia, Juan Manuel Santos, and the President of the World Bank, Robert Zoellick, were keynote speakers.

- **Rio + 20 Summit.** Rio de Janeiro, Brazil, June 17. CAF took active part in the United Nations Conference on Sustainable Development. As part of that program, it organized the seminar, "Productive Transformation Toward Low-Carbon Economies: Financing Mechanisms," which attracted leaders from government, financial institutions and intergovernmental organizations.

- **XLIII Meeting of the Common Market Council and the Mercosur Summit of Heads of State and of Associated States.** Mendoza, Argentina, June 28-29. CAF was present in this summit that evaluated the state of the subregional integration process, and where important decisions for its future development were taken.

- **International Seminar on Public Finance for Development, organized by CAF.** Montevideo, Uruguay, July 2. This seminar presented, and debated with government authorities and international experts, the 2012 edition of the CAF Economy and Development Report, "Public Finance for Development," focusing on strengthening the connection between revenue and spending.

- **"Infrastructure for climate change" seminar.** Organized by CAF, Bogotá, Colombia, July 5. This event of international reach fostered a broad debate on the most effective methods for building infrastructure systems capable of adapting to climate change.

- **International Conference of Economic Studies.** Organized by FLAR, Cartagena, Colombia, July 6-7. This conference brought about a rich exchange of opinions on the macroeconomic policies of emerging and developing economies, with an emphasis on ties between financial regionalism and macroeconomic stability.

- **XIX African Export-Import Bank Shareholders Assembly.** Beijing, China, July 10-14. CAF attended this annual meeting of the African financial institution as an observer and took part in the seminar, "A Dynamic South in an Uncertain World: Will Prosperity Be Universalized?"
- **III Roundtable "Latin America: Challenges for New Leaders".** Organized by CAF and the Universidad Torcuato di Tella, Buenos Aires, Argentina, August 10. A select group of more than 40 young leaders from Latin America gathered to debate with recognized political and academic leaders on the region's key economic, social and political challenges.
- **"The Pacific: the Postponed Presence" Conference.** Bogotá, August 29. Conclusions were presented about the study on Colombia's outreach to the Asia-Pacific region, which was prepared by the Colombian Council on International Relations (CORI), with CAF's sponsorship.
- **XVI Annual CAF Conference.** Organized by CAF, the Inter-American Dialogue and the OAS, Washington, D.C., United States, September 5-6. In a fully attended public event, political leaders, high-ranking officials, academics and journalists from the Americas, Europe, Africa and Asia analyzed in depth the principal political and economic trends in Latin America, the state of inter-American relations and the global outreach of emerging economies.
- **The Latin America-Korea Investors Forum (LA-CIF).** Organized by LatinFinance, Seoul, Republic of Korea, September 14. Entrepreneurs, investors and government representatives from Latin America and South Korea evaluated opportunities for promoting investment between the region and the country.
- **Seminar on "Renewed bases for the European Union-Latin America and the Caribbean relationship: toward an important association".** Organized by the European Union-Latin America and the Caribbean Foundation, Hamburg, September 17. CAF sponsored and participated in this encounter of reflection on perspectives about the strategic biregional association.
- **III South America-Arab Countries Summit (ASPA).** Lima, October 1-2. This summit and its business forum strengthened trade and cultural cooperation and ties between South America and Arab countries.


Inter-American Dialogue 30th Anniversary Gala, Washington, D.C. Unites States, June 7.

II CAF-ILAS Conference: "Changing Dynamics of the International Economy: Alternatives for Latin America and China". Beijing, China, May 8.

- **Latin Asia Business Forum.** Organized by IESINGAPORE, Singapore, October 3. This was a fully attended encounter between public and private sector leaders from Asia and Latin America promoting trade and investment opportunities between both regions.

- **"Emerging Leaders for Emerging Markets" Forum.** Organized with the sponsorship of CAF, the Government of Singapore and the Asian Development Bank, Singapore, October 3-5. More than 50 young leaders from Asia and Latin America exchanged points of view on development and challenges for strengthening relations between their regions.

- **Annual World Bank and International Monetary Fund (IMF) Meeting.** Tokyo, Japan, October 12-14. CAF was also present at the summit meeting of the multilateral banking system, which focused on strengthening cooperation within the international financial system.

- **Global Meeting of the Emerging Markets Forum.** Organized by the Emerging Markets Forum, Tokyo, Japan, October 14-16. CAF's President co-presided over this meeting of reflection for the public and private sector leaders of emerging markets, which evaluated the current state of the global economy.

- **The Global Borrowers & Asia Investors Forum.** Organized by Euromoney Conferences, Hong Kong, People's Republic of China, October 16-17. CAF sponsored this recognized investors forum and led a special work session on attracting investments to Latin America.

- **XIV Summit on the Tuxtla Dialogue and Agreement Mechanism.** Nicaragua, October 26. This summit offered a setting conducive to consolidating and deepening the Mesoamerican Integration Project.

- **VI Competitiveness of the Americas Forum.** Cali, Colombia, October 24-26. CAF sponsored this important gathering aimed at fostering the exchange of knowledge and experiences between the countries of the Americas to improve competitiveness.

- **Latin Trade Symposium.** Miami, October 26. Latin Trade magazine's annual forum gathered political and business leaders to discuss the region's economic panorama. On this occasion, the 18th edition of the BRAVO Awards for excellence in business, finance and social development in Latin America and the Caribbean was held.

- **Summit on the Global Agenda.** Organized by the World Economic Forum, Dubai, November 12-14. This meeting, which constitutes one of the most renowned spaces for reflection at the global level, brought together leaders of the WEF's regional councils network to debate the global agenda's principal challenges.

- **XXII Ibero-American Summit.** Cadiz, Spain, November 15-17. CAF participated in this summit and in the 18th Iberoamerican Business Encounter, where concrete actions to promote high, sustained and quality economic growth were agreed to, as part of the commemoration of the Bicentennial of the Constitution of Cádiz.

- **"Cities and Climate Change" Summit.** Bogota, Colombia, November 19-21. Sponsored by CAF, the meeting focused on building awareness among public and private sector actors about climatic urgency and the design of tools and action paths for helping build sustainable, supportive and low-carbon cities.

- **XLIV Meeting of the Common Market Council and the Mercosur Summit of Heads of State and Associated States.** Brazil, December 6-7. CAF took part in this summit, which analyzed the state of the integration process and adopted significant accords to deepen it.

CAF has become a prolific source of knowledge about the region, with an comprehensive vision of sustained development, integration and social inclusion.

Sharing Knowledge

CAF publications support implementation of the Institution's Comprehensive Development Agenda. Here are the titles published in 2012, which are available at publicaciones.caf.com.

Public Finance for Development: Strengthening the connection between revenue and spending.
Economy and Development Report 2012

Offers arguments and evidence that explain the central role of public finance in fostering fair development. Its hypothesis underlines the strong interdependence between decisions on taxes and spending and the way in which this connection could generate a virtuous cycle that brings greater levels of revenue collection, which in turn provides greater quantity and quality of public assets.

Number of pages: ***326***
Language: ***Spanish and English***
ISSN: ***980-6810-01-5***
Publication date: ***July 2012***

Infrastructure in the Development of Latin America.
IDeAL 2012

Takes on fundamental topics: the development of Latin American cities and the use of infrastructure as a way to improve the region's international presence, through global food markets. The report also presents the first stage of collaborative work between CAF and ECLAC (CEPAL) to measure infrastructure investment levels in the region.

Number of pages: ***67***
Language: ***Spanish and English***
ISBN: ***978-980-6810-80-8***
Publication date:
November 2012

Infrastructure in the Development of Latin America.
IDeAL 2012
Cities and Development

Reviews the topic of infrastructure and its effect on competitive, sustainable and inclusive development in the cities of Latin America.

Number of pages: ***58***
Language: ***Spanish***
Publication date:
November 2012

Infrastructure in the Development of Latin America.
IDeAL 2012
Agrobusiness

Reviews the key role of infrastructure, logistical systems and related institutions in the search for better presence in the global economy, through greater value-added exports.

Number of pages: ***63***
Language: ***Spanish***
Publication date:
November 2012

Infrastructure in the Development of Latin America.
IDeAL 2012
Water and Sanitation

Explores the balance between the water supply and demand for water services in Latin America. Also describes the conflicts over water use in the region and analyzes approval of the U.N.'s Human Right to Water resolution.

Number of pages: ***52***
Language: ***Spanish***
Publication date:
November 2012

Infrastructure in the Development of Latin America.
IDeAL 2012
Electrical Energy

Assesses Latin America's electrical sector situation and analyzes the region's active response to a global energy scenario characterized by fuel price instability.

Number of pages: ***32***
Language: ***Spanish***
Publication date:
November 2012

Infrastructure in the Development of Latin America.
IDeAL 2012
Telecommunications

Analyzes trends in the Latin American telecommunication sector, in the areas of mobile phones, fixed broadband and mobile broadband.

Number of pages: ***105***
Language: ***Spanish***
Publication date:
November 2012

Infrastructure in the Development of Latin America.
IDeAL 2012
Transportation

Updates the passenger and cargo transportation sector. Also analyzes the topic of urban mobility and the region's latest trends.

Number of pages: ***33***
Language: ***Spanish***
Publication date:
November 2012

Infrastructure in the Development of Latin America.
IDeAL 2012
Gas Transport

Analyzes perspectives on the natural gas transport sector in Latin America and reviews topics such as updating indicators, the potential of non-conventional resources and countries' tariff situations, among others.

Number of pages: ***54***
Language: ***Spanish***
Publication date:
November 2012

Infrastructure in the Development of Latin America.
IDeAL 2012
Financing

Presents a general panorama of the Latin America infrastructure sector with an emphasis on its financing. The goal is to analyze current topics and success cases that aid the adoption of best practices in the region.

Number of pages: ***44***
Language: ***Spanish***
Publication date:
November 2012

Infrastructure in the Development of Latin America.
IDeAL 2012
Investment Estimates

Constitutes the first stage of the joint project between CAF and ECLAC (CEPAL) on investments in economic infrastructure in Latin America. Here, the study covers estimates of investment for 10 countries in the region.

Number of pages: ***40***
Language: ***Spanish***
Publication date:
November 2012

International Trade Single Window. Requirements for a Successful Implementation in Latin America.
Public Policy and Productive Transformation Series

Describes the advantages of the Single Window (VUCE), how it's been implemented in Latin America, and its necessary requirements, including: political will, an efficient operating model, institutional coordination, an adequate legal framework and a commitment to technical support.

Number of pages: ***46***
Language: ***Spanish***
ISBN Volume:
978-980-6810-86-0
Publication date:
December 2012

Free Trade Agreements in South America. Trends, Perspectives and Challenges
Public Policy and Productive Transformation Series

Offers a global panorama of the distinct trade accords signed by South American countries in and outside the region, especially free trade agreements negotiated by Colombia, Chile and Peru. Identifies the principal elements of these accords, their content and current status, as well as their similarities and differences, the trade dynamic between the countries involved and the different ongoing initiatives and negotiations.

Number of pages: ***48***
Language: ***Spanish***
ISBN Volume:
978-980-6810-82-2
Publication date: ***October 2012***

Corporate Governance in Latin America. Its Importance for State-Owned Enterprises.
Public Policy and Productive Transformation Series

Highlights the importance of implementing Corporate Governance practices as mechanisms for developing provincial energy utilities in Latin America. These practices strengthen directorial and control organs (shareholder or owner assemblies, direction and management, internal control structures); at the same time, they define clear rules of the game for all stakeholders and increasethe level of transparency regarding various interest groups.

Number of pages: ***82***
Language: ***Spanish***
ISBN Volume:
978-980-6810-78-5
Publication date: ***October 2012***

Business Development in Brazil. Finep, Support for Innovation and Entrepreneurship.
Public Policy and Productive Transformation Series

A combined overview of the evolution, programs and institutional importance of Finep, an agency of Brazil's Science and Technology Ministry. In historical terms, it describes the establishment of Finep as a central piece of the Brazilian innovation system, up to more recent times and the modernization of its means of action, including instruments of direct aid to businesses via non-repayable resources.

Number of pages: ***68***
Language: ***Spanish***
ISBN Volume:
978-980-6810-77-8
Publication date:
September 2012

Entrepreneurship in University Systems. El Tecnológico de Monterrey.
Public Policy and Productive Transformation Series

Describes the strategies implemented by the Tecnológico de Monterrey to create an academic ecosystem geared toward entrepreneurship, from educational processes to physical infrastructure and technological support programs for different groups: its students, the business community, the social sector as well as public and private organizations, with the aim of developing entrepreneurs who benefit the community.

Number of pages: ***60***
Language: ***Spanish***
ISBN Volume:
978-980-6810-74-7
Publication date: ***May 2012***

The Experience of CORFO and the Productive Transformation of Chile
Public Policy and Productive Transformation Series

Analyzes from an evolutionary perspective the course followed by CORFO (Chilean Production Development Corporation), from its beginnings in the 1990s to the moment democracy was re-established in Chile, showing the decisions that validated its creation and the progressive advances that have brought it to its current situation. It seeks to put into context the conditions that made it possible for the institution to overcome its weak origins and relative lack of prestige

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New Opportunities for Electrical Interconnection in Latin America. Second Edition

Proposes alternatives for energy exchange between countries in the region, respecting policies, institutionality, norms and supply schemes of the nations involved. The publication draws on the most notable features of a study carried out with the Regional Electrical Integration Commission (CIER).

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Global Microscope on the Business Environment for Microfinance 2012

Presents the findings of the Economist Intelligence Unit through an in-depth analysis of the business environment for microfinance in 55 countries. The report's index facilitates comparisons of countries and regions in two broad categories: the regulatory and practices framework, examining the regulatory and market-entry conditions; and the institutional framework, evaluating business practices and interaction with customers.

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Water Supply and Sanitation in Latin America and the Caribbean: goals and sustainable solutions

A proposal for analysis by sector for the 2010-2013 period, based on an estimate of costs associated with completing it. It also presents the public policy and governance framework necessary to make it viable, based on experience and good practices in the region.

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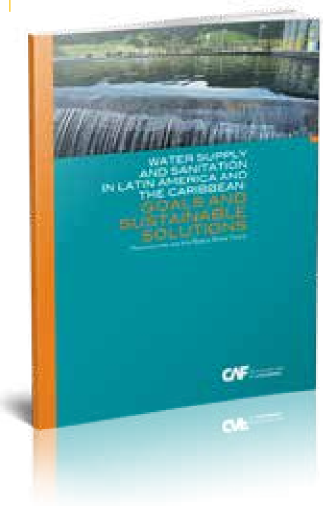

Art and Culture

Art is live testimony of Latin American history and thought. Through artistic expression, Latin America makes its identity and legacy known to the world. CAF has never lost sight of the importance of this factor in the development of societies. For this reason, since its beginnings, the Institution has acted as a promoter of creators and their works.

CAF's permanent art collection represents a display of Latin America's most important modern and contemporary artists, spotlighting great masters as well as young virtuosos representing new movements. Among the principal names are artists like Bastón Díaz (Argentina), Alfredo La Placa and Oscar Pantoja (Bolivia), Roberto Burle Marx (Brazil), Edgar Negret (Colombia), Oswaldo Guayasamín (Ecuador), José Luis Cuevas (Mexico), Guillermo Trujillo (Panama), Carlos Colombino (Paraguay), Fernando De Szyszlo (Peru), Hugo Sartore and Bruno Widmann (Uruguay), Harry Abend, Jacobo Borges, Carlos Druz Diez, Ángel Hurtado, Francisco Narváez, Jesús Soto, Victor Valera and Oswaldo Vigas (Venezuela).

CAF has two venues for regional artistic promotion: Galería CAF at its headquarters in Caracas, Venezuela, and Artespacio in the CAF building in La Paz, Bolivia.

In 2012, the following exhibits were held in the Galería CAF: "Visual artists: Trinidad & Tobago in Venezuela," "Figuration: Masters from Mexico, Central America and the Caribbean," "Three-dimensional narratives" and "Looking at the forgotten." Artespacio, meanwhile, offered these exhibits: "In the silence of the night" by Luis Zilvetti; "Diadorim" by María La Placa, the works of Marcelo Callaú, "2K12" by Keiko González, "Paraguay Rapé –Paraguayan road" by Joaquín Sánchez, Matilde Marín, Ángel Yegros and Luna Paiva, "Chungamayu: Patrimony to the east of Illimani" by the Takesi Project of the University of Bologna, "Notes of contemporary architecture" by Mario Ibáñez and the projects of three collectives: G/CdR Architects, the Colectivo Pendiente 45 and XIOZ, "Sensitive portraits" by Marión Macedo and Fernando Cuéllar, and "Mirror of the entire body" by Andrés Bedoya.

Sport and Integration

Throughout 2012, CAF reinforced its commitment to sport as a factor of social inclusion and development. The Latin American landscape vibrated with the footsteps of thousands of local and foreign runners who flooded the streets in a show of sports spirit and Latin American integration. For the second consecutive year, the CAF-Caracas Marathon was run in that capital city, and the fourth edition of the La Paz 3600 race, a 10-kilometer competition, was held in Bolivia.

Once again, the CAF Marathon, in its 2012 edition, had the endorsement of the International Association of Athletic Federations and the Association of International Marathons and Distance Races, which ratified its international standing. This backing gave the Caracas race the rank of National Marathon Championship in Venezuela, South American Marathon Championship and a qualifier run for the 2012 London Olympic Games.

In the marathon's second edition, close to 6,000 runners participated, representing 36 nationalities. The gathering attracted elite athletes from Brazil, Colombia, Panama, Peru, Uruguay and Venezuela. In this way, CAF continues to establish itself as an outlet for sports competition and regional integration.

