CABEI

CENTRAL AMERICAN BANK
FOR ECONOMIC INTEGRATION

Financial Statements
(Unaudited)

June 30, 2012

(With Independent Accountants' Report Thereon)

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INDEPENDENT ACCOUNTANTS' REPORT

The Executive President, Board of Directors, and Board of Governors
Central American Bank for Economic Integration

We have reviewed the accompanying balance sheet of Central American Bank for Economic Integration (the Bank) as of June 30, 2012, and the related statements of income, comprehensive income, changes in equity and cash flows for the six-month periods ended June 30, 2012 and 2011. This interim financial information is the responsibility of the Bank's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the interim financial information taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying interim financial information in order for it to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with auditing standards generally accepted in the United States of America as established by the Auditing Standards Board (United States) and in accordance with the auditing standards of the Public Company Accounting Oversight Board (PCAOB), the balance sheet of the Bank as of December 31, 2011, and the related statements of income, comprehensive income, changes in equity and cash flows for the year then ended (not presented herein); and in our report dated March 8, 2012, we expressed an unqualified opinion on those financial statements.

KPMG

October 11, 2012
Panama, Republic of Panama

CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

Balance Sheets

As of June 30, 2012 and December 31, 2011

(Expressed in thousands of U.S. dollars)

	June 30, 2012 (Unaudited)	December 31, 2011 (Audited)
Assets		
Cash and due from banks (note 4)	33,817	22,717
Interest-bearing deposits with banks (note 5)	720,932	639,120
Securities available for sale (note 6)	966,272	907,748
Loans	5,405,400	5,165,599
Less: allowance for loan losses	(178,348)	(178,291)
Net loans (note 7)	5,227,052	4,987,308
Accrued interest receivable (note 8)	56,480	55,539
Property and equipment, net (note 9)	33,460	33,494
Derivative financial instruments (note 18)	204,296	231,610
Equity investments	39,898	39,546
Other assets (note 10)	22,612	35,729
Total assets	7,304,819	6,952,811
Liabilities		
Loans payable (89,613 in 2012 and 80,919 in 2011, measured at fair value) (note 11)	1,392,490	1,309,855
Bonds payable (1,445,687 in 2012 and 1,419,460 in 2011, measured at fair value) (note 12.a)	2,666,666	2,572,201
Commercial paper programs (note 12.b)	256,942	285,707
Certificates of deposit (note 13)	704,918	489,502
Certificates of investment	1,404	1,474
Accrued interest payable (note 14)	36,988	28,288
Derivative financial instruments (note 18)	131,563	206,286
Other liabilities (note 15)	28,615	31,247
Total liabilities	5,219,586	4,924,560
Equity		
Paid-in capital (note 16.a)	450,725	450,725
Special capital contributions (note 16.a)	7,250	7,250
Retained earnings	50,239	103,130
General reserve	1,574,287	1,471,157
Accumulated other comprehensive income (loss) (note 21)	2,732	(4,011)
Total equity	2,085,233	2,028,251
Total liabilities and equity	7,304,819	6,952,811

See accompanying notes to financial statements and the independent accountants' report.

CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

Statements of Income (Unaudited)

Six-month periods ended June 30, 2012 and 2011

(Expressed in thousands of U.S. dollars)

