Supranational
Venezuela
Credit Analysis

Corporación Andina de Fomento (CAF)

Ratings

	Current Rating
Foreign Currency Long-Term IDR	A+
Foreign Currency Short-Term IDR	F-1

Outlook

Stable

Financial Data

Corporación Andina de Fomento
(USD Mil.)

	06/30/08	12/30/07
Total Assets	13,262.5	12,597.2
Total Equity	4,280.8	4,127.4
Net Income	215.6	400.8
ROA (%)	3.33	3.48
Usable Capital/Required (x)	NA	1.8
Equity/Assets (%)	32.28	34.14

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Rating Rationale

- Corporación Andina de Fomento's (CAF) ratings reflect the privileges conferred on it by its member countries, its strong capital base and a solid track record in terms of asset quality and self-sustainable profitability. The ratings are limited by the volatility of the economic environment in which the institution operates, significant loan concentrations and the member countries' creditworthiness. CAF has been able to operate without difficulty in successive periods of instability in the region due to a conservative operating policy and the member countries' support.
- CAF's shareholders are governments and public agencies, mostly of the Andean countries. The shareholders have demonstrated strong support in the form of capital contributions and privileges and immunities. As CAF is one of the few providers of long- and medium-term financing to the region, Fitch Ratings considers that its shareholders have a vested interest in supporting it should it be required. However, some doubts remain concerning their ability to provide such support.
- Constant capital increases and adequate profitability have sustained CAF asset growth and the bank's ample capitalization ratios. The inclusion of Spain (long-term issuer default rating [IDR] of 'AAA') as a shareholder in 2002 also enhanced the quality of CAF's callable capital. At year-end 2007, CAF's total risk-weighted-capital ratio (Basel II since year 2007) stood at 36% (Tier I: 35%), while its usable-capital-to-required-capital ratio was also strong at 1.8 times (x) (year-end 2006: 2.3x). New capital contributions already approved for more than USD1bn to be received in the next five years, could enhance that ratio even more.
- In the past few years, CAF has been able to sustain strong asset-quality ratios due to its preferred creditor status, experience in the region and conservative credit policies. Since 2006, the bank did not record any loan in nonaccrual status, while in the previous four years, those loans represented less than 0.2% of total loans. Loan loss reserve coverage (1.4% of total loans at June 2008), despite decreasing, is still adequate. Despite its decreasing trend, CAF still shows significant loan concentrations, as its five largest consolidated borrowers accounted for 1.5x equity at June 2008. Market risks are mitigated by CAF's policy of hedging all interest and foreign exchange exposures, while liquidity is strong.

Key Rating Drivers

- CAF's ratings could benefit from an increase of its loan diversification and/or an enhancement of its capital base. Downward pressures could arise from a further increase on private sector exposures on the loan portfolio and/or a stress situation of a member country that could affect the benefits of its preferred creditor status.

Profile

CAF is a Multilateral Development Bank (MDB) established in 1968 to assist in the economic development of its member countries. CAF is headquartered in Caracas, Venezuela. It focuses on providing medium- and long-term project loans and trade finance. CAF is 85.1% owned by the Andean countries. The remaining stake belongs to a number of nonregional member states and 15 private-sector banks.

Background

CAF was established in 1968 as a legal entity under international law by means of an agreement signed by Bolivia, Ecuador, Chile, Colombia, Peru and Venezuela (the founding member countries). Chile terminated its participation in 1977 but subsequently rejoined as a separate class of shareholder. In addition to its head office in Caracas, Venezuela, CAF has representative offices in Bolivia, Colombia, Ecuador, Peru, Brazil, Spain and Argentina. At the end of June 2008, CAF employed a staff of 393.

CAF's purpose is to foster and promote economic integration, development, trade and investment within its member countries. During the 1980s, much of its activity was focused on trade finance. Since the 1990s, growth has been focused on medium- and long-term project lending. The region's political environment and economic performance is inherently volatile. However, most of the Andean countries' economies have experienced strong GDP since 2004, aided by high commodities prices and the positive results of several structural adjustment programs applied in various economies of the region. CAF's main focus continues to be on infrastructure and sustainable development projects. CAF is classified as a multilateral risk by several central banks in the world, which means that banks from those countries are not required to allocate loan loss reserves or provisions against exposures to CAF.

Membership and Governance

CAF's capital is currently divided into three series of shares (A, B, and C). The series A and B shares are owned by the founding members and 15 private-sector financial institutions and have restrictions on their transferability, while series C shares can be transferred to entities outside the Andean region (see the table on the next page). During 2008, CAF shareholders ratified the amendment its constitutive agreement to allow any Latin American country to become a member with full privileges. As a consequence, this change would result in the extension of such benefits to at least four CAF shareholders (currently class C shareholders) in the medium term.