The La Paz 3600 was held in November 2012 for the fourth time, with more than 8,000 runners taking part. The 10-km race confirmed the Bolivian city's place as a fitting destination for high-class sporting events.

Special Focus: Infrastructure in the Development of Latin America

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The complete series of IDeAL (Infrastructure in the Development of Latin America 2011 and 2012) is available at publicaciones.caf.com.

Infrastructure in the Development of Latin America

In 2012, CAF continued its contribution to the region's infrastructure development with the second edition of the series, "Infrastructure in the Development of Latin America" (IDeAL 2012). Presented during the 22nd Ibero-American Summit of Heads of State and Government in Cadiz, Spain, November 16-17, this document follows up on IDeAL 2011, which carried out a strategic assessment of the region's infrastructure.

This latest version tackled two themes that link infrastructure with comprehensive development. The first involves cities: Latin America was the earliest emerging region to urbanize and is at the vanguard of the global trend toward increasing urbanization. The study offers an assessment and proposes guidelines for developing infrastructure for inclusive, competitive and sustainable cities.

The second theme points to infrastructure as a vehicle for improving the presence of the region's economies in the global food markets.

Investment in infrastructure has exceeded 3% of GDP, but it should reach between 5% and 6% in order to close the accumulated gap.

Through case studies, the publication evaluated the need for infrastructure and the related services that lead to more assertive positioning in global agro- supply chains. It proposed an infrastructure development agenda aimed at greater competitiveness in high-potential markets.

Finally, in collaboration with ECLAC (CEPAL), CAF launched a novel effort for measuring infrastructure investment levels in the region. It has begun data compilation in 10 countries, which for the first time offers a vision in conjunction with investor effort.

Conscious of the contribution it will make to Latin American economic growth, CAF intends to carry on with IDeAL's research and knowledge-generating mission, highlighting the crucial role of infrastructure development in Latin America's progress and well-being.

New Trends in the Region

A broad look indicates that Latin America is in a period of infrastructure expansion. Increased, sustained demand for infrastructure –especially in transportation, electrical power, mobile telephones and broadband– results in economic expansion. Regional GDP showed a median growth rate on the order of 4.3% in 2011, with five countries growing above 6%. Demand growth and a comfortable fiscal outlook have led to increased public and private investment, although the level isn't enough to close the gap between infrastructure needs and availability. The past three years have witnessed rising investment levels but they are uneven by sector. In current value, investment grew 17% in 2010 compared to 2008, and there are clear signs of continued growth in 2011, exceeding 3% as a share of GDP. (Ideally, investment should be between 5% and 6%).

The economic crisis that's straining developed countries has altered infrastructure financing in Latin America and strengthened the role of domestic financing sources, particularly public investment and local banking systems. Multilateral entities supplement financing needs in large countries and play a key part in small ones. Bilateral funds and possibilities for carbon financing have lost importance amid the crisis, due to the financial difficulties faced by countries that usually provide the resources. But the crisis also presents an opportunity for the region: the outlook for negative growth in the developed world, as well as low interest rates, allow Latin America to position itself as an investment destination. High commodity prices –for minerals, coal, grains– also hold a strong attraction for productive investment, including infrastructure projects. While that has its positive aspects, it also makes it more challenging for the State to establish open-access networks.

An evaluation of advances by sector in 2011 suggests that the most important progress was made in two of the six agenda points: the increase in investment and the use of alternative financing, where we see better use of public-private partnership (APP) mechanisms. Progress has been more limited when it comes to moving toward a sustainable development paradigm and a territorial vision, stronger institutions, business development in this sector and knowledge exchange. The principal advances in each of the infrastructure sectors are ongoing.

Transportation: An Expansion Phase for Networks and Services

There has been a general rise in demand for transportation services, owing to increases in per capita income, trade, urbanization and car ownership. In air transportation, for example, the Latin American market's growth rates are among the world's highest (on par with the Middle East), above the global average, resulting in challenges for airport infrastructure and air navigation support systems. Maritime and port activity has also increased substantially, especially shipments of iron ore, coal and grains, commodities that usually have their own logistical installations at hand. The widening of the Panama Canal, a USD 5.2 billion investment planned for completion in 2014, will improve service times and accommodate super-size "post-Panamax" ships, which will impact the rest of the region's ports.

In ground transportation, cargo volume has grown with the region's economies. The dominant mode continues to be road travel; in only two countries, Brazil and Mexico, do railroads move a significant share of that freight (above 20%). Highway investment continues to be robust; it registers the highest growth, with wide use of public and increasingly private resources. A big reason is higher return on investment for public-private partnership, thanks to increased motor vehicle use and trade.

Urban transportation continues to be a serious challenge for the region. As incomes rise, so does the rate of transit usage, which is undoubtedly a good thing on the one hand, but on the other hand it raises the threat of deteriorated quality of life due to traffic congestion and byproducts such as pollution, accidents and noise. This complicates the effort to satisfy urban mobility needs –an effort that has a profound effect on social inclusion– and for creating friendlier and more attractive cities that generate wealth and knowledge. Mobility is increasingly considered a right. That trend seems most notable in Brazil, where in early 2012 the Urban Mobility Law took effect, based on principles such as universal access, sustainable development, fairness in access to public and collective transportation, democratic government and more public control over planning and evaluation of national urban mobility policy.

Electrical Power: Toward Regulatory Models Based on Planning

The region's electrical power demand grew 4.8% in 2011, amidst a volatile international energy scene that was marked by higher prices for the fossil fuels many Latin American countries use to generate electricity. Regulatory adjustments have emerged in recent years that aim to improve conditions for new power-generation projects, and to ensure stable and competitive prices for years to come. The regional trend has been toward energy auction mechanisms, with varying degrees of sophistication, for contracting long-term energy supply through construction of new power plants.

The use of auctions reflects a new regulatory and planning paradigm, distinct from previous reforms in this sector. Under the new scheme, the State directly or indirectly makes the decision to build new electrical infrastructure, through a planning process or by applying specific rules for determining future needs. Reforms that once drove the establishment of wholesale electricity markets sought efficiency via competition in an organized market ("competition in the market"), with the risks that it entailed. The auction system, on the other hand, guarantees efficiency by creating the conditions of competition at the moment the auction takes place ("competition by the market"). Auctions for power-generation infrastructure expansion in different countries of the region have been based on private financing, on hybrid schemes and on public works models.

Natural Gas Transport: New Resources in the Region and Multiple Investment Projects

Regional demand for natural gas has grown moderately: 1.3% in 2011 (above the global average of 1.1%), driven as much by countries still developing their gas infrastructure as it is by more mature markets. There is a global trend toward a greater gas presence in the primary energy matrix, which in Latin America remained stable in 2011 at around 25%. The market share for natural gas has risen along with the growth in regional trade, first via the integration of gas pipelines and more recently with the introduction of Liquid Natural Gas (LNG). Natural gas has been essential for thermal power plants, which use it as a substitute for dirtier fuels such as coal and crude oil derivatives, in keeping with the more widespread application of cleaner and more efficient power-generating technologies.

In 2011, for the first time, U.S. Energy Information Administration (EIA) data included non-conventional gas resources (shale gas, for example), which is highly concentrated in North America and in 35% of Latin America. Their volume of shale gas is eight times the proven reserves of conventional gas.

Natural gas imports in 2011 represented 20% of the region's consumption. A third of those imports arrived via ships of extra-regional origin, which is an increasing trend (although imports via ships from Trinidad and Tobago and Peru have been increasing in recent years as well). Regional gas trade via pipelines had been growing until 2005, when it was displaced by LNG imports. This reduced gas pipeline use resulted from diverse but unfinished regional energy integration plans that had assumed higher demand growth. Broad distribution of liquid or compressed natural gas now involves logistics utilizing trucks ("virtual gas pipelines") which facilitate universal gas use in low-demand areas without large investments in pipeline construction. The demand growth outlook is prompting multiple investment projects and strategic plans in the region. Investment projects for transportation networks have been estimated at approximately USD 29 billion.

Telecommunications: The Combination of Public and Private Action Is Narrowing the Digital Divide

The adoption of telecommunications services has increased significantly in the past two years. Mobile telephone and broadband penetration have seen moderate growth and are currently at levels similar those in developed countries. The use of mobile broadband, a technology that is critical to narrowing the region's digital divide, grew from 5% at the beginning of 2010 to 21% in the second quarter of 2012 (equivalent to an annual increase of 91%). It should be pointed out that mobile phone use in lower income groups has seen important growth, from 43.5% to 48%.

The past two years' progress has resulted in greater competition between private operators, as well as public policy efforts to encourage accessibility, which has a positive effect on the quality of service. Domestic competition has increased in most countries. This has led to tariff reductions greater than 15% in the sector's three segments (fixed line, mobile and broadband). However, the price of broadband remains significantly higher compared to developed country averages. Governments have pushed measures to stimulate mobile phone competition (establishing number portability, regulating the entry of virtual mobile operators and imposing duties on operators who wield significant market power) and reducing retail prices (lowering interconnection rates and in some cases modifying the tax framework).

Service quality has improved –in particular the availability of high-speed broadband– but there are symptoms of saturation. That reflects the problems operators face in maintaining a sustained pace of investment and expanding the number of radio base stations as well as backbone networks, combined with the need to access additional radio-electric spectrum bands.

Water: Comprehensive Management Is Challenged by Climate Change, Urban Growth and Conflicts over Use

The more intense hydrological cycle caused by climate change sharpens the need to protect water sources in the region. This phenomenon will have a marked impact on some hydro-ecosystems; it will also require active measures to balance supply and demand for water resources in the face of uncertain scenarios. Increased dam capacity to make up for a lack of water regulation regarding Andean glaciers, as well as super-elevation of coastline infrastructure, are examples of possible supply-oriented actions. Projections by the International Institute of Water Management indicate that the majority of Latin American countries will suffer water shortages by the year 2025. This forecast takes into account not only the physical availability of water, but also the condition of water infrastructure for its best use.

The speed and magnitude of the region's urbanization are driving profound changes in traditional methods of water resource management. The sector can no longer be looked at in three segmented components (drinking water, sanitation and storm drainage); instead, a more complete vision is required, one that includes the sources as well as soil and urban waste management, which transcends jurisdictional limits and involves new management actors. Most water supply sources in Latin American cities are severely compromised; the closest are insufficient to service urban growth, and in many cases their quality has deteriorated because of sewage discharge, fertilizers and other agro-poisons.

Increasing water productivity for agriculture is a determining factor in ensuring the sustained balance between demand and availability in the region. The concept of "virtual water" refers to water that's necessary for the production of agricultural commodities and industrial production. In this sense, Latin America is a net exporter of water to the world through the sale of agricultural products.

Inclusive, Competitive and Sustainable Cities

Urban Areas Where Problems, but Also Opportunities, Are Concentrated

In recent decades, an intense, worldwide urbanization process occurred that has seen its greatest expression in more advanced countries and is now in full throttle in developing countries. The principal driver is migration from rural areas. In 1950, 30% of the global population was urban and 70% rural, while today more than half live in cities. The concentration of population and activity means cities also use most of the world's natural resources (75%) and energy (67%), making them the focus of negative environmental impact, at both the local (air quality, watercourses) and global levels. Those and other similar adverse effects prompt a view of cities as the center of problems confronting humanity:

"Unnatural human conglomerations blighted by pathologies such as public health crises, aggression and exorbitant costs of living." (Bettencourt and West, 2011)[1]

But there are counterpoints that view cities as a source of opportunities, including poles of progress and innovation:

"[Centers] of collaborative creativity that has produced some of humanity's best ideas, like the industrial revolution and the digital age." (Glaeser, 2011)[2]

The conglomeration economies that emerge in urban areas do facilitate productive enterprises. Those in turn offer cities specialized advantages in terms of high value-added activity, thanks to enhanced access to knowledge and the ability to bring together research and development efforts that foster innovation.

The Urbanization of Latin America: Early and Intense

Latin America's urbanization process has been more intense than in any other region in the developing world. In 1950, 41% of the population in Latin American and the Caribbean was urban, while in 2010 it exceeds 79%. The journey from countryside to city has in great measure contributed to economic growth, since economies of scale have raised productivity in expanding cities and reduced the cost of basic services for their residents. The region's 198 major cities, with 200,000 or more people, generate more than 60% of GDP, and the 10 largest metropolises alone are responsible for half of it.

Infrastructure as a Critical Element for the Success of Cities

Conglomeration economies create favorable conditions for urban development, but they are no "guarantee of success." In fact, some cities are successful and others aren't. Numerous attempts to compare cities via indicators reflect the disparities. These indicators cover diverse factors that affect urban performance and are usually grouped in four dimensions: the economic environment (the capacity for generating and attracting quality jobs and promoting innovation), social conditions and quality of life, sustainable environmental use, and the performance of finances and urban governance. Infrastructure and its related services, with their diverse components, are present in all these factors for success. Infrastructure isn't just important for its impact on services, which has a direct effect on quality of life, the business climate and competitiveness. It's also a key means of structuring urban space: it doesn't just service demand, it spawns it and locates it. It is a relatively powerful magnet for any city's financial resources, both investment and maintenance.

The Economic and Environmental Context for the Development of Cities

Various trends of global reach fall into the development of Latin American cities.

- To confront global warming, cities must meet the challenge of adapting to new conditions and contribute to mitigating greenhouse gas emissions. Adaptation will be a greater problem in coastal or riverside cities due to the impact of rising water levels.

- Cities constitute a growing form of "competitive assets" for countries, since they not only keep concentrating GDP, but in the current economic arrangement, they are engines of innovation.

- There is increasing movement of investments and human resources, which is why urban settings tend to attract them: investors and people consider the attributes of cities (business climate, quality of life, etc.) when they decide where to locate.

- Accelerated urbanization and consolidation of mega-cities: many major cities are fighting choked traffic, scarce housing and pollution, which is to say, symptoms of dis-economies of scale.

- A new generation of mid-size cities has grown up along with Latin America's largest cities –to the extent that 56% of the region's population now lives in cities of fewer than 1 million residents. These cities trail larger urban centers in GDP per capita; however, that gap should narrow substantially by 2025. Medium cities offer an attractive environment for business and qualified workers, and could become the model for sustainable urban design.

56% of the Latin America population live in **cities of fewer than a million residents.** A new generation of mid-size cities is on the rise.

A Lack of Sustainability Threatens the Region's Large Cities

Comparative analyses of urban performance show that through decades of growth, the region's large cities aren't taking advantage of the opportunities that conglomeration offers. For example, the McKinsey Global Institute's urban performance index reveals that they've fallen behind considerably with respect to other large metropolises: they receive scores of 60 to 70 while the world's best cities score 100[3]. In EIU rankings of 120 cities, the best Latin American position is No. 60[4]. MasterCard Worldwide's assessment of 75 cities doesn't even include Latin America in the top 50[5]. The region's cities face myriad obstacles that explain this low standing, among them poverty, social segregation and chaotic housing, environmental degradation, low economic competitiveness and inefficient urban development, aspects detailed in the following sections. As will be seen, infrastructure is a crucial component that lags in each case.

A Social Scenario Marked by Poverty, Injustice and Segregation

Poverty has been urbanized. Since at least 2001, there has been an ever greater concentration of the population's poorest in cities. Urbanization has reduced poverty for many who migrate from rural areas, but the form of urbanization has reduced income inequality. More than a quarter of the region's urban population inhabit precarious settlements notorious for their lack of basic services, overcrowding and uncertain ownership. The growth of these unofficial communities is a common factor in all countries in the region; it reflects the new manner of population settlement, mostly from rural areas, and the difficulty of assimilating it into the formal city. The resources and infrastructure deficit makes it difficult for those who are recently arrived or were born in informal zones to escape poverty. Better infrastructure wouldn't be just a structural but a corrective presence in these cases. The region's cities exhibit a marked contrast between affluent residential zones and informal settlements that suffer scarcities and are usually situated in areas subject to greater natural dangers.

Degradation of the Urban Environment

Latin America's urban landscape shows habitual scenes of environmental degradation. "Urban environmental conditions have deteriorated ostensibly in terms of impact on rivers and aquifers, the disposal and treatment of liquid and solid wastes, air quality and the reduction and decay of green spaces. Add to this the region's high incidence of natural disasters –hurricanes, tornadoes, earthquakes, volcanic eruptions, flooding and drought– which has profound implications for the condition of human settlements."[6] The basic infrastructure deficit in the general urban fabric also affects economic activity; this is evident in environmental dumping, potentially damaging for markets with increasingly globalized demands.

The Region's Mega-cities Are Uncompetitive Despite their Size

Latin America's paradox is that, as noted above, it is creating mega-cities that don't have important international outreach, but that in many cases have a choking effect on their own countries.

Expanded Spatial Structure and Low Eco-efficiency

The form that many Latin American cities are taking conspires against their good performance. The trend to low-density cities with dispersed growth (not aligned with hubs, without response to urban planning) has environmental impact as agricultural and forest soil use becomes urban. There is an important relationship between a city's density and its eco-efficiency, which is expressed in the energy it consumes and as a result the emissions it discharges. One comparative exercise shows that low-density cities, with fewer than 25 inhabitants per hectare (for example, in the U.S.), consume twice the transportation energy of more dense cities with around 50 people per hectare (the typical density of European cities). [7]

The Infrastructure Deficit Is Elevated, Unequal and High-impact

The infrastructure deficit that confronts Latin American cities makes the obstacles reviewed in the previous sections that much more difficult to overcome. Accelerated urbanization in recent decades wasn't accompanied by an adequate process of planning and provision of infrastructure and basic social services. That creates an infrastructure and services gap that worsens inequality for the poorest and sharpens their exclusion and vulnerability. The urban infrastructure deficit presents a diverse panorama: it varies greatly by type of infrastructure, by city and by area within cities. The total absence of infrastructure is increasingly rare in Latin American cities; the real problem is incomplete or poorly integrated infrastructure. The urban infrastructure deficit is particularly pronounced in water resources management (drinking water, sanitation and storm drainage) and mobility. It has serious effects on quality of life, health and social relations.