CABEI

	June 30	
	2012	**2011**
Financial income		
Public sector loans	110,046	100,003
Private sector loans	34,479	30,579
Marketable securities	3,787	4,173
Due from banks	743	899
Realized gains on investment funds	3,632	3,082
Total financial income	152,687	138,736
Financial expenses		
Loans payable and other liabilities	20,512	21,600
Bonds payable	41,522	34,843
Commercial paper programs	2,231	2,345
Certificates of deposit and investment	7,286	8,830
Total financial expenses	71,551	67,618
Net financial income	81,136	71,118
Provision (release of provision) for loan losses	4,391	(2,763)
Net financial income, after provision for loan losses	76,745	73,881
Other operating income (expenses)		
Management and other service fees	857	708
Supervision and audit fees	167	250
Dividends from equity investments	1,676	170
(Loss) gain on securities available for sale	(32)	228
(Loss) income on equity investments	(2,802)	1,660
Valuation of swap transactions and other financial instruments	5,863	6,542
(Loss) gain on foreclosed and other assets	(12,157)	3
Foreign exchange (losses) gains	(161)	264
Other operating expenses	(6)	(558)
Total other operating (expenses) income, net	(6,595)	9,267
Administrative expenses		
Salaries and employee benefits	11,605	10,745
Other administrative expenses	4,591	3,832
Depreciation	1,573	1,514
Other	348	152
Total administrative expenses	18,117	16,243
Earnings, before other expenses	52,033	66,905
Other expenses		
Special contributions	1,639	627
Allowance for technical assistance and other	155	86
Total other expenses	1,794	713
Net income	50,239	66,192

See accompanying notes to financial statements (unaudited) and the independent accountants' report.

CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

Statements of Comprehensive Income (Unaudited)

Six-month periods ended June 30, 2012 and 2011

(Expressed in thousands of U.S. dollars)

	June 30	
	2012	**2011**
Net income	50,239	66,192
Other comprehensive income:		
Unrealized gain (loss) on securities available for sale, net	10,498	3,866
Reclassification adjustments for net realized gains included in earnings	(3,600)	(3,310)
Subtotal - securities available for sale	6,898	556
Unrealized gain (loss) from cash flow hedging derivatives	638	4,325
Reclassification adjustments for net realized gains (losses) included in earnings	(793)	(2,300)
Subtotal - cash flow hedging derivatives	(155)	2,025
Other comprehensive income	6,743	2,581
Comprehensive income	56,982	68,773

See accompanying notes to financial statements (unaudited) and the independent accountants' report.

CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

Statements of Changes in Equity (Unaudited)

Six-month periods ended June 30, 2012 and 2011

(Expressed in thousands of U.S. dollars)

	Paid-in Capital	Special Capital Contributions	Retained Earnings	General Reserve	Accumulated Other Comprehensive Income (Loss)	Total Equity
Balance as of December 31, 2010	450,725	7,250	114,403	1,356,754	(342)	1,928,790
Net income	0	0	66,192	0	0	66,192
Net unrealized change in:						
Securities available for sale	0	0	0	0	556	556
Cash flow hedging derivatives	0	0	0	0	2,025	2,025
Comprehensive income	0	0	66,192	0	2,581	68,773
Transfer to general reserve	0	0	(114,403)	114,403	0	0
Balance as of June 30, 2011	450,725	7,250	66,192	1,471,157	2,239	1,997,563
Balance as of December 31, 2011	450,725	7,250	103,130	1,471,157	(4,011)	2,028,251
Net income	0	0	50,239	0	0	50,239
Net unrealized change in:						
Securities available for sale	0	0	0	0	6,898	6,898
Cash flow hedging derivatives	0	0	0	0	(155)	(155)
Comprehensive income	0	0	50,239	0	6,743	56,982
Transfer to general reserve	0	0	(103,130)	103,130	0	0
Balance as of June 30, 2012	450,725	7,250	50,239	1,574,287	2,732	2,085,233

See accompanying notes to financial statements (unaudited) and the independent accountants' report.

CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

Statements of Cash Flows (Unaudited)

Six-month periods ended June 30, 2012 and 2011

(Expressed in thousands of U.S. dollars)

	June 30	
	2012	**2011**
Cash flows from operating activities		
Net income	50,239	66,192
Items to reconcile net income to net cash provided by operating activities:		
Depreciation	1,573	1,514
Provision (release of provision) for loan losses	4,391	(2,763)
Loss (income) on equity investments	2,802	(1,660)
Valuation of swap transactions and other financial instruments	(5,863)	(6,542)
Loss (gain) on foreclosed and other assets	12,157	(3)
Foreign exchange losses (gains)	161	(264)
(Increase) decrease in accrued interest receivable	(941)	1,195
Decrease (increase) in accrued interest payable	8,700	(5,604)
Net cash provided by operating activities	73,219	52,065
Cash flows from investing activities		
Net (increase) decrease in interest-bearing deposits with banks	(81,831)	40,510
Purchase of securities available for sale	(610,852)	(157,287)
Proceeds from sales, redemptions and amortization of securities available for sale	559,933	158,588
Purchase of property and equipment	(1,540)	(2,464)
Net decrease in derivative financial instruments	1,964	46,768
Disbursements of loans receivable	(803,090)	(492,841)
Collections of loans receivable	559,374	502,046
Equity investments, net of capital returns	(3,153)	(7,484)
Net decrease in other assets	853	968
Net (decrease) increase in other liabilities	(2,628)	928
Net cash (used in) provided by investing activities	(380,970)	89,732
Cash flows from financing activities		
Proceeds from loans payable	260,667	0
Repayment of loans	(174,025)	(51,034)
Net decrease in commercial paper programs	(28,765)	(27,586)
Proceeds from issuance of bonds	392,188	0
Repayment of bonds	(346,214)	(26,610)
Net increase (decrease) in certificates of deposit	215,416	(21,645)
Net decrease in certificates of investment	(70)	(5)
Net cash provided by (used in) financing activities	319,197	(126,880)
Effect of exchange rate fluctuations on cash held	(346)	261
Cash and due from banks at beginning of period	22,717	29,917
Cash and due from banks at end of period	33,817	45,095
Net increase in cash and cash equivalents	11,100	15,178
Supplemental information		
Cash paid for interest during the year	62,852	72,369
Changes in unrealized gain (loss) on securities available for sale, net	6,898	556
Changes in unrealized gain (loss) from cash flow hedging derivatives	(155)	2,025

See accompanying notes to financial statements (unaudited) and the independent accountants' report.

(1) Origin and Nature of the Bank

The Central American Bank for Economic Integration (CABEI or the "Bank") is a financial institution under public international law, founded by the governments of Guatemala, El Salvador, Honduras and Nicaragua pursuant to the Constitutive Agreement dated December 13, 1960. In addition, on September 23, 1963, the Republic of Costa Rica was included as a founding member. Pursuant to protocol subscribed on September 2, 1989 and effective since 1992, the participation of non-regional members was allowed. The Bank commenced operations on May 31, 1961 and has its headquarters in Tegucigalpa, Honduras.

The Bank's objective is to promote the integration and economic and social development of the founding member countries.

The activities of the Bank are complemented by the activities carried out by the Technical Cooperation Fund (Fondo de Cooperación Técnica – FONTEC) and by the Special Fund for the Social Transformation of Central America (Fondo Especial para la Transformación Social en Centroamérica – FETS). These funds are regulated by their own by-laws and are independent and separate from the Bank, although they are managed by the Bank. These financial statements include, solely, the assets, liabilities and operations of the Bank. The equity relating to the other aforementioned funds has been disclosed in note 19.

(2) Summary of Significant Accounting Policies

The Bank's accounting policies and financial information are in accordance with accounting principles generally accepted in the United States of America (US GAAP), applicable to interim financial information.

The unaudited financial statements as of June 30, 2012 and for the six-month periods ended June 30, 2012 and 2011, include all adjustments, consisting of normal recurring accruals, that we considered necessary to fairly present the Bank's results of operations, financial position and cash flows. Certain information and note disclosures normally included in annual financial statements prepared in accordance with US GAAP have been condensed or omitted. While management believes that the disclosures presented are adequate to make information not misleading, it is suggested that these financial statements be read in conjunction with the audited financial statements of the Bank and notes thereto at December 31, 2011 and for the year then ended.