CAF's board is composed of 13 directors, each of which must have an alternate. Ten of the directors are elected by shareholders of the A and B series of shares and may be reelected. Series C shareholders may elect two directors, while the 15 private-sector financial institutions (shareholders of the B series) elect one director. CAF has had an audit committee since July 1996 (made up of five board directors and the bank's president) and a controller's office since April 2003, which reports directly to the president. The bank's president is elected for a five-year term but may be reelected for subsequent periods (the current president was recently reelected in 2006).

Capital, Funding and Liquidity

- Strong capital and demonstrated support mitigate the relatively low rating of its shareholders.
- Spain's participation enhances the shareholder structure.
- Subscribed capital will be boosted in the next five years after a succesfull round of capital agreements with non-founding members.
- Funding is mostly sourced from the international capital markets.
- Strong liquidity.

Capital

As may be seen in the table on the next page, the five founding member countries own the majority of the bank's total subscribed capital (paid-in plus callable), with the remainder held by 12 countries and 15 commercial banks. At year-end 2007, CAF had authorized capital of USD5.0bn (increased to USD10bn on March 2008), while paid-in capital amounted to USD2.0bn. Total subscribed capital (USD3.13bn) included USD1.1bn of callable capital, which, according to CAF's constitutive agreement, can be called in to meet any obligation under extreme circumstances, with the prior approval of its board of directors. According to CAF's internal guidelines and Fitch's methodology, this capital is not included in the calculation of the institution's shareholders' equity (only paid-in capital is considered). In October 2002, Spain became a nonregional stockholder of CAF. Spain subscribed a USD300m contribution in the form of series C shares, with USD100m of that amount in the form of paid-in capital (including USD48m of paid premium recorded as additional paid-in capital) and USD200m of callable capital. The new paid-in capital was fully contributed by May 31, 2004, as Spain accelerated its contributions. The new member's presence expanded CAF's already broad equity base by providing additional paid-in capital and callable capital backed by an 'AAA'-rated government.

For a number of years, several nonregional members have been incorporated into CAF's capital structure, with the latest ones including (in addition to Spain): Argentina, Brazil, Costa Rica, Uruguay, the Dominican Republic and Panama. The capital injection from the incorporation of these new members and the periodic capital increases approved by the founding members in the past five years have resulted in a steady increase in CAF's equity. During the 2003–2007 period, the bank's equity increased more than 15% p.a. (including retained profits) on average.

Shareholder Structure at Year-End 2007

(USD Mil., Nominal Values)

	Series Type	Subscribed and Paid in	Callable	Total	%	Long-Term IDR
Boliva	A + B	137	72	209	6.7	B–
Colombia	A + B	494	252	746	23.8	BB+
Ecuador	A + B	141	72	213	6.8	CCC
Peru	A + B	495	252	747	23.9	BB+
Venezuela	A + B	495	252	747	23.9	BB–
Commercial Banks	B	1	0	1	0.0	N.R.
Mexico	C	17	8	25	0.8	BBB+
Chile	C	21	4	25	0.8	A
Trinidad & Tobago	C	1	0	1	0.0	N.R.
Brazil	C	63	0	63	2.0	BB+
Paraguay	C	7	0	7	0.2	N.R.
Panama	C	9	0	9	0.3	BB+
Jamaica	C	1	0	1	0.0	B+
Uruguay	C	16	0	16	0.5	BB–
Costa Rica	C	12	0	12	0.4	BB
Spain	C	58	200	258	8.2	AAA
Argentina	C	36	0	36	1.1	RD
Dominican Republic	C	11	0	11	0.4	B
Total	—	**2,015**	**1,112**	**3,127**	**100.0**	—

N.R. – Not rated. RD – Restrictive Default.
Source: CAF and Fitch

During 2007, CAF continued to expand its capital thanks to the increased participation of Chile as a shareholder through the injection of USD50m in additional capital. In addition, Argentina will increase its participation to USD643m of paid-in capital (from the original USD100m). In late 2007, Brazil agreed to increase its participation to USD599m of paid-in capital from its original USD132m, becoming a full member of CAF. Also, Panama and Uruguay agreed to increase their participation from USD 11m and USD 20m, up to USD 170m and USD 137m. In the cases of Argentina, Brazil, Panama and Uruguay these new capital increases (and the subscription of additional callable capital to be decided) will allow those countries to become full members of CAF, which means that they will have the same benefits in terms of lending as the original founding members.

During the second half of 2007, CAF and the government of Italy (long-term IDR of 'AA–') signed a memorandum of agreement (MOA) that initiates the formal process for the incorporation of Italy into CAF's shareholder structure. Similar to the inclusion of Spain, the incorporation of a highly-ranked shareholder will contribute to enhancing

CAF's capital structure going forward. In November 2007, the government of Guatemala signed an agreement to start the process for the incorporation of that country as a member of CAF. In November 2008, and similarly to the process started by the Italian government a year ago, the government of Portugal (long-term IDR of 'AA') signed a MOA that initiates the formal process for the incorporation of that country into CAF's shareholder structure.