Toward Inclusive, Competitive and Sustainable Cities

From an assessment of the performance of Latin American cities in the preceding sections, as well as global and regional trends, a vision centered on three fundamental facets should be proposed: make progress toward inclusive, competitive and sustainable cities –and specify how to make urban infrastructure fit that vision. Inclusive cities should offer quality of life, opportunities for personal progress, adequate coexistence between different groups and social strata, and conditions for citizen participation, for governance and for social learning, all of which make a sustainable growth path possible. Competitive cities should be assets in their countries' pursuit of economic development; have dynamic and diverse productive fabric; positive interaction with their national territory; creative atmospheres and cultural exports; and attractive profiles for building their countries' images. Sustainable cities must offer cooperative and not destructive relationships with their surrounding regions; a blending of sustainable use of non-renewable resources and an economic and financial model that ensures sustainability and a balanced relationship with national finances.

An Urban Infrastructure Agenda for Three Complementary Goals

Urban infrastructure should contribute to the vision's three components: inclusion, competitiveness and sustainability. The three goals don't conflict, and the greater part of infrastructure investment can satisfy them jointly.

Most urban infrastructure components serve those three goals: drinking water and sanitation; urban transportation; provision of electrical power, as well as fixed and mobile telecommunications. However, there are infrastructure components basically related to each of the goals. For example:

- Enhancing social inclusion by bringing comprehensive infrastructure and more generalized public services to poor neighborhoods.
- Airports, logistical parks and port access for competitiveness.
- Sanitary landfills, pipelines, coastal defense and public works for adapting to climate change and environmental preservation.

An Urban Infrastructure Agenda that Contributes to Confronting Future Challenges

In order to advance the vision and its process of transformation, an integrated strategic agenda should be proposed along six principles:

- **Developing a global vision for cities from a systemic perspective.** A process of social dialogue and planning that, starting with a vision of society and the role of cities, brings about the infrastructure needed for these goals, and which also establishes residents' basic rights to services and productive livelihoods.
- **Defining the desired organization of urban space with a focus on territorial planning.** The vision should start by defining the desired spatial configuration, employing territorial and urban planning as an organizing element. It should define spaces for productive activities, for residential and commercial spaces, green and cultural spaces, transit hubs and mobility strategies, connection with national space, etc. Identifying infrastructure gaps, and steps to remedy them, as well as including the supportive participation of citizens and institutions in this process, are also important.
- **Offering basic infrastructure that guarantees citizens' rights and inclusion.** Key to the vision is defining the basic rights and fundamental needs to be satisfied. This entails plans and projects that cover each of the vision's dimensions and close the gaps.
- **Developing infrastructure for growth and international competitiveness.** Based on the productive model defined here, this requires initiating dialogue with national and international entrepreneurs to evaluate which infrastructure efforts make a city a lure for quality jobs. It also entails ensuring high quality delivery of certain key services, such as quality public transit, high-capacity telecommunications and airports, to foster productive activities and innovation.
- **Ensuring rational and sustainable resource use.** A city should evaluate its consumption of key resources and its environmental indicators and figure out how to improve them, using policies of rational use and demand management. This includes a sustainable fiscal and financial pact between the city and the nation, as well as investment financing and debt policies to ensure sustainable development.
- **Building institutions and governance.** These principles can't be achieved without significantly improving a city's institutional capacity. That requires building institutions, processes and governance that also ensure institutional learning and social continuity.

Value-added in the Global Agro-food Supply Chains

A Great Opportunity for Latin America

Latin American countries have an opportunity to strengthen their presence in global food industry supply chains and make that a key part of their development horizons beyond manufacturing and services. There is strong and growing global demand for food products, and the region's countries have the resources to satisfy it. More processed food production can create quality industrial jobs and opportunities for dignified livelihoods among small and medium agricultural producers.

Agro-foods: A Growing Market Dominated by Developed Countries

Growth for the global food trade looks favorable, especially in the greater valued-added segments. Forecasts in both developed and emerging countries indicate a significant increase in consumers, especially in developing countries. The OECD estimates the world's middle class could add 3 billion people by 2025, 2.7 billion of them in Asia and 130 million in Latin America. This new middle class will change and improve its diet significantly. Food trade has historically been dominated by developed countries, which through public policy and business strategies, make sustained efforts to guard that position. In 2008, developed countries accounted for 60% of worldwide food exports (excluding trade among EU countries).

The food sector is organized around global value chains that cover various stages, from primary production to the sale of brand processed foods. Few emerging nations have built solid positions in these chains; Latin American countries have an opportunity to strengthen their presence via strategies that link the idea of chain to value, while improving the competitive factors to make it happen –and infrastructure plays a key role.

The Analytic Framework for Incorporating Infrastructure into Value Chains

To analyze how these markets function and understand how infrastructure can improve Latin America's presence in them, an analytic framework should combine three concepts: value chains, productive districts and logistical supply chains. Food markets are organized in global value chains, with an array of actors between the original producer and the final consumer. Companies adopt strategies to position themselves in these chains and take advantage of the most attractive value stages, from commodities production all the way to product R&D and brand management.

Food production begins in specific territories, usually at the sub-national level: productive districts where human and natural resources, public policy and support industries (clusters) make them competitive. Productive development strategies express themselves at the local as well as national level. Logistical supply chains connect the value chain's links; this includes infrastructure, as well as transportation and warehousing services; the organization of business supply chains and logistical operations; and border and international trade management (trade procedures, customs performance and their integration with other control entities, border crossings management, etc.).

For developing countries, understanding the position of firms in the global value chain starts with a country's strategy (its international outreach model, productive model) and the competitive strategy of its territories in each value chain. Companies establish which links in the chain they want to engage and which they wish to leave under the control of the buyer companies (the destination country or other intermediary). At one extreme, firms in emerging countries can position themselves exclusively as raw materials (usually commodities) producers. At another, a firm can try to engage the entire global value chain, from raw material production to managing a high-prestige agro-food brand, which includes industrial processing, research and innovation, and distribution to the destination market. As the company's position advances along the chain, it assumes more functions, leaving less in the hands of the buyer and thereby capturing more chain value. These diverse positions mean changeable infrastructure requirements, and a broad understanding of infrastructure and its related services. Many cases have been analyzed that illustrate the nature of these positions and their infrastructure

What Good International Practices Teach: Aligning Infrastructure with Productive Strategies

Countries that have advanced the furthest in agribusiness adopt a comprehensive vision. That vision includes everything from defining the desired position in value chains –aided by a strategic determination by the nation and its territories to defend and expand its presence in those chains– to facilitator agents in areas such as innovation, business development, new capacity, education and, especially, infrastructure. A review of success cases around the world highlights the close connection between productive strategies and logistical infrastructure strategies, including IT, that improve the competitiveness of national businesses, attract new foreign investment and occupy nexus positions or key intermediary markets. Promoting a country's own multinational companies, as well as public-private expansion policies, is another common feature.

Infrastructure and Services of Higher Quality and Sophistication for Better Positioning in Value Chains

A detailed analysis was carried out focusing on three possible positions for Latin American firms in agro-foods value chains. In each case, the respective infrastructure requirements were identified. The simplest position is exporting commodities with low additional processing, such as grains from South America (humid grasslands, Mato Grosso). It relies on infrastructure for harvesting, warehousing and delivering the product: rural roads and internal transportation networks (highways, railroads) that link collection centers with adequate export hubs; ports with developed sea and land access, efficient navigable routes; and information technology that coordinates shipment logistics. In South America's case, two different situations were looked at: the humid grassy plains of Argentina and Uruguay, known as the pampas, and the new production frontiers in west-central and northern Brazil. The first case involves multiples actors, a long production tradition and relatively mature infrastructure and logistical management, with ample road, rail and port networks whose capacity is being stretched to the limits, which also increases costs and other external negatives. The challenge is to create conditions, and an investment climate, to aid expansion and reduce logistical costs. In west-central and northern Brazil, agricultural production is recent but has explosive growth potential; basic infrastructure is in development and producers are concentrated in large companies. Completing basic infrastructure is key: rail, port development and road connections. There is no framework for providers, nor the kind of market relationships that lead to a network of traditional producer zones.

Infrastructure assumes a critical place in this vision, including its hard components (highways, ports, electrical power, telecommunications, water resources) and soft ones, especially those that facilitate trade, such as customs and sanitary controls and IT. This position necessitates more sophisticated administration of supply chain logistics, one that coordinates product collection at its time of ripeness and delivery, controlling inventories, ensuring availability of refrigeration, adequate sanitary conditions and appropriate maritime access. Other infrastructure elements are also key: IT for following merchandise along the supply chain, reliable electrical supply for refrigeration and water resources that ensure product conditions in the face of ever more environment-conscious consumers. And that includes competitor countries that can exploit whatever weakness in this area as an excuse to protect their markets.

Being an exporter for a chain leader or export brand means infrastructure and logistical capacity demands grow exponentially. It's no longer about managing a logistics system to the export port, but about controlling a genuine logistical chain to the final customer, or working with a provider/partner who can offer those services.

The position with greatest potential for seizing value is that of a seller with a product brand that enjoys global market coverage, as well as more sophisticated business, infrastructure capacity and institutional demands. A case in point is the Colombian flower export industry, which has become its own brand in that sector thanks to the intense partnership activity of the businesses involved and committed government support. Today it's advancing toward greater participation in the value chain through a growing variety of products and destinations. This type of positioning requires delivering infrastructure services described in the previous case, as well as administering logistics chains in the destination markets, including final distribution, thereby bolstering the country brand. This demands the strength to compete with speed and the ability to answer with high-quality internal, maritime and air logistics, as well as information (IT) support systems.

The Agenda to Follow: From a Strategic Vision to the Requirements of Infrastructure and Logistics

Based on international experience and the Latin American cases presented here, infrastructure agendas should bring together the following key components in a permanent cycle of evaluation and learning:

- A country's strategic vision is the starting point.
- Regional and territorial competitive development policies can parlay the vision into regional development or productive poles.
- Global value chain positioning strategies should be developed for the desired territories and producer poles.
- National, regional and local infrastructure strategies, especially for transportation and infrastructure (in its hard and soft components), but also for electrical power, water quality and, increasingly, telecommunications facilities, are also critical.

Investment and Performance Indicators

How Much Are We Investing? A Pending Subject for Decision-making

Numerous studies demonstrate that better quality and coverage of infrastructure networks have a positive effect on economic growth and the reduction of inequality and poverty. Countries should therefore make relevant data available, especially infrastructure investment flows, when making public policy. The problem is that available estimates on infrastructure investment levels are rarely precise in Latin America. The system of national accounts doesn't provide certain data within the raw presentation of fixed capital.

To fill that void, CAF agreed with ECLAC (CEPAL) to pursue a progressive program starting with 10 countries in 2012 and finishing with 22 in 2014. Available official information from different countries was compiled and interviews conducted in key areas. The estimates cover the four classic sectors of economic infrastructure (the diverse modes of transportation, energy, telecommunications and water and sanitation), looking at public as well as private investment. This process began with 10 countries in the region that together are estimated to have represented more than 80% of the investment in infrastructure in 2008, 2009 and 2010.

The Initial Results for 10 Countries

The results for the first 10 countries in the three years analyzed, although preliminary and subject to adjustments, reveal some important trends in infrastructure investment:

- Total investment grew 17% between 2008 and 2010 in current value, to about 3% of GDP. (This does not include all infrastructure items, which could make the figure slightly higher.)
- The transportation sector received the most investment (54%), and its importance continues to grow. It was followed by telecommunications (20%), energy (18%), and drinking water and sanitation (8%).
- Private participation accounted for half the investment in 2008 and 2009 and 34% in 2010.
- In the three years analyzed, private participation represented 8.5% of the investment in drinking water and sanitation, 20.7% of transportation, 65.8% of energy and 93.4% of telecommunications.
- The sector that attracted the most public participation was transportation (more than 90% of public investment in 2010).

1 Bettencourt, L. and West, G. (2011). Bigger Cities Do More With Less. *Scientific American*, September

2 Glaeser, E. (2011). Engines of Innovation, *Scientific American*, September

3 McKinsey (2011). *Urban World: mapping the economic power of cities*

4 Economist Intelligence Unit (2012). *Global liveability survey.*

5 Master Card (2008). *Worldwide Centers of Commerce Index*

6 UN-Habitat (2004). *Urban Environmental Strategy*

7 Newman and Kenworthy, *Environmental Atlas of the Diplomatic World 2007.*

The Institution continues its decentralization process by moving ahead with new offices in the regional hubs of Panama and Uruguay.

Internal Management

Through 2012, CAF undertook an internal restructuring process in line with its own growth demands and the needs of its clients. These changes seek to enhance CAF's mission and make it more efficient in an ever more expanded geographic area, through sectorial focus, promotion of team work and matrix management of internal processes.

As a result, the business vice presidencies were split into more sectors, with the goal of fostering added value and knowledge management to benefit our clients. As part of this strategic organizational change, the Institution created the Vice Presidency for Energy and the Institutional Development and Special Affairs Directorate. With the aim of strengthening international relationships in Europe, the CAF Office in Madrid was expanded and will coordinate CAF management in Europe and its outreach to other latitudes.

To bolster CAF's presence in shareholder countries, the Logistics and Administrative Services Directorate concentrated on opening the new Country Office in Paraguay, located in Asunción, and on continuing the project for the new Headquarters in Caracas, Venezuela. As for regional hubs: in Uruguay and Panama, an architectural competition for the new Montevideo headquarters was carried out, while land was acquired and a contract completed for the new Panama Office.

In human resources management, the program for pre- and post-graduate internships was reinforced, bringing in more than 50 aides. New employees were welcomed as part of the fifth edition of the Young Professionals Development Program (PRODES), and the Annual Incentive Program (PIA) was initiated. On-site and remote teaching at the CAF Virtual University (UVCAF) was expanded and updated, administrative skills development programs were enhanced, as were those for coaching, professional planning and management performance.

Operations and technology saw improved internal efficiency and productivity through a review of organizational capacity, operative integration, and management of information technology and processes, to keep CAF's strategic goals aligned. The Institution also forged new solutions for Treasury risk management, improving CAF's web portal and expanding the business portal with new modules and a better credit process. A human capital management system was created using PeopleNet, in conjunction with preparations for the Employee Portal.

In terms of internal auditing, risk control, ex-post evaluation and rules administration: initiatives such as the annual audit plan took effect, and the Internal Audit for Quality Evaluation continued preparations as part of the International Framework for the Professional Practice of Internal Auditing according to the IIA (Institute of Internal Auditors). Among other efforts were the start-up of the CAF Business Continuity Management System under the ISO 2230 standard; and reinforcing the Asset Laundering Prevention and Detection Program for all the Institution's products and services. As a result of continued improvement, ISO 9001:2008 certification was maintained in all of CAF's Comptroller and Auditing processes, including Business Continuity Management. Completion of CAF standards and norms for approval and publication was also reviewed.

In keeping with the strategic goal of strengthening identification capacity as well as mitigating business operation and reputation risks, the Institution's Credit Manual and credit guidelines were updated and published. It incorporated all resolutions that impact the credit process, the delegation of credit attributions, exposure limits by company and economic group, and the composition of different advisory and approval requests.

To reinforce CAF's position as a producer of knowledge on the region's development, the Strategic Communications Directorate set up a digital advance to expand the reach of publications, studies, research and other content generated by CAF experts. It employs web microsites, new electronic bulletins, coding information in QR format, direct transmission of events via streaming, social networks and digital applications for mobile devices.

Management's Discussion and Analysis of Financial Condition

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CAF completed 12 bond issues in 2012, raising approximately USD 2.7 billion, the highest number of transactions and the largest amount raised in any single year.

Management's Discussion and Analysis of Financial Condition

In 2012, the credit rating agencies Moody's and Standard & Poor's upgraded CAF's long-term debt rating from A1/A+ to Aa3/AA- in recognition of the Institution's financial strength. Additionally, Standard & Poor's raised the Institution's short-term debt rating to the highest category, from A-1 to A-1+. Likewise, Fitch Ratings and Japan Credit Rating Agency ratified the ratings assigned to CAF, as seen in Table 1.

These upgrades were based on three main factors: a strengthened capital base, which resulted from the backing of the shareholders through repeated increases in subscribed and paid-in capital, prudent liquidity management , and a greater diversification of the loan portfolio.

In 2012, CAF was once again the main source of multilateral financing for its founding members and an important source of financing for its shareholder countries across Latin America and the Caribbean. It approved transactions totaling USD 9.3 billion and disbursed USD 5.0 billion, directed mainly to financing medium- and long-term projects.

Trinidad & Tobago subscribed to an additional capital increase agreement of USD 323 million to become a full member country, and made its first capital contribution of USD 108 million in 2012. Mexico contributed an additional USD 100 million as part of the last capital increase approved in November 2011 by CAF's Directors. In 2012, CAF received a total of USD 450 million

In 2012, the credit rating agencies Moody's and Standard & Poor's raised CAF's long-term debt rating to Aa3/AA- in recognition of the Institution's financial strength.