The results of operations during interim periods are not necessarily an indication of the results that can be expected for the full year.

(2) Summary of Significant Accounting Policies, continued

A summary of significant accounting policies is as follows:

(a) Comparative statements

For comparison purposes, the June 30, 2012 balance sheet is presented together with that corresponding to December 31, 2011. The related statements of income, comprehensive income, changes in equity and cash flows for the six-month period ended June 30, 2012 are presented together with those corresponding to the same period of the prior year.

(b) Functional and foreign currencies

The Bank's functional currency is the United States dollar (U.S. dollar). Transactions in currencies other than the U.S. dollar are recorded at the effective exchange rates prevailing on the transaction date. Assets and liabilities denominated in currencies other than the U.S. dollar are expressed in such currency using the prevailing exchange rates at balance sheet date. Net foreign currency gains and losses resulting from transactions denominated in currencies other than the U.S. dollar are presented as other operating income (expenses).

(c) Cash and equivalents

For the purpose of the statements of cash flows, cash and cash equivalents represent the amounts included in cash and due from banks.

(d) Fair value

The Bank determines the fair value of financial and nonfinancial instruments recorded on a recurring and non-recurring basis using the provisions set forth by the Financial Accounting Standards Board Accounting Standards Codification (ASC) 820 "*Fair Value Measurements and Disclosures*", which establishes a framework for determining fair value and includes specific disclosures. Depending on the nature of the asset or liability, the Bank uses various valuation techniques and assumptions to determine fair value.

The three levels of the fair value hierarchy are described below:

- Level 1 - Assets and liabilities for which the identical item is traded on an active exchange.
- Level 2 - Assets and liabilities valued based on observable market assumptions for similar instruments, market price quotations that are not active or other assumptions that are observable and can be corroborated by information available on the market for substantially the full term of the assets or liabilities.

(2) Summary of Significant Accounting Policies, continued

- Level 3 - Assets and liabilities for which significant valuation assumptions are not readily observable in the market; instruments valued based on the best available data, some of which is internally-developed, and consider risk premiums that a market participant would require.

When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Bank considers the principal or most advantageous market in which it would transact and considers assumptions that market participants would use when pricing the asset or liability. When possible, the Bank looks to active and observable markets to price identical assets and liabilities. When identical assets and liabilities are not traded in active markets, the Bank looks to market observable data for similar assets and liabilities. Nevertheless, certain assets and liabilities are not actively traded in observable markets and the Bank must use alternative valuation techniques to derive a fair value measurement. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

In May 2011, the FASB issued ASU No. 2011-04, "*Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in US GAAP and IFRS*". The ASU created a common definition of fair value for US GAAP and IFRS and aligned the measurement and disclosure requirements. It required significant additional disclosures both of a qualitative and quantitative nature, particularly for those instruments measured at fair value that are classified in Level 3 of the fair value hierarchy.

The ASU No. 2011-04 became effective for the Bank on January 1, 2012.

(e) Securities available for sale

Marketable securities are classified as available for sale and recorded at fair value, with unrealized gains and losses being excluded from net income and reported as a separate component of equity under accumulated other comprehensive income (loss) until they are realized and reclassified to the statement of income.

CABEI shall maintain at least 75% of its total investment securities portfolio in deposits with banks and bonds placed by issuers holding an international rating of "A" or better, and a maximum of 25% in unrated or below "A" (includes A-, A, A+) rated securities.

(2) Summary of Significant Accounting Policies, continued

Full impairment (that is, the difference between the security's amortized cost basis and fair value) on debt securities that the Bank intends to sell or would more-likely-than-not be required to sell before the expected recovery of the amortized cost basis is recognized in earnings as a realized loss. For debt securities that management has no intent to sell and believes that it more likely-than-not will not be required to sell prior to recovery, only the credit loss component of the impairment is recognized in earnings, while the rest of the fair value loss is recognized in accumulated other comprehensive income.