The inclusion of Guatemala, Italy and Portugal and the transformation of Argentina, Brazil, Panama and Uruguay as full members of CAF, as well as a possible expansion to other nonregional members, will not only enhance the bank capital base, but will also be key to expanding CAF operations beyond its current area of influence and helping to lower its loan portfolio concentration going forward.

The constitutive agreement requires at least 10% of CAF's annual earnings to be allocated to a reserve fund until it represents 50% of subscribed capital. The reserve fund totaled USD287m at year-end 2007, equivalent to 14% of paid-in capital. In addition, CAF maintains a general reserve fund to cover any contingency in the normal course of its operations. This fund holds USD1,190m (59% of paid-in capital). Under CAF's guidelines, the general reserve fund and loan loss reserves must cover at least 6% of total lending (14% at year-end 2007). Both the reserve fund and the general reserve fund are included as equity and considered Tier 1 capital for purposes of calculating capital adequacy indicators. CAF also includes the callable capital from 'AA'-rated countries or above (the USD200m callable capital from Spain) in the capital adequacy indicators. CAF had a total capital-to-weighted-risks ratio of 36% at year-end 2007 and a Tier 1 capital ratio of 35% (41% and 39% at year-end 2006, respectively). These ratios exceed the 30% minimum required by the board of directors and are conservative, considering the bank's strong asset quality over time and good profitability levels. Exposures to governments are risk weighted conservatively based on their ratings.

Support

CAF's shareholders are governments and public agencies. The shareholders have historically demonstrated strong support in the form of capital contributions and privileges and immunities. As CAF is one of the few providers of long and medium-term financing to the region, Fitch Ratings considers that its shareholders have a vested interest in supporting it should it run into difficulties. However, some doubts remain concerning their ability to provide such support.

Capitalization

Although all financial institutions have their own capital adequacy guidelines (see Risk Management section below), Fitch has developed specific capital adequacy measures for MDBs and concentrates on the ratio of usable capital to required capital (For a complete description of the ratio, see Fitch's criteria report, "Multilateral Development Banks: Rating Criteria and Industry Review," published on June 15, 2005). It is noteworthy that in the case of CAF, despite the fact that only callable capital from Spain is considered in the usable capital-to-required-capital ratio, its 1.8x (2006: 2.3x) measure is more than sufficient to support its current and projected future operations.

Solvency Ratios for CAF
(USD Mil.)

	2007	2006
Total Equity	4,127	3,693
Callable Capital	1,112	1,112
Callable Capital from 'AA–'or Higher Countries	200	200
Usable Equity	4,339	3,905
Broad Equity	4,988	4,548
Required Capital	2,418	1,695
Usable Capital/Required Capital (x)	1.8	2.3
Broad Capital/Required Capital (x)	2.1	2.7
Risk-Weighted Capital Ratio (%)	36.3	40.9

Source: CAF and Fitch Calculations

Recently announced capital increases, the improvement in Peru's sovereign rating and the expected moderation of private sector exposures on the loans portfolio could result in a stronger usable –to-required-capital ratio similar to levels similar to its historic average.

Funding

CAF's operations are mainly funded by equity or by borrowing on the capital markets. CAF enjoys a significant access to the international capital markets within and outside the region. CAF's international issuances are mainly in the form of long-term bonds or commercial paper (CP) programs. Is worth mentioning that despite this trend, CAF has taken advantage of some opportunities in the local capital markets (Colombia, Peru, Venezuela and Mexico) in order to enhance its funding base and also promote these local markets.

In terms of maturities, 50% of CAF's funding at year-end 2007 matured in more than five years and just 26% in one year or less. CAF's favorable position in the international capital markets has allowed a historically smooth rollover of its financial debt, while the recent turmoil in the international capital markets has been manageable due to the bank's ample liquidity position and its easy access to short-term deposits without affecting its funding cost.

Liquidity

CAF's liquidity ratios have historically been solid due to strict compliance with the guidelines established by the institution's management. Current guidelines require, among other things, keeping funds in liquid assets equivalent to or greater than 45% of loans approved but pending disbursement or 35% of projected loans to be disbursed in the next 12 months plus debt service in that period. At year-end 2007, the minimum liquidity requirement totaled USD925m using the first criterion and USD1.3bn using the second criterion, while liquid assets were USD2.46bn.

Risk Management

- High exposure to borrowers with low credit standing.
- Preferred creditor status, knowledge of the Andean region and conservative credit risk policies have resulted in strong asset quality despite the risk profile of its loan portfolio.
- Loan concentration remains high.