Table 1 • **Credit ratings**

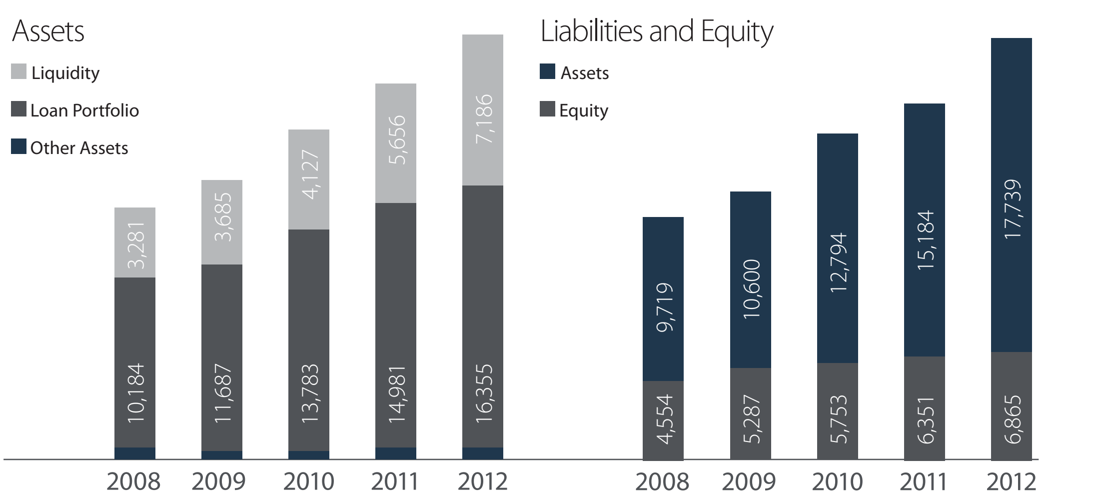
	Long-term	Short-term	Outlook
Moody's Investors Service	Aa3	P-1	Stable
Standard & Poor's	AA-	A-1+	Stable
Japan Credit Rating Agency	AA-	-	Stable
Fitch Ratings	A+	F1	Stable

in capital contribution payments that had been pledged by its shareholder countries.

Net earnings in 2012 reached USD 160 million, an improvement over 2011, mainly due to portfolio growth and a slight increase in the LIBOR interest rate during the year. As a result of the former, the principal profitability ratio, Return on Equity (ROE), reached 2.5%.

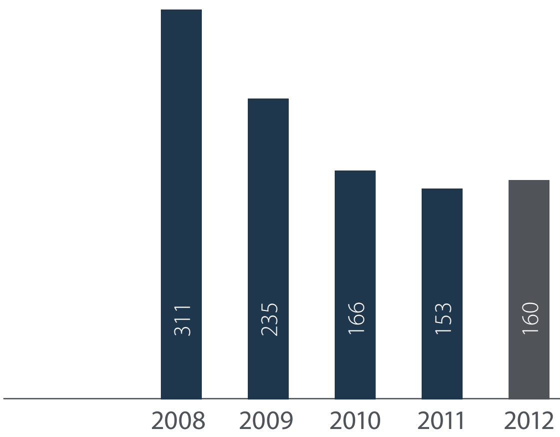
In terms of international bond issuances, CAF completed 12 bond placements in 2012, raising USD 2.7 billion. It was the highest number of such transactions, and the largest amount raised in a single year. CAF also continued extending its geograph reach, issuing debt on four continents, in new as well as traditional markets for CAF.

Commercial paper programs in the U.S. and European markets represented the principal source of short-term funding, with a year-end closing balance of USD 3.2 billion. During 2012, CAF raised more than USD 10.2 billion through its commercial paper programs. Time deposits constituted another important funding source, with a year-end closing balance of USD 3.1 billion.

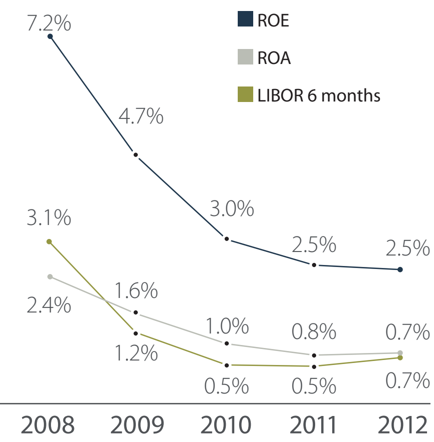


Graph 1 • **Balance Sheet as of 31 December of Each Year (in millions of USD)**

Net Earnings
(in millions of USD)



Profitability Indicators



Graph 2 • **Net Earnings and Profitability for the Period Ending 31 December of Each Year.**

Summary of Financial Statements

In 2012, CAF's total assets reached USD 24.6 billion, which represented a 14% increase over the previous year (Graph 1). This was due to the growth of the loan portfolio –which closed at USD 16.4 billion, 9% above the previous year– and to the growth in liquidity, which totaled USD 7.2 billion, 27% higher than 2011 and equal to 29.2% of total assets and 41.2% of total indebtedness.

CAF's shareholders' equity reached USD 6.9 billion, with paid-in capital of USD 3.6 billion, additional paid-in capital of USD 782 million and USD 2.5 billion between reserves and retained earnings. By the end of 2012, total shareholders' equity represented 27.9% of total assets and 40.2% of risk-weighted assets, according to methodology established in the Basel Agreement.

Net interest income in 2012 rose 6.8% as a result of the combined effect of the growth of loan portfolio and the LIBOR rate's slight recovery during the year. It is worth noting that LIBOR is the principal benchmark for setting interest rates for CAF's assets and liabilities; and given the Institution's large capitalization, there is a positive correlation between net earnings and the movements of that rate.

Net earnings and ROE were maintained, as in years past, in line with established benchmark levels. Net earnings reached USD 160 million in 2012 and ROE was 2.5%, while the average yield of the 10-year U.S. Treasury bonds reached 1.79% and the LIBOR six-month average was 0.69% (Graph 2). Return on Assets (ROA) for the year was 0.7%.

Loan Portfolio

The loan portfolio reached USD 16.4 billion by the end of 2012, representing a 9% increase over the USD 15.0 billion of the previous year.

Loan portfolio distribution continued to be largely concentrated in public sector projects, which represented 85% of the total portfolio on December 31st, 2012. From a country distribution perspective, Venezuela had the largest exposure with 17.2% of the total loan portfolio, followed by Peru with 16.3%, Ecuador with 16.2%, Argentina with 12.9%, Colombia with 11.2%, Bolivia with 9.8%, Brazil with 7.7%, Panama with 2.9% and Uruguay with 2.0%. The growing participation of new full-member shareholders in the loan portfolio –at the end of 2012, accounted for 27% – adds to its diversification.

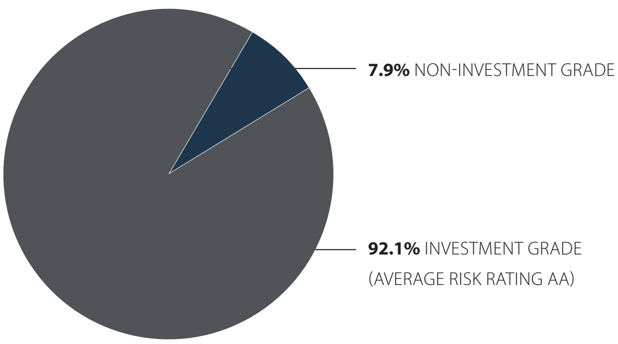
Financing infrastructure, social development and environmental projects continues to constitute one of CAF's principal activities, and at the end of 2012 it represented 81.1% of the loan portfolio.

At the same time, the portfolio maintained an excellent credit rating (Table 2).

At year-end 2012, only one loan was reported in Non-Accrual status, representing just 0.05% of the total portfolio. Loan loss provisions, meanwhile, reached USD 126 million or 0.77% of the loan portfolio. In 2012, there were no loan write-offs.

Table 2 • **Portfolio Quality (in millions of USD)**

	2008	2009	2010	2011	2012
Overdue	0.1	0.0	0.0	0.0	0.0
Loans in Non-accrual Status	0.0	0.0	0.0	8.2	7.6
Loan Loss Provisions	143.2	143.9	141.4	130.6	125.8
Past-due as a Percentage of Loan Portfolio	0.0%	0.0%	0.0%	0.0%	0.0%
Non-accrual Loans as a Percentage of Portfolio	0.00%	0.00%	0.00%	0.05%	0.05%
Loan Loss Provisions as a Percentage of Loan Portfolio	1.41%	1.23%	1.03%	0.87%	0.77%



Graph 3 • **Liquid Assets as of 31 December 2012**

Liquid Assets

On December 31st 2012, liquid assets totaled USD 7.2 billion, or 29.2% of total assets and 41.2% of financial liabilities. The investment portfolio was characterized by its short duration –an average of 0.7 years– and its excellent credit rating (Graph 3): 92.1% of this portfolio was rated A-/A3 or above, with an average rating of AA/Aa2, and only 7.9% was rated below A-/A3. CAF's policies require at least 90% of its liquid assets be held in investment-grade instruments, with credit ratings of at least A-/A3.

Funding

By the end of the year, total financial liabilities were USD 17.4 billion, while total liabilities reached USD 17.7 billion.

In 2012, CAF was very active in the international bond markets. The Institution placed more than USD 2.7 billion in 12 transactions, which was the largest amount issued and the highest number of transactions by the Institution in a single year. Likewise, CAF continued extending its geograph reach by issuing bonds in new markets and on four continents.

CAF returned to the dollar market with a new debt issue that combined three transactions: a new issue, a debt exchange and a subsequent reopening of an existing bond for a total amount of USD 1.5 billion. This strategy repositioned the price curve in dollars through the creation of a new benchmark.

CAF debuted in the Hong Kong dollar market with two issues of 10 and 12 years for HKD 400 million and HKD 398 million (approximately USD 51 million each) respectively, making CAF the first Latin American issuer to offer such long maturities in that market. CAF also made its debut in the Taiwanese market with a private placement of 30-year for USD 50 million, representing the longest maturity ever issued by the Institution. CAF returned to the Swiss market with three issues totaling CHF 660 million (approximately USD 691 million) to consolidate its price curve in Swiss francs and reaffirm the Institution as the most frequent Latin American issuer in that market.

Meanwhile, CAF was active in the German Schuldschein market with a 15-year issue of EUR 82 million (approximately USD 105 million) and a 20-year issue of EUR 60 million (approximately USD 79 million), being the first Latin American issuer to offer those terms in that market and gaining access to a new investor base. Finally, at the end of the year, CAF completed its first issue in the Chinese market (Dim Sum) of CNY 600 million (approximately USD 97 million), being the third carried out in that market by a Latin American issuer.

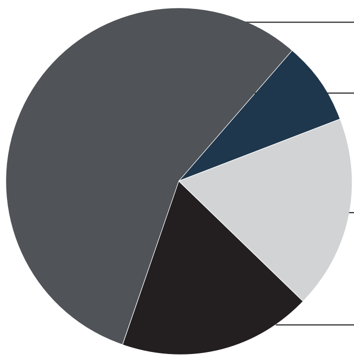
As for short-term capital markets, CAF has maintained a presence in both the U.S. and European commercial paper markets, increasing existing volume in those programs to a total average of USD 2 billion. It bears mentioning that spreads have remained at competitive levels.

Time deposits received by the Institution represented an important source of short-term funding in 2012, reaching more than USD 3.1 billion by year-end. Such instruments remain important as a stable and competitive funding source.

Medium- and long-term financing expanded through a syndicated loan of USD 113 million and a line of credit from KfW of USD 100 million. On the co-financing front, CAF reached agreements with JBIC, Korea Exim Bank, AECID and the OPEC Fund. It also obtained non-repayable resources for technical assistance in the amount of USD 33.5 million from the European Commission's LAIF, the OPEC Fund and the French Development Agency. In 2012, support for the local-currency program for microfinance institutions was maintained through new lines of credit and expansion of the program in Paraguay. Additionally, USD 77 million was raised through the sale of investments.

As of December 31st 2012, 74% of CAF's funding came from international capital markets. Bond issues represented the main source, or 56% of total funding (Graph 4) Deposits received from institutional investors in the region and commercial paper each represented 18% of total debt, followed by other borrowings and medium- and long-term lines of credit with 8%.

Details of the CAF's 2012 debt issues can be seen in Table 3.



Graph 4 • **Composition of Financial Liabilities as of 31 December 2012**

Table 3 • **Debt Issues in 2012**

Date	**Market**	**Amount in Original Currency (in millions)**	**Equivalent in Millions of USD**
Bond Issues			
January	Euro	EUR 82	105
February	Swiss	CHF 125	136
March	Euro	EUR 60	79
March	Hong Kong	HKD 400	52
April	Taiwan	USD 50	50
May	Hong Kong	HKD 398	51
June	Swiss	CHF 235	245
June	Yankee	USD 1,093	1,093
July	Japan	JPY 6,000	76
September	Swiss	CHF 300	310
September	Yankee	USD 407	407
December	Dim Sum	CYN 600	97
	Subtotal 2012		**2,701**
	Total 1993-2012		**16,589**
Short-term Issuance Programs			
	Commercial Paper (USA)	USD 2,000	2,000
	Commercial Paper (Europe)	USD 2,000	2,000

Capital

In 2012, CAF received USD 450 million in new capital contributions from its shareholder countries. An important part of these contributions was derived from payments on the USD 2.5 billion paid-in capital increase that was approved in 2009. Trinidad & Tobago signed a capital subscription agreement to become a full member, and made its first contribution of USD 108 million. Mexico contributed USD 100 million as part of the last paid-in capital increase, approved in November 2011 by CAF's Directors. The balance of contributions came from the remaining installments for increases subscribed since 2007 by countries that have become full members.

By the end of the year, the total shareholders' equity had reached USD 6.9 billion, 8% higher than the amount recorded at the end of 2011, strengthened by capital contributions from shareholder countries and retained earnings.

As a result of the increase in shareholders'equity, capitalization ratios remained above the levels established by the Institution's internal policies (Table 4).

Table 4 • **Capitalization Ratios**

	2007	2008	2009	2010	2011	2012
Loan Portfolio/Equity (times)[1]	2.4	2.3	2.3	2.5	2.4	2.4
Debt/Equity (times)[2]	2.0	2.1	2.0	2.2	2.3	2.5
Equity/ Risk-weighted Assets (BIS)[3]	36.3%	38.4.%	41.7%	37.2%	38.7%	40.2%

1 According to CAF's Establishing Agreement, the exposure ratio must be less than or equal to 4.0.
2 According to CAF's Establishing Agreement, the ratio of indebtness must be less than or equal to 3.5.
3 According to the CAF Board of Directors policy, the capitalization level calculated in accordance with the Basel methodology must be greater than or equal to 30%.

Asset Liability Management

In order to reduce foreign exchange and interest rate risks, CAF's lending and borrowing activities are primarily conducted in floating-rate U.S. dollars. As of December 31st 2012, 99.3% of assets and 98.2% of liabilities were denominated in U.S. dollars after swaps, while 99.5% of the loans and 98.3% of the financial liabilities were based on the LIBOR rate after swaps. Transactions neither denominated in U.S. dollars nor based on the 6-month LIBOR rate are converted through swaps to those terms. The swap book reached USD 9.3 billion by the end of 2012. CAF policies mandate that swap counterparts be rated at least A+/A1 or have a collateral agreement.

In addition, CAF has Credit Support Annexes (CSA) with its derivatives counterparts. This reduces the credit risk, since valuations are made on a market-to-market basis and the debtor party must place the corresponding collateral within certain predetermined parameters. CAF does not trade derivatives on its own account. Those instruments are used only for hedging purposes.

CAF seeks to maintain a conservative relationship between the average terms of its assets and liabilities. At December 31st, 2012, the average life of its assets was 4.4 years and that of its liabilities was 3.7 years. The latter does not include the corresponding shareholders' equity portion, which constitutes a high percentage of CAF's financing and favors the maturity profile of liabilities.

Audited Financial Statements

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Management's Report on the Effectiveness of Internal Control Over Financial Reporting

DEVELOPMENT BANK OF LATIN AMERICA

The Management of Corporación Andina de Fomento (CAF) is responsible for establishing and maintaining effective internal control over financial reporting in CAF. Management has evaluated CAF's internal control over financial reporting as of December 31, 2012, based on the criteria for effective internal control determined in the Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

CAF's internal control over financial reporting is a process effected by those in charged of governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with U.S. generally accepted accounting principles. 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 U.S. generally accepted accounting principles, 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.

Management has assessed the effectiveness of CAF's internal control over financial reporting as of December 31, 2012. Based on this assessment, CAF's Management concluded that CAF's internal control over financial reporting was effective as of December 31, 2012.

There are inherent limitations in the effectiveness of any internal control system, including the possibility of human error and the deception or overriding of controls. Accordingly, even an effective internal control can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, the effectiveness of internal control may vary over time.

CAF's financial statements as of December 31, 2012, have been audited by an independent accounting firm, which has also issued an attestation report on management's assertion on the effectiveness of CAF's internal control over financial reporting. The attestation report, which is included in this document, expresses an unqualified opinion on management's assertion on the effectiveness of CAF's internal control over financial reporting as of December 31, 2012.

L. Enrique García
Executive President
and Chief Executive Officer

Hugo Sarmiento K.
Corporate Vice President,
Chief Financial Officer

Marcos Subía G.
Director, Accounting
and Budget

January 31, 2013

Independent Accountants' Report on Management's Assertion on Effectiveness of Internal Control Over Financial Reporting

Deloitte.