The credit loss component recognized in earnings is identified as the amount of principal cash flows not expected to be received over the remaining term of the security as projected using the Bank's cash flow projections.

A decline in the market value of any security below cost that is deemed to be other-than-temporary results in an impairment to reduce the carrying amount to fair value. To determine whether an impairment is other-than-temporary, the Bank considers all available information relevant to the collectability of the security, including past events, current conditions, and reasonable and supportable forecasts when developing estimate of cash flows expected to be collected. Evidence considered in this assessment includes the reasons for the impairment, the severity and duration of the impairment, changes in value subsequent to year-end, forecasted performance of the investee, and the general market condition in the geographic area or industry the investee operates in.

The Bank has not experienced other-than-temporary impairment during the periods ended June 30, 2012 and December 31, 2011.

Interest income on investment securities is recorded using the accrual method. Gains and losses on the sale of securities are recorded on the trade date basis, are determined using the specific identification method and are presented as other operating income (expenses). Realized gains and losses on investment funds are presented as part of financial income.

Premiums and discounts are recognized as an adjustment to yield over the contractual term of the security using a method that approximates to the effective interest method. If prepayment occurs on a security, any premium or discount on the value is recognized as an adjustment to yield in the period in which the prepayment occurs.

(2) Summary of Significant Accounting Policies, continued

(f) Concentration of credit risk

In compliance with its objective and financial policies, the Bank grants loans and guarantees to individuals and companies, both public and private, established in the founding members or in beneficiary countries, as well as to non-regional financial institutions that operate in Central America, in order to meet the needs of development and integration programs and projects in the founding and other members.

In accordance with such policies, the Bank avoids concentration of its loan portfolio in individual countries or in a small group of countries, as well as in sectors that tend to be negatively affected by market conditions or technological changes. The parameters have been established in relation to the Bank's equity, defined as total equity plus generic allowance for loan losses. Significant parameters are as follows:

- The total of its loan portfolio cannot exceed 3.5 times the Bank's equity.

- The Bank's equity should be maintained at a level not lower than 35% of total risk weighted assets.

- The weighted exposure in any of the founding members must not exceed 100% of the Bank's equity or 30% of the Bank's total risk assets. Exposure is defined as the aggregate risk assets which the Bank concentrates in a single borrower, whether such borrower is a country, a public or mixed institution, an individual or a private sector company.

- Exposure in each one of the non-founding beneficiary countries, with the status of non-regional member, will be up to the sum of the capital paid in cash plus the portion in cash of special capital contributions, multiplied by the factor that results from dividing the loan portfolio of the founding countries by the capital paid by those countries.

- Exposure in each one of the non-founding beneficiary countries not holding a non-regional member status, will be up to the special capital contributions paid in cash multiplied by the factor that results from dividing the loan portfolio of the founding countries by the capital paid by the founding countries.

- Exposure to a single public sector company or mixed institution with government majority ownership, with the exception of state owned banks without a sovereign guarantee, should not exceed 20% of the Bank's equity.

- Exposure to a state-run bank, with no sovereign guarantee, shall not exceed 12% of the Bank's equity.

(2) Summary of Significant Accounting Policies, continued

- Exposure to a group of companies registered in any of the beneficiary countries and based on its credit rating, shall not exceed 10% of the Bank's equity. Additionally, exposure to a single enterprise within such group shall never exceed 5% of the Bank's equity.

- Exposure to a single enterprise or private bank shall not exceed 5% of the Bank's equity.

- The exposure limit to a single economic sector without a sovereign guarantee is the lower of the following limits:

  - Hirschman/Herfindahl index (*), up to 12.5%
  - 30% of the portfolio
  - 1.0 times the Bank's equity

(*) Credit concentration by industry

(g) Loans and allowance for loan losses

Loans are stated at the unearned principal balance less the allowance for loan losses. Interest income is recognized on the accrual basis according to the contractual terms of the loans.