Due to its position as a leading supplier of credit to the region and considering the benefits and immunities conferred on it by its member countries, CAF has been able to operate without difficulty through the successive periods of instability that have characterized the economies in the region. As an example, 2007 loan approvals made by CAF within the Andean Region (USD6.6bn) were higher than the loan approvals made by two of the largest MDBs in the same period, the International Bank for Reconstruction & Development (IBRD, long-term IDR of 'AAA') and the Inter-American Development Bank (IADB, long-term IDR of 'AAA'). Both are entities that are traditional fund suppliers to the region.

Credit Risk

Given CAF's activity as an MDB and its regional nature, lending is mostly concentrated in the Andean region, which results in a significant exposure to borrowers with low international credit ratings. Nevertheless, the recent incorporations of other Latin American countries have resulted in a steady reduction of the aforementioned concentration, a trend considered positive by Fitch. Although the countries in the region have a long history of economic and political instability, including foreign currency debt-servicing problems, CAF's preferred creditor status has always been honored, and the bank has never been affected by any debt moratoria or rescheduling, unlike other regional and subregional MDBs.

Although long-term lending is generally considered to be riskier than short-term trade financing, some protection is garnered from CAF's preferred creditor status. In addition, the projects financed by CAF tend to involve the provision of essential infrastructure, where demand has proved to be high. More speculative projects, such as those that are tourism related, are not favored, and all projects must be viable on a stand-alone basis. Also, the advances made through CAF's history in regard to credit-risk-control tools and close supervision of the financed projects have yielded positive results for many years.

Sovereign Credit Financing

The table below provides a breakdown of CAF's loan portfolio by country. Loan portfolio growth has been somewhat outlined by the economic cycles of the region, as the bank's natural countercyclical position (similar to other MDBs) normally results in a faster growth of its loan portfolio in times of stress in the region. Therefore, considering that in the past years most countries in the region have experienced a significant improvement in their operating environment and enjoyed more access to international capital markets, CAF's loan portfolio has increased by 9.5% p.a. during the 2003–2007 period. Recently, the distribution of the loan portfolio between public and private sector loans has registered some changes, especially given the sizable loan disbursements made to several private sector entities in Brazil. As a consequence, a relatively lower demand of loans from public-sector entities involved in projects to foster economic development and social welfare resulted in an increase of CAF's exposure to private-sector borrowers up to 22% at year-end 2007, while its previous average was in the neighborhood of 12%. It is also worth mentioning that, contrary to other MDBs, CAF has been able to contain prepayments of loans from its founding members, which reaffirms not only the importance of those facilities for the borrowing countries but also given CAF's significant negotiating power.

Nonsovereign Credit Financing

When dealing with private-sector companies, CAF is selective in terms of sectors, activities and individual companies. In general, entities capable of generating U.S. dollar income are preferred. Despite this, CAF's policies allow financing for up to 100% of short-term loans. For medium- and long-term loans, the level of financing is determined on a case-by-case basis. Limited-recourse financing loans may not exceed 50% of project costs. In practice, however, CAF typically limits loans to a smaller percentage of total project costs and generally requires a larger percentage of financial support by the borrower than these policies. While the maximum limit for any loan to the private sector is 10% of CAF's equity, cofinancing typically takes place in conjunction with international commercial banks and other MDBs. At year-end 2007, 22% of total loans were granted to private-party borrowers, while the average for 2003–2006 was 12%. A significant portion of the recent increase on private sector loans is explained by short- and medium-term financing to the largest and best-rated banks and corporations in Brazil, most of them with investment-grade ratings. Going forward, it is expected that the aforementioned private sector exposure would decrease to levels more in line with historic averages, benefiting the overall credit quality of the portfolio given the benefits of the preferred creditor status observed in public sector loans.

Loan Portfolio Breakdown by Country
(%)

	Fitch's Rating	2007	2006	2005	2004
Bolivia	B–	10.9	12.6	13.4	13.1
Colombia	BB+	17.1	20.0	25.9	24
Ecuador	CCC	22.5	16.9	16.7	17.2
Peru	BB+	18.9	22.3	23.3	23.2
Venezuela	BB–	15.4	21.3	15.4	16.8
Other	—	15.2	6.9	5.3	5.7
Total (USD Mil.)	—	**9,548**	**8,097**	**7,347**	**7,104**

Source: CAF.

Concentration Risk

CAF applies several lending rules in terms of concentration, but those rules are still considered ample compared with other MDBs. Any country's exposure should not be more than 30% of total lending or 100% of equity. Large exposures (both loans and equity investments) are approved according to strict approval limits, with all loans in excess of USD150m requiring board approval in the case of public sector loans (up to USD80m for private sector loans), always with the favorable opinion of the risk area. Despite the former, the diversification of the countries that are allowed to receive loans from CAF have resulted in a steady decrease of the loan portfolio, being that the largest five exposures reached 1.5x equity at year-end 2007, compared to 2.5x at year-end 2001.