Lara Marambio & Asociados.
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To the Board of Directors and Stockholders of

Corporación Andina de Fomento (CAF)

We have audited management's assertion, included in the accompanying *Management's Report on the Effectiveness of Internal Control Over Financial Reporting*, that Corporación Andina de Fomento (CAF) maintained effective internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)*. CAF's management is responsible for maintaining effective internal control over financial reporting and for its assertion on the effectiveness of internal control over financial reporting included in the accompanying *Management's Report on the Effectiveness of Internal Control Over Financial Reporting*. Our responsibility is to express an opinion on management's assertion based on our audit.

We conducted our audit in accordance with attestation standards established by the American Institute of Certified Public Accountants. 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. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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 the inherent limitations, internal control over financial reporting may not prevent, or detect and correct misstatements. Also, projections of any evaluation 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.

In our opinion, management's assertion that CAF maintained effective internal control over financial reporting as of December 31, 2012 is fairly stated, in all material respects, based on the criteria established in *Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)*.

We also have audited, in accordance with auditing standards generally accepted in the United States of America, the balance sheets of CAF as of December 31, 2012 and 2011, and the related statements of income, changes in stockholders' equity and cash flows for the years then ended, and our report dated January 31, 2013 expressed an unqualified opinion on those financial statements.

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Deloitte.

January 31, 2013
Caracas – Venezuela

Report of Independent Auditors

Deloitte.

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

We have audited the accompanying balance sheets of Corporación Andina de Fomento (CAF) as of December 31, 2012 and 2011 and the related statements of income, changes in stockholders' equity and cash flows for the years then ended and the related notes to the financial statements. These financial statements are the responsibility of CAF's management. 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 misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our audit 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, 2012 and 2011, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with attestation standards established by the American Institute of Certified Public Accountants, the management's assertion that CAF maintained effective internal control over financial reporting at December 31, 2012, based on criteria established in *Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)*, and our report dated January 31, 2013 expressed an unqualified opinion thereon.

Deloitte.

January 31, 2013
Caracas – Venezuela

CORPORACIÓN ANDINA DE FOMENTO (CAF)

Balance Sheets

December 31, 2012 and 2011
(In thousands of US Dollars)

	NOTES	2012	2011
ASSETS			
Cash and due from banks	2	141,720	256,797
Deposits with banks	2	1,490,049	1,543,885
Cash and deposits with banks		1,631,769	1,800,682
Marketable securities -			
Trading	4 and 19	5,453,137	3,760,325
Other investments	3	100,910	95,211
Loans (US$ 72,354 and US$ 64,811 at fair value as of december 31, 2012 and 2011)	5 and 19	16,355,410	14,980,744
Less loan commissions, net of origination costs		76,837	77,033
Less allowance for loan losses	5	125,799	130,636
Loans, net		16,152,774	14,773,075
Accrued interest and commissions receivable		216,323	196,316
Equity investments	6	146,811	111,889
Derivative instruments	18 and 19	772,448	703,264
Property and equipment, net	7	39,226	36,840
Other assets	8	90,313	57,748
TOTAL		24,603,711	21,535,350
LIABILITIES AND STOCKHOLDERS' EQUITY			
LIABILITIES -			
Deposits	9	3,121,843	3,672,063
Commercial papers	10	3,174,927	1,977,050
Borrowings (US$ 341,553 and US$ 356,851 at fair value as of december 31, 2012 and 2011)	11 and 19	1,391,093	1,138,450
Bonds (US$ 9,595,784 and US$ 7,947,340 at fair value as of december 31, 2012 and 2011)	12 and 19	9,742,852	8,072,328
Accrued interest payable		180,597	163,561
Derivative instruments	18 and 19	60,067	93,869
Accrued expenses and other liabilities	13	67,270	66,776
Total liabilities		17,738,649	15,184,097
STOCKHOLDERS' EQUITY -	15		
Subscribed and paid-in capital (authorized capital US$10,000 million)		3,636,715	3,229,365
Additional paid-in capital		782,523	739,733
Reserves		2,285,655	2,229,576
Retained earnings		160,169	152,579
Total stockholders equity		6,865,062	6,351,253
TOTAL		24,603,711	21,535,350

See accompanying notes to the Financial Statements

CORPORACIÓN ANDINA DE FOMENTO (CAF)

Statements of Income

For the years ended December 31, 2012 and 2011
(In thousands of US Dollars)

	NOTES	2012	2011
Interest income -			
Loans	**1(g)**	440,957	363,260
Investments and deposits with banks	**1(f), 2 and 3**	52,315	26,849
Loan commissions	**1(g)**	26,867	38,910
Total interest income		520,139	429,019
Interest expense -			
Deposits		23,027	14,082
Commercial papers		12,183	9,350
Advances		-	163
Bonds		214,976	166,977
Borrowings		17,354	10,986
Commissions		14,148	11,470
Total interest expense		281,688	213,028
Net interest income		238,451	215,991
Credit to allowance for loan losses	**5**	(4,865)	(11,771)
Net interest income, after credit to allowance for loan losses		243,316	227,762
Non-interest income -			
Other commissions		6,150	8,405
Dividends and equity in (losses) earnings of investees		2,649	(6,244)
Other income		482	2,404
Total non-interest income		9,281	4,565
Non-interest expenses -			
Administrative expenses	**23**	90,988	81,006
Other expenses		863	3,565
Total non-interest expenses		91,851	84,571
Net income before unrealized changes in fair value related to financial instruments		160,746	147,756
Unrealized changes in fair value related to financial instruments		(577)	4,823
Net income		160,169	152,579

See accompanying notes to the Financial Statements

CORPORACIÓN ANDINA DE FOMENTO (CAF)

Statements of changes in Stockholders' Equity

For the years ended December 31, 2012 and 2011

(In thousands of US Dollars)

	NOTES	Subscribed and paid- in capital	Additional paid- in capital	Reserves: General reserve	Reserves: Reserves Article N° 42 of by-laws	Reserves: Total reserves	Retained earnings	Total stock-holders' equity
BALANCES AT DECEMBER 31, 2010		2,813,940	616,171	1,774,753	382,184	2,156,937	166,139	5,753,187
Capital increase	15	199,045	339,942	-	-	-	-	538,987
Capitalization of Additional paid - in capital	15	216,380	(216,380)	-	-	-	-	-
Net income	15	-	-	-	-	-	152,579	152,579
Appropriated for general reserve	15	-	-	55,989	-	55,989	(55,989)	-
Appropriated for reserve pursu-ant to Article N° 42 of by-laws	15	-	-	-	16,650	16,650	(16,650)	-
Distributions to stockholders' special funds	16	-	-	-	-	-	(93,500)	(93,500)
BALANCES AT DECEMBER 31, 2011		3,229,365	739,733	1,830,742	398,834	2,229,576	152,579	6,351,253
Capital increase	15	159,030	291,110	-	-	-	-	450,140
Capitalization of Additional paid - in capital	15	248,320	(248,320)	-	-	-	-	-
Net income	15	-	-	-	-	-	160,169	160,169
Appropriated for general reserve	15	-	-	40,779	-	40,779	(40,779)	-
Appropriated for reserve pursu-ant to Article N° 42 of by-laws	15	-	-	-	15,300	15,300	(15,300)	-
Distributions to stockholders' special funds	16	-	-	-	-	-	(96,500)	(96,500)
BALANCES AT DECEMBER 31, 2012		3,636,715	782,523	1,871,521	414,134	2,285,655	160,169	6,865,062

See accompanying notes to the Financial Statements

CORPORACIÓN ANDINA DE FOMENTO (CAF)

Statements of Cash Flows

For the years ended December 31, 2012 and 2011

(In thousands of US Dollars)

	NOTES	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES -			
Net income		160,169	152,579
Adjustments to reconcile net income to net cash used in operating activities -			
Unrealized gain on trading securities	4	(11,320)	(1,883)
Amortization of loan commissions, net of origination costs		(10,677)	(12,845)
Credit to allowance for loan losses	5	(4,865)	(11,771)
Equity in earnings of investees		1,067	10,527
Amortization of deferred charges		2,799	2,077
Depreciation of property and equipment	7	3,924	2,957
Provision for employees' severance indemnities and benefits		7,745	7,977
Provision for employees' savings plan		1,286	1,317
Unrealized changes in fair value related to financial instruments		577	(4,823)
Net changes in operating assets and liabilities -			
Severance indemnities paid or advanced		(5,013)	(7,144)
Employees' savings plan paid or advanced		(379)	(1,545)
Trading securities, net	4	(1,681,492)	(1,301,697)
Interest and commissions receivable		(20,007)	(36,757)
Other assets		(35,297)	(20,543)
Accrued interest payable		17,036	43,560
Accrued expenses and other liabilities		(3,212)	54
Total adjustments and net changes in operating assets and liabilities		(1,737,828)	(1,330,539)
Net cash used in operating activities		(1,577,659)	(1,177,960)
CASH FLOWS FROM INVESTING ACTIVITIES -			
Purchases of other investments	3	(236,168)	(186,308)
Maturities of other investments	3	230,469	237,949
Loan origination and principal collections, net	5	(1,364,921)	(1,177,631)
Equity investments	6	(35,989)	(27,696)
Purchases of property and equipment	7	(6,310)	(9,896)
Net cash used in investing activities		(1,412,919)	(1,163,582)
Carried forward,		(2,990,578)	(2,341,542)

See accompanying notes to the Financial Statements

CORPORACIÓN ANDINA DE FOMENTO (CAF)

Statements of Cash Flows

For the years ended December 31, 2012 and 2011

(In thousands of US Dollars)

	NOTES	2012	2011
Brought forward,		(2,990,578)	(2,341,542)
CASH FLOWS FROM FINANCING ACTIVITIES -			
Net increase in deposits		(550,220)	932,566
Net increase in commercial paper		1,197,877	452,765
Proceeds from advances		-	50,000
Repayment of advances		-	(50,000)
Proceeds from issuance of bonds	12	2,337,449	1,447,991
Repayment of bonds	12	(768,355)	(790,682)
Proceeds from borrowings	11	384,795	288,971
Repayment of borrowings	11	(133,521)	(158,151)
Distributions to stockholders' special funds	16	(96,500)	(93,500)
Proceeds from issuance of shares	15	450,140	538,987
Net cash provided by financing activities		2,821,665	2,618,947
NET (DECREASE) INCREASE IN CASH AND DEPOSITS WITH BANKS		(168,913)	277,405
CASH AND DEPOSITS WITH BANKS AT BEGINNING OF YEAR		1,800,682	1,523,277
CASH AND DEPOSITS WITH BANKS AT END OF YEAR		1,631,769	1,800,682
Consisting of -			
Cash and deposits with banks		1,631,769	1,800,682
Supplemental disclosure -			
Interest paid during the year		239,221	159,749
NONCASH FINANCING ACTIVITIES			
Changes in derivative instruments assets		69,184	178,275
Changes in derivative instruments liabilities		(33,802)	(39,018)

See accompanying notes to the Financial Statements

Notes to the Financial Statements

For the years ended December 31, 2012 and 2011
(In thousands of US Dollars)

1. Significant accounting policies

a. *Description of Business* – 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 by-laws. Series "A" and "B" stockholder countries are: Argentina, Bolivia, Brazil, Colombia, Ecuador, Panama, Paraguay, Peru, Uruguay and Venezuela. Series "C" stockholder countries are: Chile, Costa Rica, Dominican Republic, Jamaica, Mexico, Portugal, Spain and Trinidad and Tobago. In addition, there are 14 banks which are Series "B" stockholders. CAF is headquartered in Caracas, Venezuela.

   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 of other countries and organizations, generally non-reimbursable, destined to finance programs agreed upon with donor organizations which are in line with CAF policies and strategies.

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

b. *Financial Statement Presentation* – The financial statements have been prepared in accordance with U.S. generally accepted accounting principles and the functional currency is the U.S. dollar.

   Certain amounts in the 2011 financial statements have been reclassified to conform to the current year´s presentation.

   CAF has no accumulated other comprehensive income.

c. *Use of estimates* – The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America, which requires that management makes 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 with 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.

d. *Transactions in other currencies –* Transactions in currencies other than U.S. dollars are translated at exchange rates prevailing in international markets on the dates of the transactions. Currency balances other than U.S. dollars are translated at year-end exchange rates. Any foreign exchange gains or losses, including related hedge effects, are included in the statement of income.

e. *Cash and Cash Equivalents –* Cash and cash equivalents are defined as cash, due from banks and short-term deposits with an original maturity of three months or less.

f. *Marketable Securities –* CAF classifies its investments, according to management intention, as trading marketable securities. Trading securities are mainly bought and held with the purpose of selling them in the short term. Trading securities are recorded at fair value. Gains and losses, from sales of trading securities and changes in the fair value of trading securities are included in interest income of investments and deposits with banks in the statements of income.

g. *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 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, among others, which are not guaranteed by national governments.

Loans are reported 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 loan commissions in the statement of income.

The accrual for interest on loans is discontinued at the time a private sector loan 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 nonaccrual is reversed against interest income. The interest on these 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 impairment include 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 when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries on written off loans, if any, will be credited to the allowance.

CAF maintains risk exposure policies to avoid concentrating its loan portfolio in one country or specific 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, economic groups from public and private sectors, among others. CAF reviews, on semi- annual basis, the credit risk rating of its loans and classifies the risk into the following categories:

Satisfactory – credits with sufficient cash flow capacity and favorable financial indicators.

Special mention – credits which are less vulnerable in the short term but which now reflect inferior financial indicators or uncertainties in the face of adverse economic conditions or instability with the guaranties.

Doubtful – credits whose recovery is doubtful.

h. *Allowance for Loan Losses* – Allowance for loan losses is maintained at a level CAF believes to be adequate to absorb probable losses inherent to the loan portfolio as of the date of the financial statements. Allowance for sovereign loan losses is established by CAF based on the individual long-term foreign currency debt rating of the borrower 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 consider a default probability. Given CAF's status as a preferred creditor and taking into account the immunities and privileges conferred by its stockholder countries, which are established in CAF's by-laws 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 loans, the allowance is based on the individual local currency debt rating of the borrower countries considering the weighted average rating of the mentioned agencies.

A specific allowance is established by CAF for individually impaired loans. A loan is considered impaired when, based on currently available information and events, there is a probability 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 attributable to loans is reported as a deduction of loans and the allowance for off-balance sheet credit risk, such as, stand-by letters of credit and guarantees, is reported as other liabilities.

i. *Equity Investments* – CAF participates with equity investments in companies and investment funds in strategic sectors, with the objective of promoting the development of such companies 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 at a 20% - 50% of equity ownership level, the equity investments are accounted for using the equity method. Under the equity method, the carrying value of the equity investment is adjusted according to CAF's proportionate share of earnings or losses, dividends received and certain transactions of the investee company.

A decline in the value of any equity investment accounted at cost that 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 cost basis for the investment is established.

The equity investments do not have readily determinable fair values.

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 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 income over the estimated useful life of assets.

The assets in conformity with their estimated useful life are as follows:

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

k. *Other Assets –* Other assets include deferred charges and intangible assets.

Deferred costs capital investment – include projects which are in progress. Once they are completed and in place, the total amount invested is capitalized. The depreciation or amortization starts applying the current policy applicable for each asset category.

Deferred costs finance – include up-front costs and fees related to bonds and borrowings denominated in US$ that are deferred and amortized during their life time.

Intangible assets – which are reported at cost less accumulated amortization, are also included. 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. *Deposits and Commercial Papers –* Deposits and commercial papers are recorded at amortized cost.

m. *Borrowings* – The borrowings account includes those obligations with local or foreign financial institutions and commercial banks, which are commonly recorded at amortized cost, except for some borrowings that are hedged using interest rate swaps as an economic hedge.

n. *Bonds* – Medium and long-term debt issuances, whose objective is to provide the financial resources required to finance CAF's operations, are registered as follows:

- Bonds denominated in other currencies other than the US$ are recognized at fair value, as provided by ASC 825-10-25 "Fair Value Option". Gains or losses resulting from changes in the fair value of these bonds, as well as the related up-front costs and fees are recognized in the statement of income, when they occur. CAF enters into cross-currency and interest rate swaps as an economic hedge for interest rate and foreign exchange risks related with these bonds.

- Bonds denominated in US$ are hedged for interest rate risk using interest rate swaps, and are designated as part of fair value hedge accounting relationships assuming no hedge ineffectiveness (the "shortcut method"), as established in ASC 815-20-25-102. The related up-front costs and fees are deferred and amortized during their life time.

Partial repurchases of bond issuances result in the derecognition of the corresponding liabilities. The difference between the repurchase price and the debt's settlement net cost is recognized as income/loss for the year.

o. *Employees' Severance Indemnities* – 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 indemnities is presented as part of "labor benefits" account under "other liabilities" caption.

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

In the case of unjustified dismissal or involuntary termination, employees have the right to an additional indemnity of one-month salary per year of service up to a maximum of 150 days.

p. *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 benefit are calculated based on years of service and the average salary of the three consecutive years in wich the employee received the highest salary. CAF periodically reviews these contributions considering actuarial assumptions.

q. *Derivative Instruments and Hedging Activities –* All derivatives are recognized on the balance sheet at their fair value. On the date the derivative contract is entered into, for which hedge accounting should apply, CAF designates the derivative as either a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment ("fair value hedge"). 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 derivatives that are designated as fair-value to specific assets and liabilities on the balance sheet, or to specific firm commitments or forecasted transactions. CAF also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values.

Changes in the fair value of a highly effective derivate designated and qualified as a fair-value hedge, along with the loss or gain on the hedged asset or liability, or unrecognized firm commitment of the hedged item attributable to the hedged risk, are recorded as income.