With the issuance of FASB Accounting Standards Update (ASU) 2010-20, new disclosures are presented, relating to the loan portfolio and the allowance for loan losses.

The new accounting guidance defines a portfolio segment as the level at which an entity develops and documents a systematic methodology to determine the allowance for loan losses, and a class as the level of disaggregation of portfolio segments based on the initial measurement attribute, risk characteristics and methods for assessing risk.

The Bank's loan portfolio segments are public sector and private sector. The classes for public and private sector loans are established according to the granting mechanism for those loans, whether direct or intermediated, and according to the country in which loans were granted to these sectors.

Public sector loans are granted to governments and government-owned entities of the founding members and non-founding beneficiary countries under a sovereign guarantee of the respective country. In duly qualified cases, the Bank requires a generic guarantee of the borrower that covers the loan in full.

(2) Summary of Significant Accounting Policies, continued

On December 14, 2011, the Board of Directors approved Resolution 156/2011 in regards to a new internal policy for the Allowance for Loan Losses of Public Sector Loans.

In accordance with this new internal policy, the allowance must be estimated based on net exposure, probability of default and severity of loss. This new internal policy represents a change in accounting estimate.

The probability of default will be determined for each country according to the country risk rating provided by international credit rating agencies (Standard & Poor's, Fitch Ratings and Moody's), as disclosed in note 7.

Given that the Bank holds preferred creditor status, this factor is considered in order to adjust the probability of default with respect to market information. To determine the parameters applied for severity of loss, the Bank considers available market information.

Management believes that this methodology reasonably reflects the estimated risk embedded in the Bank's public sector lending activities and, consequently, considers the resulting amount of the allowance for public sector loans to be adequate. As of June 30, 2012 and December 31, 2011, under ASC 310, there were no individually impaired public sector loans.

Prior to December 14, 2011, the allowance for public sector loans was established taking the individual risk of the borrowing countries into consideration. This policy included the computation of the probability of default based on the credit insurance percentage assigned by Export Credit Agencies (ECA's) to credit transactions in the borrowing countries.

Loans to the private sector are mainly granted through eligible financial institutions of the region and, in the case of direct co-financed loans, CABEI obtains such collateral as it considers appropriate including: mortgages, bank pledges, financial guarantees and credit default swaps.

In accordance with the internal policy for the Allowance for Loan Losses of Private Sector Loans, the Bank's management has developed procedures that reflect the credit risk assessment considering all available information to determine whether the reserve for loan losses is adequate.

(2) Summary of Significant Accounting Policies, continued

When appropriate, this assessment includes monitoring qualitative and quantitative trends including changes in levels of arrears, criticized loans, and non-accrual loans.

In developing this assessment, the Bank uses estimates and judgment in order to assess the credit risk based on an internal credit risk rating system (Sistema de Calificación de Riesgo – SCR), which has eight levels that range from SCR-1 to SCR-8.

Each one of these levels has an established range of probability of default. The levels are the following:

Rating	Definition
SCR-1 / SCR-4	Normal
SCR-5	Special Mention
SCR-6	Substandard
SCR-7	Doubtful
SCR-8	Loss

- Special mention: Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, this potential weakness may result in impairment of the loan or of the Bank's credit position at some future date.
- Substandard: Loans classified as substandard have a well-defined weakness that jeopardizes collectability of the debt. They are characterized by the distinct possibility that the Bank will incur on loss if such deficiency is not corrected.
- Doubtful: Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make loan collection in full, based on existing conditions, questionable and not probable.
- Loss: Loans that are individually measured for impairment under ASC 310-10-35, including the collateral's fair value, if applicable.

Depending on changes in circumstances, future assessments of credit risk could cause actual results to differ materially from the estimates, which could cause an increase or decrease in the allowance for loan losses.