Loan Loss Experience and Reserves

CAF has shown an exceptional level of asset quality, especially considering the risk profile of the region in which it operates (mainly countries with noninvestment-grade ratings). To date, nonaccruals have been recorded only in the private-sector portfolio, while all loans to the public sector have been served in full and in a timely manner. The average of those loans represented less than 0.2% in the past five years, while chargeoffs (only for private-sector exposures) have also been very low. From 2006 to date (September 2008), the bank has not recorded any loan in nonaccrual status. Loan loss reserve coverage has been more than ample at 2.7% of total loans on average for the 2002—2006 period but decreasing. At end-June 2008 this ratio came down to 1.8%, still adequate considering the extended low-loss ratio of the bank, its strong capital base and income generation capacity. It is worth mentioning that, given the very low level of losses in the loan portfolio and also due to positive reviews of some of the shareholder countries' credit ratings, CAF has been forced to lower its level of loan reserves since year-end 2003. Nevertheless, these reserves have been included in the general reserve fund to cover any contingency in the normal course of its operations.

During the 2001 and 2007 period, CAF created a special fund under the Highly Indebted Poor Countries (HIPC - the HIPC initiative is an agreement reached in 1996 among borrowers, governments of developed countries and creditors to alleviate the debt burden of poor countries) initiative in order to grant debt relief to Bolivia. For instance, CAF reduced Bolivia's debt burden by a total of USD91.8m (present value, equivalent to about 18% of its exposure to Bolivia at that time) after participating in two HIPC programs. CAF contributed with a total of USD41m of the relief funding, while donations will make up the rest. It is important to note that CAF did not charge off any amount of Bolivia's debt. Instead, the bank provided these funds through the HIPC fund for Bolivia, which was created from allocations made by the stockholders from net income. This program is already completed as of December 2007. In addition to the HIPC Fund for Bolivia, CAF acts as an administrator for several funds, for a combined total of USD123m at year-end 2007. These are funded through allocations made each year by the stockholders from CAF's prior-year net income and through third parties. Since the funds are off balance sheet, there is no contingency to CAF.

Liquid Asset Portfolio

The bank is also exposed to risk relating to its liquid assets portfolio. Liquid assets are managed according to strict guidelines — at least 80% of its investments in securities must be placed in instruments rated A– or better, while its counterparties should be rated accordingly. At year-end 2007, 85% of liquid investments were concentrated in instruments with debt ratings of 'A–' or higher and a further 6% in instruments rated above investment grade but below 'A–'. The remainder was either unrated or rated subinvestment grade. Most liquid assets are denominated in U.S. dollars. To date, the bank does not have any exposure to CDO's or securities backed by subprime loans or similar securities. Its entire investment portfolio is comprised of senior debt notes and bank deposits.

Equity Risk

In its role of promoting development in the area, CAF holds minority equity stakes in funds and some companies (projects, privatizations, etc.) through investments in stock. Total gross exposure to this type of financing (USD74m at year-end 2007) may not exceed 10% of CAF's aggregate equity (2007: 1.8%) and 1% for each particular exposure. In addition, CAF may not hold more than 20% of the capital of any company in which it invests.

Market Risks

Market risk is limited to interest rate and currency risks. The maturity and interest rates of loans tend to be matched on the funding side, while the bank operates mainly in hard currencies (mostly U.S. dollars). Currency and interest rate mismatches are hedged with swaps, the only type of derivative products used by CAF. Counterparties are required to have international long-term debt ratings of 'A' or above. CAF maintains constant monitoring of the maturities of its assets and liabilities and tries to minimize mismatches over time. At year-end 2007, CAF had a 4.3-year average duration for assets and a 3.6-year average duration for liabilities. The institution's most important off-balance-sheet commitments are represented by swap agreements (USD4.0bn), loans pending disbursements (USD1.6bn), trade-finance lines of credit (USD2.2bn) and guarantees (USD0.2bn).

Risk Management

CAF consolidated all risk management under the Office of the Corporate Comptroller (OCC) created in 2003. This unit is charged with identifying and mitigating, through the evaluation and supervision of norms and processes, the different risks that may affect CAF's operations. The unit is also responsible for promoting/enforcing an adequate risk control culture within the organization. The OCC works through two divisions (Risk Management and Internal Audit) and two special units (Ex-Post Evaluation and Norms Administration). The Risk Management division is responsible for the control and monitoring of the different risks to which the bank is exposed (credit, markets, liquidity, operational and strategic). Management feels this unit has made significant advances assessing both the probability of occurrence and the severity of the events that could affect the institution. Also, an initial operating risk map has been developed. Going forward, the bank expects to continue collecting more data and backtesting its models in order to fine tune its risk management and control tools.