CAF discontinues hedge accounting prospectively when it is determined that the derivative 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 as a hedging instrument is no longer appropriate.

When hedge accounting is discontinued because it is determined that the derivative no longer qualifies as an effective fair-value hedge, CAF continues to carry the derivative 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. When hedge accounting is discontinued because the hedged item no longer meets the definition of a firm commitment, CAF continues to carry the derivative on the balance sheet at its fair value, removes any asset or liability that was recorded pursuant to recognition of the firm commitment from the balance sheet and recognizes any gain or loss in income. In all situations in which hedge accounting is discontinued, CAF continues to carry the derivative at its fair value on the balance sheet, and recognizes any changes in its fair value in income.

r. *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 to share 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 life of the transaction.

s. Allowance for guarantees losses – Allowance for guarantees is maintained at a level CAF believes adequate to absorb probable losses inherent to the guarantees portfolio as of the date of the financial statements. Allowance for sovereign guarantees is established by CAF 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 consider a default probability. Given CAF's status as a preferred creditor and taking into account the immunities and privileges conferred by its stockholder countries, which are established in CAF's by-laws 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 allowance is based on the individual local currency debt rating of the guarantor countries considering the weighted average rating of the mentioned agencies.

t. Recent Accounting Pronouncements Applicable –

- ASU 2012-02, Testing Indefinite- Lived Intangible Assets for Impairment
  On July 27, 2012, the FASB issued ASU 2012-02, which revises the qualitative analysis, may be applied to an annual or interim impairment test for indefinite-lived intangible assets by simplifying how an entity tests those assets for impairment and to improve consistency in impairment testing guidance among long-lived asset categories performed as of a date before July 27, 2012, if an entity's financial statements have not yet been issued or, for nonpublic entities, have not yet been made available for issuance. Effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. This statement has not affected CAF´s financial results.

- *ASU 2012-04, Technical Corrections and Improvements*
  On October, 2012, the FASB issued ASU 2012-04, which includes amendments that identify when the use of fair value should be linked to the definition of fair value in Topic 820, Fair Value Measurement. At the time of issuance of FASB Statement No. 157, Fair Value Measurements, only Accounting Principles Board Opinions, FASB Statements, and certain FASB Technical Bulletins were amended. Certain areas of the authoritative guidance were not updated, such as guidance issued by the Emerging Issues Task Force, or Statements of Position issued by the American Institute of Certified Public Accountants (AICPA). This Update contains conforming amendments to the Codification to reflect the measurement and disclosure requirements of Topic 820. These amendments are referred to as Conforming Amendments. Additionally, this Update deletes the second glossary definition of fair value that originated from AICPA Statement of Position 92-6, Accounting and Reporting by Health and Welfare Benefit Plans. The first definition (originating from FASB Statement No. 123 [revised 2004]), Share-Based Payment, and the third definition (originating from Statement 157) remain.

  The amendments in this Update that will not have transition guidance will be effective upon issuance for both public entities and nonpublic entities. For public entities, the amendments that are subject to the transition guidance will be effective for fiscal periods beginning after December 15, 2012. For nonpublic entities, the amendments that are subject to the transition guidance will be effective for fiscal periods beginning after December 15, 2013. CAF will be considered this statement for future periods.

2. Cash and deposits with banks

Deposits with banks mature in three months or less and include the following:

	December 31,	
	2012	2011
Cash and due from banks	141,720	256,797
Deposits with banks:		
U.S. dollars	1,374,559	1,533,316
Other currencies	115,490	10,569
	1,490,049	1,543,885
	1,631,769	1,800,682

3. Other investments

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

	December 31,	
	2012	2011
U.S. dollars	99,427	93,351
Other currencies	1,483	1,860
	100,910	95,211

4. Marketable securities

Trading Securities

A summary of trading securities follows:

	December 31,			
	2012		2011	
	Amount	Average maturity (years)	Amount	Average maturity (years)
U.S. Treasury Notes	944,773	2.47	7,117	1.51
Non-U.S. governments and government entities bonds	178,846	2.49	995,483	0.74
Financial institutions and corporate securities:				
Commercial papers	1,899,734	–	1,442,343	–
Certificates of deposit	344,044	–	428,609	–
Bonds	1,723,496	–	620,495	–
Others	362,244	–	266,278	–
	4,329,518	1.21	2,757,725	0.49
	5,453,137	1.47	3,760,325	0.56

Trading securities include net unrealized gains of US$ 11,320 and US$ 1,883 at December 31, 2012 and 2011, respectively.

Net realized gains from trading securities of US$ 6,968 and of US$ 4,084 at December 31, 2012 and 2011, respectively, are included in the statement of 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 very conservative investment guidelines that limit the amount of credit risk exposure, considering among other factors, limits in credit ratings, limits in duration exposure, specific allocations by type of investment instruments and limits across sector and currency allocation. As of December 31, 2012 and 2011, CAF does not have any significant concentrations of credit risk. In other currencies, total marketable securities include the equivalent of US$ 165,652 and US$ 158,893, at December 31, 2012 and 2011, respectively.

5. 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,	
	2012	**2011**
Stockholder country:		
Argentina	2,114,725	1,913,325
Bolivia	1,598,808	1,417,564
Brazil	1,252,829	989,489
Colombia	1,832,312	1,816,515
Costa Rica	126,698	149,346
Dominican Republic	176,047	158,276
Ecuador	2,648,222	2,508,673
Jamaica	6,590	5,607
Mexico	18,026	18,776
Panama	586,944	321,489
Paraguay	134,501	100,448
Peru	2,660,320	2,573,155
Spain	50,000	-
Uruguay	331,820	351,725
Venezuela	2,816,083	2,652,070
Loans	16,353,925	14,976,458
Fair value adjustments	1,485	4,286
Carrying value of loans	16,355,410	14,980,744

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

At December 31, 2012 and 2011, loans in other currencies were granted for an equivalent of US$ 57,317 and US$ 41,793, respectively, principally in Bolivian bolivianos, Peruvian nuevos soles, Paraguaian guarani and Colombian pesos. At December 31, 2012 and 2011, loans include fixed interest rate loans of US$ 88,552 and US$ 89,469, respectively.

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

	December 31,	
	2012	2011
Public Sector	13,823,556	12,613,728
Private Sector	2,530,369	2,362,730
	16,353,925	14,976,458

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

	December 31,			
	2012		2011	
	Amount	Average yield (%)	Amount	Average yield (%)
Loans	16,353,925	2.69	14,976,458	2.70

Loans by industry segments are as follows:

	December 31,			
	2012	%	2011	%
Agriculture, hunting and forestry	62,651	–	34,053	–
Mining and Quarrying	–	–	50,000	1
Manufacturing industry	205,789	1	280,763	2
Electricity, gas and water supply	5,530,511	34	5,013,277	34
Transport, warehousing and communications	5,825,822	36	5,316,619	34
Commercial banks	1,144,172	7	1,076,707	7
Development banks	496,262	3	250,351	2
Social and other infrastructure programs	3,033,455	19	2,954,688	20
Others	55,263	–	–	–
	16,353,925	100	14,976,458	100

Loans mature as follows:

	December 31,	
	2012	2011
Remaining maturities:		
Less than one year	2,683,514	2,211,155
Between one and two years	1,481,612	1,640,247
Between two and three years	1,598,393	1,349,666
Between three and four years	1,530,782	1,333,411
Between four and five years	1,274,371	1,201,470
Over five years	7,785,253	7,240,509
	16,353,925	14,976,458

Loan portfolio is classified depending on the credit risk type, as follows:

	December 31,	
	2012	2011
Sovereign guaranteed	13,228,048	12,065,730
Non-sovereign guaranteed	3,125,877	2,910,728
	16,353,925	14,976,458

CAF maintains an internal risk rating system to evaluate the quality of the loan portfolio, which identifies, through standardized rating and review parameters, those risks related to credit transactions. The credit quality of the loan portfolio as of December 31, 2012 and 2011, is presented by the internal credit risk classification, as follows:

	December 31,	
	2012	2011
Risk classification:		
Satisfactory	16,334,424	14,932,028
Special Mention	11,650	36,276
Doubtful	7,851	8,154
	16,353,925	14,976,458

Loan portfolio quality

The loan portfolio quality indicators are presented below:

	December 31,	
	2012	2011
Overdue loans	0	0
Non-accrual loans	7,851	8,154
Impaired Loans	7,851	8,154
Loans written-off	0	0
Overdue loan principal as a percentage of loan portfolio	0%	0%
Nonaccrual loans as a percentage of loan portfolio	0.05%	0.05%
Allowance for losses as a percentage of loan portfolio	0.77%	0.87%

At December 31, 2012 and 2011, all loans were performing except for loans to a private client for US$ 7,851 and US$ 8,154, respectively, which were classified as impaired and were in non-accrual status.

Purchase of loan portfolio

During 2012, CAF did not purchase any loans. During 2011, CAF purchased loans for the amount of US$ 75,000.

Sale of loan portfolio

During 2012, CAF sold loans to commercial banks for US$ 76,900 without recourse.

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, 2012 and 2011, CAF maintained loans of this nature amounting to US$ 1,820,980 and US$ 1,904,386, respectively; whereby other financial institutions provided funds for US$ 1,325,996 and US$ 1,396,404, respectively.

Troubled debt restructurings

During 2012 and 2011, there were no troubled debt restructurings.

Allowance for Loan Losses

Changes in the allowance for loan losses are presented below:

	December 31,					
	2012			2011		
	Sector			Sector		
	Sovereign	Non-sovereign	Total	Sovereign	Non-sovereign	Total
Balances at beginning of year	99,414	31,222	130,636	104,209	37,155	141,364
Credit to results of operations	(3,542)	(1,323)	(4,865)	(4,795)	(6,976)	(11,771)
Recoveries	–	28	28	–	1,043	1,043
Balances at end of year	95,872	29,927	125,799	99,414	31,222	130,636

6. Equity investments

Equity investments, which have no market value, are as follows:

	December 31, 2012	December 31, 2011
Direct investments in companies accounted under equity method	8,226	7,318
Investment funds accounted under equity method	15,274	12,323
Direct investments in companies at cost	30,411	27,442
Investment funds at cost	92,900	64,806
	146,811	111,889

Investments by country are summarized as follow:

	December 31, 2012	December 31, 2011
Investment Funds:		
Bolivia	802	–
Brazil	5,241	2,522
Colombia	12,746	5,577
Mexico	10,629	5,473
Peru	13,156	3,259
Regional	65,600	60,298
	108,174	77,129

	December 31, 2012	December 31, 2011
Direct Investments in companies:		
Argentina	2,000	-
Bolivia	8,111	7,318
Colombia	3,969	3,000
Ecuador	490	490
Peru	4,182	4,182
Regional	19,885	19,770
	38,637	34,760

At December 31, 2012 and 2011, CAF did not recognized any impairment.

7. Property and equipment - net

A summary of property and equipment follows:

	December 31,	
	2012	2011
Land	18,704	17,820
Buildings	23,662	23,662
Buildings improvements	21,420	19,024
Furniture and equipment	20,451	13,789
Vehicles	854	785
	85,091	75,080
Less accumulated depreciation	45,865	38,240
	39,226	36,840

The depreciation expenses of US$ 3,924 and of US$ 2,957 for property and equipment at December 31, 2012 and 2011, respectively, are included in the statement of income.

8. Other assets

A summary of other assets follows:

	December 31,	
	2012	2011
Intangible assests, net	11,244	10,253
Deferred charges, net	68,354	22,482
Other assets	10,715	25,013
	90,313	57,748

9. Deposits

A summary of deposits follows:

	December 31,	
	2012	2011
Demand deposits	68,555	105,855
Time deposits:		
Less than one year	3,053,288	3,566,208
	3,121,843	3,672,063

At December 31, 2012 and 2011, the interest rates on deposits ranged from 0.04% to 1.809% and from 0.10% to 1.86%, respectively. Deposits are issued for amounts equal to or more than US$ 100. Total deposits in other currencies include US$ 283,004 and US$ 169,168, at December 31, 2012 and 2011, respectively.

10. Commercial papers

CAF's commercial paper of US$ 3,174,927 at December 31, 2012 mature in 2013 (US$ 1,977,050 at December 31, 2011 - matured in 2012). At December 31, 2012 and 2011, the interest rates on commercial paper ranged from 0.08% to 1.07% and from 0.16% to 1.02%, respectively.

11. Borrowings

A summary of borrowings follows:

	December 31,	
	2012	**2011**
U.S. dollars	1,344,860	1,107,857
Peruvian nuevos soles	6,857	10,351
Venezuelan bolivars	16,279	-
Other currencies	4,877	3,391
	1,372,873	1,121,599
Fair value adjustments	18,220	16,851
Carrying value of borrowings	1,391,093	1,138,450

At December 31, 2012 and 2011, there are fixed interest-bearing borrowings in the amount of US$ 169,892 and US$ 155,655, respectively.

Borrowings, by remaining maturities, are summarized below:

	December 31,	
	2012	**2011**
Remaining maturities:		
Less than one year	103,038	131,527
Between one and two years	468,797	101,886
Between two and three years	234,823	362,241
Between three and four years	191,591	195,588
Between four and five years	66,965	63,921
Over five years	307,659	266,436
	1,372,873	1,121,599

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

At December 31, 2012 and 2011 there were unused term credit facilities amounting to US$ 722,685 and US$ 804,882, respectively.

12. Bonds

An analysis of bonds follows:

	December 31,					
	2012			2011		
	Outstanding principal			Outstanding principal		
	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	5,208,530	5,208,530	2.54	4,545,954	4,545,954	2.56
Euro	1,190,396	1,177,262	2.55	1,013,806	973,722	2.46
Japanese yen	622,024	581,583	2.30	591,917	640,394	2.12
Colombian pesos	205,352	273,709	3.34	205,352	249,128	3.35
Venezuelan bolivars	–	–	–	109,302	54,651	(1.44)
Swiss francs	1,421,295	1,491,640	2.44	730,380	752,160	2.40
Mexican pesos	98,108	101,908	2.90	166,915	148,184	2.21
Peruvian nuevos soles	107,141	129,950	1.40	119,546	137,872	1.17
Chinesse renminbi	96,618	96,288	1.55	–	–	–
Hong Kong dollars	102,803	102,953	2.62	–	–	–
	9,052,267	9,163,823		7,483,172	7,502,065	
Fair value adjustments		579,029			570,263	
Carrying value of bonds		9,742,852			8,072,328	

A summary of the bonds issued, by remaining maturities, follows:

	December 31,	
	2012	2011
Remaining maturities:		
Less than one year	763,729	738,314
Between one and two years	944,354	748,641
Between two and three years	1,066,805	548,299
Between three and four years	1,148,506	957,546
Between four and five years	888,469	1,138,400
Over five years	4,240,404	3,351,972
	9,052,267	7,483,172

At December 31, 2012 and 2011, fixed interest rate bonds amounted to US$ 8,703,859 and US$ 7,032,177, respectively, of which US$ 3,719,349 and US$ 2,627,507, respectively, are denominated in Japanese yen, Euro, Swiss francs, Colombian pesos, Mexican pesos, Hong Kong dollars, Chinesse renminbi, and Peruvian nuevos soles.

There were no bonds repurchased during the years ended December 31, 2012 and 2011.

13. Accrued expenses and other liabilities

A summary of accrued expenses and other liabilities follows:

	December 31,	
	2012	**2011**
Employees' severance indemnities, benefits and savings plan	55,553	56,614
Other liabilities	9,078	7,337
Allowance Contingencies	2,639	2,825
	67,270	66,776

14. Pension plan

At December 31, 2012 the Plan has 343 participants and not retired employees. The measurement date used to determine pension plan benefits is December 31.

The Plan's benefit obligation (PBO) and assets as of December 31, 2012 and 2011 follows:

	December 31,	
	2012	**2011**
Plan's benefit obligation (PBO)	6,953	4,871
Plan Assets	6,359	4,493
Unrecognized actuarial losses, net	594	378

As of December 31, 2012 and 2011, the PBO's net assets are as follows:

	December 31,	
	2012	**2011**
Net assets:		
Deposits with banks	6,359	4,493

The table below summarizes the evolution of the periodic cost of projected benefits related to the PBO for the years ended December 31, 2012 and 2011:

	December 31,	
	2012	**2011**
Service cost	911	719
Interest cost	213	148
Expected return on plan assets	(80)	(138)
	1,044	729

A summary of the net projected cost for the year 2013 follows:

Service cost:	
Contributions to the plan	967
Guaranteed benefit	116
	1,083
Interest cost	297
Expected return on plan assets	(110)
	1,270

Weighted-average assumptions used to determine net benefit cost since the origination of the Plan to December 31, 2012 and 2011 follows:

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

15. Stockholders' equity

Authorized Capital

The authorized capital of CAF at December 31, 2012 and 2011, amounts to US$ 10,000,000, distributed among Series "A", "B" and "C" shares.

Subscribed Callable Capital

The payment of subscribed callable capital will be as required, with prior approval 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, 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. Series "A" shares have a par value of US$ 1,200.

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, 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 shares of CAF are entitled altogether to 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 for the years ended December 31, 2012 and 2011, follows:

	Number of Shares			Amounts			
	Series “A”	Series “B”	Series “C”	Series “A”	Series “B”	Series “C”	Total
At December 31, 2010	8	476,782	84,086	9,600	2,383,910	420,430	2,813,940
Capitalization of additional paid- in capital	–	40,237	3,039	–	201,185	15,195	216,380
Exchanged shares	–	63,106	(63,106)	–	315,530	(315,530)	–
Issued for cash	2	19,891	19,438	2,400	99,455	97,190	199,045
At December 31, 2011	10	600,016	43,457	12,000	3,000,080	217,285	3,229,365
Capitalization of additional paid- in capital	–	46,325	3,339	–	231,625	16,695	248,320
Issued for cash	–	16,827	14,979	–	84,135	74,895	159,030
At December 31, 2012	10	663,168	61,775	12,000	3,315,840	308,875	3,636,715

During 2011, Argentina and Paraguay became Series “A” stockholders.