(2) Summary of Significant Accounting Policies, continued

Changes in the allowance for loan losses are estimated based on several factors including, but not limited to, an analytical review of loan loss experience in relation to the outstanding balance of loans, an ongoing review of problematic or non-accrual loans, the overall quality of the loan portfolio and the adequacy of collateral, the evaluation of independent experts, and management's view on the impact of current economic conditions of the country of origin of each loan in the outstanding loan portfolio.

Loan installments are considered in arrears the moment there is a default in their effective date of payment. A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due in accordance with the contractual terms of the loan.

Factors considered by management in determining impairment include payment record, collateral value and the probability of collecting scheduled principal and interest payments when due. A loan is also considered impaired if its terms are modified in a troubled-debt restructuring.

The Bank provides permanent monitoring of the credit quality of the public and private sector loan portfolio, and reviews, at least twice a year, the credit risk rating of its loan portfolio based on market information such as country risk rating and probability of default provided by international credit rating agencies. At least once a year, an independent assessment of the quality of the Bank’s loan portfolio and the allowance for loan losses is carried out by experienced external consulting firms.

When the ultimate collectability of the outstanding principal balance of an impaired loan is in doubt, all cash collections are applied to principal. Once the recorded principal balance has been reduced to zero, future cash receipts are recorded as recoveries of any amounts charged off, and then to interest income, to the extent any interest has been disallowed.

(2) Summary of Significant Accounting Policies, continued

Restructured loans are loans for which the original contractual terms have been modified to provide terms that are less than those the Bank would be willing to accept for new loans with similar risks given the deteriorating financial condition of the borrower. Interest on these loans is accrued at the renegotiated rates.

Troubled Debt Restructurings (TDRs)

In April 2011, the FASB issued ASU No. 2011-02 "*Receivables (Topic 310): A Creditor's Determination of whether a Restructuring is a Troubled Debt Restructuring*", to clarify the guidance for accounting for troubled debt restructurings. The ASU clarified the guidance on a creditor's evaluation of whether it has granted a concession and whether a debtor is experiencing financial difficulties such as:

- Any shortfall in contractual loan payments is considered a concession.
- Creditors cannot assume that debt extensions at or above a borrower's original contractual rate do not constitute troubled debt restructurings because the new contractual rate could still be below the market rate.
- If a borrower doesn't have access to funds at a market rate for debt with characteristics similar to restructured debt, that may indicate that the creditor has granted a concession.
- A borrower that is currently in default may still be considered to be experiencing financial difficulty when payment default is considered probable in the foreseeable future.

The ASU No. 2011-02 applies retrospectively to restructurings that occurred on or after January 1, 2011; however, it did not have an impact on the Bank.

The allowances for loan losses are established through estimates of probable losses, which are charged to income in the year they are incurred and disclosed as a separate line item deducting loans.

Loan losses are written off against the allowance when management confirms full or partial inability to collect the loan balances. Subsequent recoveries, if any, are credited to the provision for loan losses in the balance sheet.

(2) Summary of Significant Accounting Policies, continued

(h) Non-accrual loans

In accordance with the Bank's policies, interest recognition on all loan installments is discontinued when they are 90 days or more in arrears on principal and/or interest based on contractual terms, for private sector loans, and when they are 180 days or more in arrears for public sector loans.

Loans for which the recognition of interest income has been discontinued are designated as non-accruing. All interest accrued but not collected on loans classified as non-accrual is reversed against interest income. Subsequent collections are accounted for on a cash basis, until qualifying to return to accrual status.

When borrowers demonstrate over a reasonable period the ability to repay a loan in accordance with the contractual terms of a loan classified as non-accrual, the loan is returned to accrual status. The Bank charges off loans when they are deemed uncollectible.

Interest on loans for which the original conditions have been modified are recorded on a cash basis until they have a normal performance for a reasonable period.