Performance and Prospects

- CAF has a long history of self-sustainable profits.
- CAF's financial strength, support of member countries and regional knowledge ensure its adequate performance going forward.
- A further expansion of its shareholder strcuture would enhance its capital base and expand its business scope.

CAF's performance has been underpinned by conservative internal control policies, a deep knowledge of its area of influence and the benefits of its preferred creditor status. Meanwhile, adequate control of its expenses and undertaken risks has supported good profitability ratios that enhance its capital base. The bank's financial statements were prepared following international accounting standards (IAS) from 1995–2000. Starting in 2001, CAF switched from IAS to the U.S. generally accepted accounting principles (US GAAP). CAF's 2007 financial statements were audited by KPMG. In addition, interim figures provided by the management for the first half of 2008 were considered. Despite the observed trend in many MDB's, CAF is not expecting to make a change in its accounting standards to International Financial Reporting Standards (IFRS) in the short term.

Performance

Like other MDBs, CAF is not profit oriented, but self-imposed performance targets have always been achieved in order to maximize solvency, with average return on assets (including guarantees) higher than 2% in the 2002–2007 period. In 2007, the growth in the loan portfolio and the slight increase in interest rates resulted in an increase in the bank's net interest revenues and spreads. Other operating income increased during the year (+36%), due mostly to the positive results of its participation on the small equity funds mentioned earlier. Administrative expenses increased by 10% in 2007, though they are fairly low compared with total net revenues (11.7%). The improvement of the risk profile of the portfolio resulted in a loan loss reserve reversal during the year. As such, CAF registered an income of USD23m of loan loss provision reversals. The higher-than-proportional increase in operating revenues and the loan loss provision reversals more than compensated for the increase of operating expenses, as net income grew by 25% with an ROAA (including guarantees) of 3.5%, which will very likely be a peak figure going forward. Interim figures for 2008 and management's forecast suggest another year of strong profits for 2008. However, going forward, it is possible that the bank's profitability ratios will be more in line with its previous averages.

Prospects

Due to its financial strength, the support of member countries and the expertise that the bank has achieved over the years, Fitch expects CAF to continue performing adequately in the short term, even in the face of the instability prevailing in some of its member countries. The bulk of CAF's business is expected to remain within project financing, reflecting its development role in the region, while the incorporation of new members could widen the banks ability to provide funds outside the Andean Region, benefiting its loan diversification. Infrastructure projects and those that promote regional integration should continue to be prioritized, as well as packages that will assist in the implementation of long-term structural reforms, including the strengthening of financial systems. Also, the current shortage of liquidity in the international markets, lower commodities prices and the expected, less vigorous economic environment in general should result in additional loan demand for CAF and other MDB's, being that its current capital levels, expertise and expected expansion of its shareholder base should be key to coping with such requirements.