Subscribed and paid-in capital is presented as follows at December 31, 2012:

	Number of Shares			Amounts			
	Series “A”	Series “B”	Series “C”	Series “A”	Series “B”	Series “C”	Total
Argentina	1	63,523	-	1,200	317,615	-	318,815
Bolivia	1	38,987	-	1,200	194,935	-	196,135
Brazil	1	58,372	-	1,200	291,860	-	293,060
Colombia	1	138,188	-	1,200	690,940	-	692,140
Ecuador	1	39,291	-	1,200	196,455	-	197,655
Panama	1	14,975	-	1,200	74,875	-	76,075
Paraguay	1	12,447	-	1,200	62,235	-	63,435
Peru	1	140,030	-	1,200	700,150	-	701,350
Uruguay	1	18,329	-	1,200	91,645	-	92,845
Venezuela	1	138,621	-	1,200	693,105	-	694,305
Chile	-	-	5,541	-	-	27,705	27,705
Costa Rica	-	-	3,291	-	-	16,455	16,455
Dominican Republic	-	-	5,838	-	-	29,190	29,190
Jamaica	-	-	182	-	-	910	910
Mexico	-	-	11,757	-	-	58,785	58,785
Portugal	-	-	1,109	-	-	5,545	5,545
Spain	-	-	25,923	-	-	129,615	129,615
Trinidad & Tobago	-	-	8,134	-	-	40,670	40,670
Commercial banks	-	405	-	-	2,025	-	2,025
	10	663,168	61,775	12,000	3,315,840	308,875	3,636,715

At December 31, 2012, the distribution 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	Amount	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount
Argentina	11,620	58,100	-	-	25,200	126,000	-	-
Bolivia	12,426	62,130	-	-	14,400	72,000	-	-
Brazil	29,486	147,430	-	-	25,200	126,000	-	-
Colombia	37,928	189,640	-	-	50,400	252,000	-	-
Ecuador	12,426	62,130	-	-	14,400	72,000	-	-
Panama	11,871	59,355	-	-	7,200	36,000	-	-
Paraguay	7,479	37,395	-	-	7,200	36,000	-	-
Peru	20,424	102,120	-	-	50,400	252,000	-	-
Uruguay	9,750	48,750	-	-	7,200	36,000	-	-
Venezuela	37,928	189,640	-	-	50,400	252,000	-	-
Chile	-	-	-	-	-	-	800	4,000
Mexico	-	-	-	-	-	-	1,600	8,000
Spain	-	-	346	1,730	-	-	15,688	78,439
Portugal	-	-	13,816	69,080	-	-	40,000	200,000
Trinidad & Tobago	-	-	15,323	76,615	-	-	-	-
Commercial banks	18	90	-	-	-	-	-	-
	191,356	956,780	29,485	147,425	252,000	1,260,000	58,088	290,439

Subscribed and paid-in capital is presented as follows at December 31, 2011:

	Number of shares			Amounts			
	Series "A"	Series "B"	Series "C"	Series "A"	Series "B"	Series "C"	Total
Argentina	1	57,989	-	1,200	289,945	-	291,145
Bolivia	1	35,533	-	1,200	177,665	-	178,865
Brazil	1	52,988	-	1,200	264,940	-	266,140
Colombia	1	126,340	-	1,200	631,700	-	632,900
Ecuador	1	35,815	-	1,200	179,075	-	180,275
Panama	1	11,593	-	1,200	57,965	-	59,165
Paraguay	1	9,246	-	1,200	46,230	-	47,430
Peru	1	126,743	-	1,200	633,715	-	634,915
Uruguay	1	16,676	-	1,200	83,380	-	84,580
Venezuela	1	126,742	-	1,200	633,710	-	634,910
Chile	-	-	5,146	-	-	25,730	25,730
Costa Rica	-	-	3,056	-	-	15,280	15,280
Dominican Republic	-	-	5,421	-	-	27,105	27,105
Jamaica	-	-	169	-	-	845	845
Mexico	-	-	4,379	-	-	21,895	21,895
Portugal	-	-	709	-	-	3,545	3,545
Spain	-	-	24,072	-	-	120,360	120,360
Trinidad & Tobago	-	-	505	-	-	2,525	2,525
Commercial banks	-	351	-	-	1,755	-	1,755
	10	600,016	43,457	12,000	3,000,080	217,285	3,229,365

At December 31, 2011, the distribution 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	Amount	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount
Argentina	12,676	63,380	-	-	25,200	126,000	-	-
Bolivia	6,690	33,450	-	-	14,400	72,000	-	-
Brazil	14,680	73,400	-	-	25,200	126,000	-	-
Colombia	9,154	45,770	-	-	50,400	252,000	-	-
Ecuador	6,690	33,450	-	-	14,400	72,000	-	-
Panama	7,903	39,515	-	-	7,200	36,000	-	-
Paraguay	9,951	49,755	-	-	7,200	36,000	-	-
Peru	23,944	119,720	-	-	50,400	252,000	-	-
Uruguay	3,662	18,310	-	-	7,200	36,000	-	-
Venezuela	23,944	119,720	-	-	50,400	252,000	-	-
Chile	-	-	-	-	-	-	800	4,000
Mexico	-	-	-	-	-	-	1,600	8,000
Portugal	-	-	718	3,590	-	-	16,164	80,820
Spain	-	-	13,816	69,080	-	-	40,000	200,000
Trinidad & Tobago	-	-	142	710	-	-	-	-
Commercial banks	10	50	-	-	-	-	-	-
	119,304	596,520	14,676	73,380	252,000	1,260,000	58,564	292,820

General Reserve

CAF maintains a general reserve approved by the stockholders' Assembly, which is considered an equity reserve. Stockholders decided to increase the reserve by US$ 40,779 and US$ 55,989 during the years ended December 31, 2012 and 2011, by appropriations from net income for the years ended December 31, 2011 and 2010, respectively.

Reserve Pursuant to Article Nº 42 of the By-laws

CAF's by-laws establish that at least 10% of annual net income is to be allocated to a reserve fund until that fund amounts to 50% of the subscribed capital. Additional allocations may be approved by the stockholders. At the stockholders' Assembly in March 2012 and 2011, it was authorized to increase the reserve by US$ 15,300 and US$ 16,650, from net income for the years ended December 31, 2011 and 2010, respectively.

Capitalization of additional paid- in capital

At the stockholders' Assembly in March 2012 and 2011, it was authorized to capitalize, through dividends in shares from additional paid- in capital, the amount of US$ 248,320 and US$ 216,380, respectively.

16. Distributions to stockholders' special funds

Stockholders may distribute a portion of retained earnings to special funds, created to promote technical and financial cooperation, sustainable human development, and management of poverty relief funds in stockholder countries.

In March 2012 and 2011, stockholders agreed to distribute US$ 96,500 and US$ 93,500, from retained earnings at December 31, 2011 and 2010, respectively, to the stockholders' special funds.

17. Tax exemptions

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 tax or other levy.

18. Derivative 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.

By using derivative financial instruments to hedge exposure to changes in interest rate and foreign exchange rates, CAF exposes itself to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty owes CAF, creating credit risk for CAF. When the fair value of a derivative contract is negative, CAF owes the counterparty and, therefore, it does not possess credit risk. CAF minimizes the credit risk in derivative instruments by entering into transactions with high-quality counterparties whose credit rating is "A" or higher.

The market risk associated with interest rate and currency risk is managed by swapping loans and borrowings, subject to fixed interest rates and denominated in other currency into floating interest rate instruments denominated in U.S. dollars. CAF enters into derivative 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 and other obligations. Derivative contracts held by CAF consist of interest rate and cross-currency swaps and are designated as fair value hedges of specifically identified loans, bonds or borrowings and other obligations with fixed interest rates or non U.S. currency exposure.

CAF monitors the credit risk associated with derivative transactions. Credit risk is managed by establishing exposure limits based on the credit rating and size of the individual counterparty, among other factors. To further reduce the credit risk in derivatives, CAF enters into credit support agreements with its major swap counterparties. This provides risk mitigation, as the swap transactions are regularly mark-to-market, and the party being the net obligor is requested to post collateral when net mark to-market exposure exceeds certain predetermined thresholds, which decrease as the counterparty's credit rating deteriorates. This collateral is in the form of cash or highly rated and liquid government securities. CAF offsets the fair value amount recognized for derivative instruments and the fair value amount recognized for the collateral, whether posted or received, under master netting arrangements executed with the same counterparty, in accordance with ASC 815-10-45-5.

The amount recognized for the right to receive collateral or the obligation to post collateral that have been offset at year-end 2012 and 2011, was US$ 214,624 and US$ 202,585 received, respectively.

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, 2012 and 2011:

	Notional amount		Fair value	
	Interestate swap	Cross- currency swap	Derivative assets	Derivative liabilities
At December 31, 2012 -				
Loans	-	42,820	-	6,506
Loans	23,900	-	617	-
Borrowings	323,333	-	18,220	-
Bonds	5,049,510	-	357,504	4,705
Bonds	-	3,855,689	396,107	48,856
	5,396,743	3,898,509	772,448	60,067
At December 31, 2011 -				
Loans	-	29,525	-	6,035
Loans	31,000	-	-	821
Borrowings	340,000	-	16,851	-
Bonds	4,416,318	-	411,582	-
Bonds	-	2,941,867	274,831	87,013
	4,787,318	2,971,392	703,264	93,869

For the years ended December 31, 2012 and 2011, all of CAFs' derivatives which had been designated as hedging relationship were considered fair value hedges. The change in the fair value of such derivative instruments and the change in fair value of hedged items attributable to risk being hedged are included in the statement of income.

19. Fair value measurements

ASC 820 "Fair Value Measurements and disclosures", defines fair value, expands disclosure requirements around fair value and specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect CAF's market assumptions to determine the best price of these instruments. These two types of inputs create the following fair value hierarchy:

- *Level 1* – Quoted prices for identical instruments in active markets.
- *Level 2* – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.

– *Level 3* – Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

Determination of Fair Value

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 instrument is classified. Where appropriate, the description includes details of the valuation models, the key inputs to those models, as well as any significant assumptions.

When available, CAF generally uses quoted market prices to determine fair value, and classifies such items in Level 1. In some cases where a market price is not available, CAF makes use of acceptable practical expedients (such as matrix pricing) to calculate fair value, in which case the items are classified in Level 2.

If quoted market prices 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. Items valued using such internally generated valuation techniques are classified according to the lowest level input or value driver that is significant to the valuation. Thus, an item may be classified in Level 3 even though there may be some significant inputs that are readily observable.

Where available, CAF may also make use of quoted prices for recent trading activity in positions with the same or similar characteristics to the one being valued. The frequency and size of transactions and the amount of the bid-ask spread are among the factors considered in determining the liquidity of markets and the relevance of observed prices from those markets. If relevant and observable prices are available, those valuations would be classified as Level 2. If prices are not available, other valuation techniques would be used and the item would be classified as Level 3.

The following methods are used to estimate the fair-value hierarchy of CAF's financial instruments:

- ***Marketable securities:*** CAF uses quoted market prices to determine the fair value of trading securities and these financial assets are classified in Level 1 of the fair-value hierarchy.

- ***Loans:*** The fair value of fixed rate loans, which are hedged using derivative transactions, is determined 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 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 given by the counterparties. Derivative transactions 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 using an internal valuation 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 depending on the observability of significant inputs to the model.

During 2012, 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, 2012 and 2011:

	Level 1	Level 2	Level 3	Net balance
At December 31, 2012 -				
Assets:				
Marketable Securities:				
U.S. Treasury Notes	944,773	-	-	944,773
Bonds of non-U.S. governments and government entities	178,846	-	-	178,846
Financial institutions and corporate securities:				
Commercial papers	1,899,734	-	-	1,899,734
Certificate of deposits	344,044	-	-	344,044
Bonds	1,723,496	-	-	1,723,496
Others	362,244	-	-	362,244
	4,329,518	-	-	4,329,518
	5,453,137	-	-	5,453,137
Loans	-	72,354	-	72,354
Derivative instruments:				
Interest rate swap	-	376,341	-	376,341
Cross-currency swap	-	396,107	-	396,107
	-	772,448	-	772,448
	5,453,137	844,802	-	6,297,939
Liabilities:				
Bonds	-	9,595,784	-	9,595,784
Borrowings	-	341,553	-	341,553
Derivative instruments:				
Interest rate swap	-	4,705	-	4,705
Cross-currency swap	-	55,362	-	55,362
	-	60,067	-	60,067
	-	9,997,404	-	9,997,404

	Level 1	Level 2	Level 3	Net balance
At December 31, 2011 -				
Assets:				
Marketable Securities:				
U.S. Treasury Notes	7,117	-	-	7,117
Bonds of non-U.S. governments and government entities	995,483	-	-	995,483
Financial institutions and corporate securities:				
Commercial papers	1,442,343	-	-	1,442,343
Certificate of deposits	428,609	-	-	428,609
Bonds	620,495	-	-	620,495
Others	266,278	-	-	266,278
	2,757,725	-	-	2,757,725
	3,760,325	-	-	3,760,325
Loans	-	64,811	-	64,811
Derivative instruments:				
Interest rate swap	-	428,433	-	428,433
Cross-currency swap	-	274,831	-	274,831
	-	703,264	-	703,264
	3,760,325	768,075	-	4,528,400
Liabilities:				
Bonds	-	7,947,340	-	7,947,340
Borrowings	-	356,851	-	356,851
Derivative instruments:				
Interest rate swap	-	821	-	821
Cross-currency swap	-	93,048	-	93,048
	-	93,869	-	93,869
	-	8,398,060	-	8,398,060

20. Fair value of financial instruments

In accordance with ASC 825 *Financial Instrument*s, CAF estimated the fair value of all financial instruments in CAF's balance sheet, including those financial instruments carried at cost, as presented in the table below. The fair value estimates, methods and assumptions, set forth below, for CAF's financial instruments are made solely to comply with the requirements of *ASC 820 Fair Value Measurements and Disclosures* and should be read in conjunction with the financial statements.

The following is a summary of the carrying value and estimated fair value of CAF's financial instruments at December 31, 2012 and 2011:

		December 31,			
		2012		2011	
	Hierarchy Levels	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Financial assets:					
Cash and due from banks	1	141,720	141,720	256,797	256,797
Deposits with banks	1	1,490,049	1,490,049	1,543,885	1,543,885
Other investments	1	100,910	100,910	95,211	95,211
Loans, net	2	16,283,056	16,283,792	14,915,933	14,917,736
Equity investments (Cost method)	2	123,311	123,311	92,248	92,248
Acrrued interest and commissions receivable	2	216,323	216,323	196,316	196,316
Financial liabilities:					
Deposits	2	3,121,843	3,121,843	3,672,063	3,672,063
Commercial paper	2	3,174,927	3,174,927	1,977,050	1,977,050
Borrowings	2	1,049,540	1,049,681	781,599	781,836
Bonds	2	147,068	149,043	124,988	127,167
Accrued interest payable	2	180,597	180,597	163,561	163,561

The following methods and assumptions were used to estimate the fair value of those financial instruments, not accounted for at fair value under *ASC 820 Fair Value Measurements and Disclosures*:

- *Cash and due from banks, deposits with banks, interest and commissions receivable, other investment, deposits, commercial paper and accrued interest payable:* The carrying amounts approximate fair value because of the short maturity of these instruments.

- *Loans:* CAF is one of the few institutions that offers loans for development in the stockholder countries. A secondary market does not exist for the type of loans granted by CAF. As rates on variable rate loans and loan commitments 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 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:* The fair value of equity investments recorded at cost is determined based on a financial analysis of the investees. CAF´s equity investments in other entities do not have available market price quotations.

- *Bonds and borrowings:* For CAF´s bonds issued and medium and long term borrowings, fair value is determined using an internal valuation 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 depending on the observability of significant inputs to the model.

During 2012, there were no transfers between levels 1, 2 and 3.

21. Fair value option

ASC 825-10-25 “Fair value option” permits to choose the option of measuring eligible financial assets and financial liabilities at fair value. Once the fair value option has been chosen for an instrument, this choice cannot be reversed. Fair value changes on these financial assets and financial liabilities must be recorded in the statement of income.

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 a derivative as an economic hedge for other currency and interest rate risks.

The results recorded in the statement of income resulting from the periodic cash flows and unrealized changes in fair value as of December 31, 2012 and 2011 for instruments that fair value option was chosen, and for derivatives used as economic hedges for these instruments, are as follows:

	December 31,	
	2012	**2011**
Bonds	(779)	5.777
Loans	202	(954)
	(577)	4.823

22. Commitments and contingencies

Commitments and contingencies include the following:

	December 31,	
	2012	**2011**
Credit agreements subscribed - eligibles	3,706,207	4,391,248
Credit agreements subscribed - non eligibles	2,531,805	1,207,380
Lines of credit	3,578,581	3,823,830
Letters of credit	27,991	155,110
Equity Investments agreements subscribed	185,799	161,102
Guarantees	331,630	251,895

These commitments and contingencies result 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 credits; such financial instruments are recorded as commitments upon signing the corresponding contract and are reported in the financial statements when disbursements are made. Those commitments that have fulfilled the necessary requirements for disbursement are classified as eligibles.

The contracts to extend credit have fixed expiration dates and in some cases expire without making disbursements. Also, based on experience, parts of the disbursements are made up to two years after the signing of the contract. Therefore, the total commitment amounts do not necessarily represent future cash requirements.

Guarantees mature as follows:

	December 31,	
	2012	**2011**
Remaining maturities:		
Less than one year	81,822	38,456
Over five years	249,808	213,439
	331,630	251,895

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

23. Administrative expenses

As of December 31, 2012 and 2011, CAF recordedclassified administrative expenses as follows:

	December 31,	
	2012	**2011**
Salaries and employee benefits	57,696	54,229
Logistics and infrastructure	13,797	11,585
Expenses associated with the business	11,630	9,050
Telecommunications and technology	7,865	6,142
	90,988	81,006

24. Third-party assets under management

CAF, as a multilateral financial institution, acts as administrator of several funds owned by third-parties and CAF's stockholders special funds. These stockholder special funds are financed through distributions made each year by the stockholders' meeting from CAF's prior year's net income.

In connection with the operations carried out by the Funds, CAF's financial responsibility is limited to the fund's balance, less commitments contracted. Since CAF does not maintain residual interests in these funds, it does not expect the generation of economic benefits for future distribution. These funds are not part of CAF's accounts.

As of December 31, 2012 and 2011, managed funds net assets are US$ 498,048 and US$ 466,173, respectively. The balances of main managed funds are as follows:

	December 31,	
	2012	**2011**
Compensatory Financing Fund (FFC) (1)	324,270	289,856
Fund for the Development of Small and Medium Enterprises (FIDE)	43,567	43,407
Fund for the Promotion of Sustainable Infrastructure Projects (PROINFRA)	24,480	27,344
Technical Assistance Fund (FAT)	22,917	23,271
Human Development Fund (FONDESHU)	16,884	20,241
Latin American Carbon, Clean Alternative Energies Program (PLAC)	7,696	8,268
Cross-Border Cooperation and Integration (COPIF)	3,487	3,049
Others	54,747	50,737
	498,048	466,173

(1) This fund was created by CAF's Stockholders for the purpose of compensating a portion of interest costs of certain loans granted by CAF to finance economic and social infrastructure projects. As of December 31, 2012 and 2011, this fund compensated US$ 37,489 and US$ 28,201, respectively.

25. Segment reporting

Management has determined that CAF has only one 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 between the nature of the products or services provided, the preparation process, or the method for providing the services among individual countries. For the periods ended December 31, 2012 and 2011, loans made to or guaranteed by six countries individually generated an excess, before swaps, of 10 percent of loan income, as follows:

	December 31,	
	2012	2011
Argentina	61,101	40,721
Bolivia	42,497	35,625
Colombia	54,042	49,931
Ecuador	66,006	60,059
Peru	77,420	64,798
Venezuela	78,464	63,371
	379,530	314,505

26. Subsequent events

Management has evaluated subsequent events through January 31, 2013, financial statements issue date. As a result of this evaluation, there are no subsequent events, as defined, that require a disclosure in CAF's financial statements at the year ended December 31, 2012, except for:

- On January 14, 2013 CAF priced bonds under EMTN for CHF 250,000, 1,375%, due 2021.
- On January 30, 2013 CAF priced bonds under the EMTN program for US $100,000, LIBOR 3 months plus 85 bps, due 2016.

GOVERNING BODIES
Corporación Andina de Fomento

Shareholders' Assembly[1]

The Shareholders' Assembly is CAF's highest authority. It meets in Ordinary sessions once a year, within ninety days following the end of the fiscal year; and in Extraordinary sessions, according to need. The Assembly is comprised of Series A, B and C shareholders. The Assembly approves the Annual Report of the Board of Directors, the audited financial statements, and determines the allocation of net income. In addition, it elects Board members, according to the provisions set forth in the "Agreement establishing the Corporación Andina de Fomento", appoints the external auditors and examines other issues submitted to its consideration.

Board of Directors[2]

The Board of Directors is comprised of representatives of Series A, B and C shareholders. It establishes CAF's policies, appoints the President, approves credit operations, the annual budget, and approves guarantees, investments and other operations within CAF's mandate. Approvals of certain operations are delegated to the Executive Committee or the President, according to criteria set forth by the Board.

Executive Committee

The Executive Committee was established by the Board of Directors in 1971. It is comprised of directors designated by Series A, B and C shareholders, and is chaired by the President. It approves financial operations within the limits established by the Board.

Audit Committee[3]

The Audit Committee was established by the Board of Directors in July, 1996. It is comprised of the Chairman of the Board, Directors elected by the Board for a two-year period, and CAF's President. It recommends the selection of external auditors and reviews their annual work program. It also reviews the Institution's annual report and financial statements, with the corresponding auditors' opinion, before their submission to the Board and Shareholders Assembly; the Internal Audit Reports on the structure of internal control systems; the annual portfolio risk management program and the annual report on its implementation.

President

The President is CAF's legal representative. As CEO, he is in charge of the Institution's overall supervision and management, as well as all matters which are not specifically entrusted to any other governing body. Likewise, he approves CAF's country and sector strategies, decides on organizational and procedural issues under his authority, and authorizes the Institution's financial operations within the limits delegated to him by the Board of Directors. The President is assisted by an Advisory Council composed of experts from the economic, business, and financial communities of the region, whose main task is to support the President in the analysis of CAF's strategic objectives. The President is appointed for a five year period, and may be re-elected.

1 The XLIII Ordinary Shareholders' meeting as well as the XV Extraordinary Shareholders' Meeting were held on March 6th, 2012. Likewise, the XVI Extraordinary Shareholders' Meeting took place on November 27th, 2012.

2 During 2012, three Board of Directors meetings were held on March 6th (CXLIV Board of Directors Meeting), July 3rd (CXLV Board of Directors Meeting) and November 27th (CXLVI Board of Directors Meeting).

3 The XIX and the XX Audit Committee were held on March 5th, 2012, and November 26th, 2012, respectively.

Board of Directors
(as of December 31st, 2012)

Chairman of the Board (2012- 2013)
Camilo Samán Salem (as of December 31st, 2012)*
President of the Board of Directors of Corporación Financiera Nacional del Ecuador

Series A Shareholders (2011-2014)

ARGENTINA
Principal: Hernán Lorenzino
Minister of Economy and Public Finance
Alternate: Julio Miguel De Vido
Minister of Federal Planning, Public Investment and Services

BOLIVIA
Principal: Elba Viviana Caro Hinojosa
Minister of Planning of Development
Alternate: Harley Rodríguez Téllez
Vice Minister of Public, Investment and External Financing

BRAZIL
Principal: Miriam Belchior
Minister of Planning, Budget and Management
Alternate: Carlos Augusto Vidotto
Secretary of International Affairs of the Ministry of Planning, Budget and Management

COLOMBIA
Principal: Mauricio Cárdenas
Minister of Finance and Public Credit
Alternate: Sergio Diaz-Granados Guida
Minister of Commerce, Industry and Tourism

ECUADOR
Principal: Camilo Samán Salem
Chairman of the Board (2012- 2013)
President of the Board Directors of Corporación Financiera Nacional
Alternate: Jorge Wated Reshuan
General Manager
Corporación Financiera Nacional

PANAMA
Principal: Frank De Lima
Minister of Economy and Finance
Alternate: Mahesh Khemlani
Vice Minister of Finance

PARAGUAY
Principal: Manuel Ferreira
Minister of Finance
Alternate: Ramón Ramírez
Vice Minister of Economy

PERU
Principal: Luis Miguel Castilla Rubio
Minister of Economy and Finance
Alternate: Carlos Augusto Oliva Neyra
Vice Minister of Finance

URUGUAY
Principal: Fernando Lorenzo
Minister of Economy and Finance
Alternate: Mario Bergara
President of the Central Bank of Uruguay

VENEZUELA
Principal: Jorge Giordani
Minister of Planning and Finance
Alternate: Eyilde Margarita Gracia
Vice Minister of Planning and Finance

Series B Shareholders

BOLIVIA
Principal: Luis Alberto Arce
Minister of Economy and Public Finance
Alternate: Roger Edwin Rojas Ulo
Vice Minister of Treasury and Public Credit

COLOMBIA
Principal: José Darío Uribe
General Manager of Banco de la República
Alternate: Mauricio Santa María
General Director of National Planning Department

ECUADOR
Principal: Patricio Rivera
Minister of Finance
Alternate: Diego Martínez
President of the Board of Directors of the Central Bank of Ecuador

PERU
Principal: Alfonso Zárate Rivas
President of the Board of Directors of Corporación Financiera de Desarrollo (COFIDE)
Alternate: Laura Berta Calderón Regio
Vice Minister of Economy

VENEZUELA
Principal: Edmée Betancourt de García
President of Banco de Desarrollo Económico y Social de Venezuela (BANDES)
Alternate: Gustavo Hernández
Vice Minister of Economy

PRIVATE BANKS
Principal: Darko Iván Zuazo Batchelder
President of the Board of Directors of Banco Mercantil Santa Cruz S.A. de Bolivia
Alternate: Efraín Enrique Forero Fonseca
President of Banco Davivienda de Colombia

Series C Shareholders (2012-2015)

SPAIN
Principal: Luis de Guindos Jurado
Minister of Economy and Competitiveness

DOMINICAN REPUBLIC
Alternate: Simón Lizardo Mezquita
Minister of Finance

MEXICO
Principal: Luis Videgaray
Secretary of Finance and Public Credit

CHILE
Alternate: Hernán Cheyre
General Manager of CORFO

* Until March 31, 2012, Juan Carlos Echeverry, Colombia's Minister of Economy and Public Credit, was CAF´s Chairman of the Board.

Executive Management

(as of December 31st, 2012)

President and Chief Executive Officer L. Enrique García
Executive Vicepresident Luis Enrique Berrizbeitia
General Advisor Luis Sánchez Masi
Chief Legal Counsel Ricardo Sigwald

Corporate Comptroller Marcelo Zalles
Director, Risk Management Marcia Arliani
Director, Internal Audit Martha Diez

Corporate Director, Credit Management Stephen Foley
Corporate Director, Human Capital José Bellido
Director, Human Capital Planning Leopoldo Gómez
Corporate Director, Technology and Operations Germán Alzate
Director, Operations Control Renato Castellanos
Director, Information Technology Diego Grillo

Corporate Secretary, Secretariat and External Relations Andrés Rugeles
Director, Strategic Communication Mara Rubiños

Special Advisor to the CEO on Institutional Development and Special Initiatives Víctor Rico
Special Advisor to the CEO on Regional Financial Programs Álvaro García
Corporate Director, Europe Guillermo Fernández de Soto
Director, Strategic Affairs-Europe Office Germán Ríos

Corporate Vicepresident, Public Policy and Strategic Devolpment José Luis Curbelo
Director, Public Policy and Competitiveness Michael Penfold
Director, Research Pablo Sanguinetti
Director, Environment Ligia Castro

Corporate Vicepresident, Country Programs Lilliana Canale
Director, Regional Programs Alexis Gómez
Director, Grants Management Corina Arroyo
Director, Argentina Ruben Ramírez
Director, Bolivia Emilio Uquillas
Director, Brazil Moira Paz Estenssoro
Director, Colombia Víctor Traverso
Director, Ecuador Hermann Krützfeldt
Director, Panama Susana Pinilla
Director, Paraguay Fernando Infante
Director, Peru Eleonora Silva
Director, Uruguay Gladis Genua

Corporate Vicepresident, Infrastructure Antonio Juan Sosa
Director, Sectorial Analysis and Programming
Director, Northern Region Projects Lucía Meza
Director, Southern Region Projects Rolando Terrazas

Corporate Vicepresident, Productive and Financial Sectors Gustavo Ardila
Corporate Director, Productive and Financial Sectors Carlos Sanz
Director, Productive and Financial Sectors Northern Region Mauricio Salazar
Director, Productive and Financial Sectors Southern Region Félix Bergel
Director, SMEs and Microfinance Manuel Malaret

Corporate Director, Specialized Financial Services Carmen Elena Carbonell
Director, Structured Financing
Director, Financial Advisory Services Ignacio Fombona

Corporate Vicepresident, Social Development José Carrera
Corporate Director, Social Development Bernardo Requena
Director, Social Development Projects Daniel Rivera
Director, Social Sustainability Silvia Oteyza

Corporate Vicepresident and Chief Financial Officer Hugo Sarmiento
Director, Financial Policies and International Emissions Gabriel Felpeto
Director, Institutional Financing Carolina España

Director, Treasury Alfonso Machado
Director, Accounting and Budget Marcos Subía

Corporate Vicepresident, Energy Hamilton Moss
Director, Energy Projects Renny López

Director, Logistics and Administrative Services Jaime Caycedo

Products and Services

CAF's activities are aimed at supporting sustainable development and regional integration among its shareholder countries. As a multilateral source of financial resources, the Institution attracts funds from international markets to Latin America, with the objective of promoting investment and trade opportunities in the region.

Likewise, CAF provides resources generally non-reimbursable, for a series of special programs that support its mission within the framework of its Agenda for Comprehensive Development.

These funds are devoted to socioeconomic development in shareholder countries, through the Financing of operations that contribute to improving the competitiveness of their economies, the development of infrastructure, physical integration, the promotion of micro-, small- and medium-sized businesses, the strengthening of financial markets, the development of human capital and the reform and modernization of states.

The Institution offers financial products and services to shareholder states and public, private and mixed capital companies based in shareholder countries.

The products and services offered by CAF are mainly aimed a supporting the implementation of its Agenda for Comprehensive Development and its special programs. They include a series of financial tools designed to meet clients' requirements and market opportunities, under the following headings:

Loans

Loans represent CAF's main financing tool. They are employed in investment projects and activities related to the Institution's corporate mission.

Project financing

Project Financing loans are allocated to develop and execute projects in road transportation, telecommunications, water and environment, border development and the physical integration of shareholder countries. CAF also provides financing to corporate projects in the industrial field, to enhance and renovate productive capacity and to insert businesses into regional and global markets.

Credit lines

Credit lines allow the Institution to offer maximum resources for a given period without an express commitment to the client.

Project structuring and financing

CAF actively participates in the financing of projects structured with limited guarantees (limited recourse lending). This category is mainly utilized for the financing of BOO (Build, Operate and Own) operations in the infrastructure sector, generally arising from concessions granted by governments, or to finance oil and gas, mining and other extractive projects.

Co-financing

Co-financing is a type of loan that complements the financial resources provided by CAF and attracts external capital to the region. Through these instruments, the Institution grants the A portion of the loan using its own resources, while distributing the B portion among international banks and institutional investors. In addition, CAF co finances operations with other multilateral organizations, such as the Inter-American Development Bank, the World Bank, the International Investment Corporation, the Nordic Investment Bank, the International Finance Corporation and the International Fund for Agricultural Development, as well as with official bodies and local and international private banks.

Support to the private sector

The private sector has a direct impact as a wealth creator, a generator of employment and a promoter of trade and markets. Companies also have a key multiplier role in education and technology transfer.

CAF promotes the participation of the private sector in investment projects in the productive sectors of shareholder countries. In addition, the Institution offers advice on governance, corporate governance and the promotion of corporate social responsibility, which also requires the active participation of the sector, and structures physical integration projects to include private sector participation, on account of the large capital investments involved in infrastructural developments.

It offers direct assistance through traditional term loans and indirect assistance through partial credit guarantees for government obligations in the underlying transactions or part-financing.

An example of CAF's activities in this regard is the advice given on the structuring of concessions in the framework of Peru's Inter-Oceanic Roads project, which was successfully financed by the private sector.

Guarantees

Guarantees are used by the Institution to back up credit operations approved by other sources for governments, businesses and financial institutions.

Partial Credit Guarantees

Partial Credit Guarantees (PCG) are financial instruments through which a portion of the credit risk of a client's obligation is guaranteed to a third party. Through this mechanism, CAF attracts fresh resources to the region and stimulates the activities of private financial sources by offering conditions that would otherwise not be available.

Financial advice

The Institution provides financial advice to public and private sector clients. Among other services, CAF offers advice in: i) the definition and structuring of financial plans for projects and companies; ii) the design and implementation of public bid processes to delegate the private sector the construction, operation and administration of infrastructure and public service works, such as public private partnerships and concessions; iii) preparation of private sectors offers to participate in public bid processes; iv) mergers and acquistions; and v) valuations.

Public-Private Participations

CAF actively participates in the structuring of financing operations with the private sector, in order to overcome the shortage of funds available to finance infrastructural projects. Through this participation, CAF contributes to the process of financial engineering needed to structure this type of operation, offers advice to the parties involved, and promotes the development and strengthening of capital markets.

Treasury services

Treasury services include deposits via the money desk, from overnight to 12 months, offered by CAF to its shareholder countries.

Equity investments

Equity investments are capital investments utilized by CAF to support business development in shareholder countries and their access to capital, as well as to attract resources to the region.

Cooperation funds

CAF uses cooperation funds to finance specialized operations that complement the existing technical capacity of shareholder countries, to promote special programs that contribute to sustainable development and regional integration. These funds may be reimbursable, non-reimbursable or of conditional recovery, depending on the nature and purpose of the operation.

Cooperation funds are primarily intended to support reforms related to state modernization processes, such as privatization, administrative decentralization and institutional strengthening.

They also contribute to export and investment plans, the development and integration of the region's financial and capital markets, technology transfer and adaptation, environmental protection, social development and the promotion of cultural values.

CAF also administrates and supervises funds, mostly non-reimbursable, from other countries and bodies, which are devoted to financing programs agreed with donor organizations and according to the policies and strategies of the Institution.

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