Balance Sheet Analysis — Corporacion Andina de Fomento

Exchange Rate: USD1 = USD1.0000

	6/30/08				12/31/07		12/31/06		12/31/05	
	6 Months — Interim		As % of	Average	Year-End	As % of	Year-End	As % of	Year-End	As % of
	USD Mil.	USD Mil.	Assets	USD Mil.	USD Mil.	Assets	VEB Mil.	Assets	USD Mil.	Assets
	Partial	Partial	Partial	Partial	Partial	Original	Original	Original	Restated	Restated
A. LOANS										
1. Loans Made Through Banks	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
2. To/Guaranteed by Public Institutions	7,140.8	7,140.8	53.84	7,281.9	7,423.0	58.93	6,992.7	66.98	6,522.5	68.79
3. To Private Sector	1,958.3	1,958.3	14.77	2,041.7	2,125.0	16.87	1,104.7	10.58	767.5	8.09
4. Trade Financing Loans	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
5. Other Loans	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
6. (Loan Loss Reserves)	130.5	130.5	0.98	149.4	168.3	1.34	188.6	1.81	161.6	1.70
TOTAL A	**8,968.6**	**8,968.6**	**67.62**	**9,174.2**	**9,379.7**	**74.46**	**7,908.8**	**75.76**	**7,128.4**	**75.18**
B. OTHER EARNING ASSETS										
1. Deposits with Banks	NA	NA	—	NA	325.0	2.58	353.4	3.39	334.6	3.53
2. Securities Held for Sale and Trading	3,504.5	3,504.5	26.42	2,761.7	2,018.9	16.03	1,357.8	13.01	1,193.5	12.59
3. Investment Debt Securities — (Incl. Other Investments)	NA	NA	—	NA	109.9	0.87	210.5	2.02	258.6	2.73
4. Equity Investments	69.7	69.7	0.53	72.0	74.3	0.59	93.4	0.89	114.6	1.21
5. Derivatives (Incl. Fair Value of Guarantees)	NA	NA	—	NA	NA	—	NA	—	NA	—
TOTAL B	**3,574.2**	**3,574.2**	**26.95**	**3,051.1**	**2,528.1**	**20.07**	**2,015.1**	**19.30**	**1,901.3**	**20.58**
C. TOTAL EARNING ASSETS (A+B)	**12,542.8**	**12,542.8**	**94.57**	**12,201.8**	**11,860.9**	**94.16**	**9,864.0**	**94.49**	**9,029.7**	**95.23**
D. FIXED ASSETS	**NA**	**NA**	**—**	**NA**	**23.8**	**0.19**	**23.9**	**0.23**	**10.9**	**0.11**
E. NONEARNING ASSETS										
1. Cash and Due from Banks	n.a.	n.a.	-	n.a.	3.7	0.03	9.0	0.09	1.7	0.02
2. Other	719.7	719.7	5.43	690.8	661.9	5.25	482.7	4.62	440.0	4.64
F. TOTAL ASSETS	**13,262.5**	**13,262.5**	**100.00**	**12,929.9**	**12,597.2**	**100.00**	**10,439.5**	**100.00**	**9,482.3**	**100.00**
G. SHORT-TERM FUNDING										
1. Bank Borrowings (< 1 Year)	NA	NA	—	NA	NA	—	NA	—	NA	—
2. Securities Issues (< 1 Year)	1,265.0	1,265.0	9.54	1,344.7	1,424.3	11.31	1,612.2	15.44	1,448.4	15.27
3. Other (Incl. Deposits)	1,770.0	1,770.0	13.35	1,741.2	1,712.4	13.59	554.7	5.31	463.2	4.88
TOTAL G	**3,035.0**	**3,035.0**	**22.88**	**3,085.9**	**3,136.7**	**24.90**	**2,166.9**	**20.76**	**1,911.6**	**20.16**
H. OTHER FUNDING										
1. Bank Borrowings (> 1 Year)	NA	NA	—	NA	NA	—	NA	—	NA	—
2. Other Borrowings (Incl. Securities Issues)	5,761.2	5,761.2	43.44	5,439.2	5,117.2	40.62	4,316.8	41.35	4,179.9	44.08
3. Subordinated Debt	NA	NA	—	NA	NA	—	0.0	0.00	0.0	0.00
4. Hybrid Capital	NA	NA	—	NA	NA	—	NA	—	0.0	0.00
TOTAL H	**5,761.2**	**5,761.2**	**43.44**	**5,439.2**	**5,117.2**	**40.62**	**4,316.8**	**41.35**	**4,179.9**	**44.08**
I. OTHER (Non-Interest Bearing)										
1.Derivatives (Incl. Fair Value of Guarantees)	NA	NA	—	NA	NA	—	NA	—	NA	—
2. Fair Value Portion of Debt	NA	NA	—	NA	NA	—	NA	—	NA	—
3.Other (Non-Interest Bearing)	185.5	185.5	1.40	200.7	215.9	1.71	263.1	2.52	153.7	1.62
J. GENERAL PROVISIONS AND RESERVES	NA	NA	—	NA	NA	—	NA	—	0.0	0.00
K. EQUITY										
1. Preference Shares	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	0.0	0.00
2. Subscribed Capital	3,220.1	3,220.1	24.28	3,173.5	3,126.8	24.82	3,044.8	29.17	2,929.4	30.89
3. Callable Capital	-1,112.0	-1,112.0	-8.38	-1,112.0	-1,112.0	-8.83	-1,112.0	-10.65	-1,112.0	-11.73
4. Arrears/Advances on Capital	0.0	0.0	0.00	0.0	0.0	0.00	-62.2	-0.60	-135.5	-1.43
5. Paid in Capital (Memo)	2,108.1	2,108.1	15.90	2,061.5	2,014.8	15.99	1,870.6	17.92	1,681.9	17.74
6. Reserves (Incl. Net Income for the Year)	2,172.7	2,172.7	16.38	2,142.6	2,112.6	16.77	1,822.1	17.45	1,555.2	16.40
7. Fair-Value Revaluation Reserve	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
TOTAL K	**4,280.8**	**4,280.8**	**32.38**	**4,204.1**	**4,127.4**	**32.76**	**3,692.7**	**35.37**	**3,237.1**	**34.14**
L. TOTAL LIABILITIES AND EQUITY	**13,262.5**	**13,262.5**	**100.00**	**12,929.9**	**12,597.2**	**100.00**	**10,439.5**	**100.00**	**9,482.3**	**100.00**

NA – Not Available.
Source: CAF.

Income Statement Analysis — Corporación Andina de Fomento

	6/30/08		12/31/07		12/31/06		12/31/05	
	Income Expenses USD Mil. Partial	As % of Total AV Earning Assets Partial	Income Expenses USD Mil. Original	As % of Total AV Earning Assets Original	Income s Expenses USD Mil. Original	As % of Total AV Earning Assets Original	Income s Expenses USD Mil. Restated	As % of Total AV Earning Assets Restated
1. Interest Received	360.3	5.91	790.0	7.27	696.5	7.37	522.1	5.87
2. Interest Paid	178.3	2.92	408.6	3.76	358.7	3.80	250.8	2.82
3. NET INTEREST REVENUE	182.0	2.98	381.4	3.51	337.8	3.58	271.3	3.05
4. Other Operating Income	NA	—	57.9	0.53	42.7	0.45	39.7	0.45
5. Other Income	17.6	0.29	1.9	0.02	1.2	0.01	1.4	0.02
6. Personnel Expenses	NA	—	NA	—	NA	—	NA	—
7. Other Non-Interest Expenses	23.6	0.39	51.2	0.47	46.4	0.49	42.6	0.48
8. Impairment Charge	(39.6)	(0.65)	(23.1)	(0.21)	19.0	0.20	(14.5)	(0.16)
9. Other Provisions	NA	—	NA	—	NA	—	0.0	0.00
10.PRE-DERIVATIVE OPERATING PROFIT	215.6	3.53	413.1	3.80	316.3	3.35	284.3	3.20
11. Net Gains/(Losses) on Non-Trading Derivative Instruments	NA	—	NA	—	NA	—	NA	—
12. POST-DERIVATIVE OPERATING PROFIT	215.6	3.53	413.1	3.80	316.3	3.35	284.3	3.20
13. Other Income and Expenses	NA	—	(12.3)	(0.11)	4.4	0.05	(1.1)	(0.01)
14. NET INCOME	215.6	3.53	400.8	3.69	320.7	3.39	283.2	3.18
15. Fair Value Revaluations Recognized in Equity	NA	—	NA	—	NA	—	NA	—
16. FITCH'S COMPREHENSIVE NET INCOME	215.6	3.53	400.8	3.69	320.7	3.39	283.2	3.18

Source: CAF

Ratio Analysis — Corporacion Andina de Fomento

(%, Years Ended Dec. 31)

	6/30/08 Partial	2007 Original	2006 Restated	2005 Original
I. Profitability Level				
1. Net Income/Equity (Av.)	10.26	10.25	9.26	9.39
2. Net Income/Total Assets (Av.)	3.33	3.48	3.22	2.97
3. Net Interest Revenue + Commitment Fees/Gross Loans (av.) + Liquid Assets (av.) + Average Guarantees (av.)	3.01	3.46	3.54	3.03
4. Non-Interest Expense/Net Interest Revenues + Other Operating Income	12.97	11.65	12.19	13.70
5. Income from Equity Investment/Equity Investment (av.)	n.a.	20.16	4.90	11.82
6. Provision on Loans and Equity Part. and Guarantees/Gross Loans (av.) + Equity Investment (av.) & Guarantees (av.)	-0.84	-0.26	0.24	-0.20
II. Capital Adequacy				
1. Internal Capital Generation	10.26	10.25	9.26	9.39
2. Outstanding Loans + Net Equity Invest. + Net Guarantees/Subscribed Capital + Reserves	167.60	180.44	164.42	161.51
3. Equity/Total Assets	32.28	32.76	35.37	34.14
4. Equity ex. Fair-Value Revaluations/Assets	32.28	32.76	35.37	34.14
5. AAA-AA- Callable Capital/Callable Capital	17.99	17.99	17.99	17.99
6. Usable Capital/Required Capital	n.a.	179.46	230.38	239.68
III. Liquidity				
1. Liquid Assets and Marketable Debt Securities/Debt < 1 Year	115.47	78.35	89.10	93.56
2. Liquid Assets and Marketable Debt Securities/Total Assets	26.42	19.51	18.49	18.86
3. Liquid Assets + Marketable Debt Securities/Undisbursed Loans and Equity	n.a.	n.a.	90.50	84.31
IV. Asset Quality				
1. Impaired Loans /Gross Loans	0.00	0.00	0.00	0.02
2. Loan Loss Reserves / Gross Loans	1.43	1.76	2.33	2.22
3. Equity Loss Reserves/Equity Investment	0.00	0.00	0.00	0.00
4. Total Reserves/Gross Loans, Equity Investment and Guarantees	1.42	1.75	2.30	2.18
5. Loan Loss Reserves/Non-Accrual Loans	-	-	-	12,430.77
6. Loans to Investment Grade Borrowers/Gross Loans	-	-	-	-
V. Leverage				
1. Debt/Equity	205.48	199.98	175.58	188.18
2. Debt/Subscribed Capital + Reserves	163.11	157.54	133.22	135.83
3. Debt/Callable Capital	791.03	742.26	583.07	547.80
4. Net Income + Interest Paid/Interest Paid	220.92	198.09	189.41	212.92

Source: CAF and Fitch Calculations