(i) Property and equipment

Property and equipment are carried at cost less accumulated depreciation. Renewals and major improvements are capitalized, while minor replacements, repairs and maintenance which do not improve the asset nor extend its remaining useful life are charged as expenses when incurred.

Depreciation is provided by using the straight-line method over the estimated useful life of each type of asset.

The estimated useful life of the assets is as follows:

	Years
Buildings	40
Facilities and improvements	10
Furniture and equipment	10 and 5
Vehicles	4
Hardware and software	3, 5 and 10

(2) Summary of Significant Accounting Policies, continued

(j) Foreclosed assets

Foreclosed real estate acquired in satisfaction of loans is held for sale and is initially recorded at the lower of the related loan balance or the fair value less cost to sell of the real estate at the date of foreclosure, establishing a new cost basis.

After foreclosure, management carries on periodic assessments and these properties are carried at the lower of cost or fair value less estimated costs to sell based on recent appraised values. Income and expenses associated to holding these properties in portfolio and the changes to the related valuation allowance are recorded as other operating income (expenses).

(k) Taxes

According to the Bank's Constitutive Agreement, the Bank's income and related transactions within its member countries are exempt from any payment, withholding or collection of any income or duty tax.

(l) General reserve and annual net income

According to the Constitutive Agreement, the general reserve is increased by the total annual net income, when authorized by the Bank's Board of Governors.

(m) Revenue Recognition

Revenue is recognized when the earnings process is complete and collectability is assured. Specifically, asset management fees, measured by the amount of assets managed at a particular date, are accrued as earned. Loan origination fees are deferred and recognized in earnings over the term of the related loans as an adjustment to yield. Fees related to loan syndication are recognized when the Bank has concluded all the required services.

Fees on endorsements and guarantees granted and other commitments are amortized using the straight-line method over the term of these instruments.

Interest expense is recognized under the effective interest method. Fees expense is recognized when the related revenue is recognized. Transaction costs are recognized when incurred.

(2) Summary of Significant Accounting Policies, continued

Incremental direct costs associated with originating loans are expensed as incurred as such amounts are immaterial to net earnings. Issue costs for debt measured at fair value are expensed at the moment of issuance while those related to debt carried at amortized cost are deferred and amortized using the straight-line method (which approximates to the effective interest method) over the term of the respective debt instrument.

(n) Derivative instruments and hedging activities

All derivative financial instruments are recognized as assets and liabilities at fair value and are classified as assets or liabilities depending on fair value of each derivative (debit or credit).

Some derivative instruments acquired by the Bank are designated as: (a) hedge of the exposure to changes in the fair value of a recognized asset, liability or an unrecognized firm commitment (fair value hedge); (b) hedge of the exposure to variability of cash flows of a recognized asset, liability or forecasted transaction (cash flow hedge) or (c) hedge of foreign currency fair value or cash flows (foreign currency hedge). For all hedging transactions, the Bank formally documents the hedging relationship and its risk-management objective and strategy for undertaking the hedge, the hedging instrument, the hedged item, the nature of the risk being hedged, the assessment of hedge transaction's effectiveness in hedging the exposure attributable to the hedged risk, and a description of the method of measuring ineffectiveness. This process includes linking all derivatives that are designated as fair-value, cash flow, or foreign-currency hedges to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions.

The Bank also monitors, 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 or cash flows of hedged items.

Changes in fair value of a derivative instrument which is highly effective and which has been designated and qualifies 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 that is attributable to the hedged risk, are recorded as other operating income (expenses) in the statement of income.

(2) Summary of Significant Accounting Policies, continued

Changes in fair value of a derivative instrument that is highly effective and which has been designated and qualifies as a cash flow hedge are recorded in accumulated other comprehensive income to the extent that the derivative is effective as a hedge, until earnings are affected by the variability in cash flows of the designated hedged item.

Changes in fair value of a derivative instrument that is highly effective and has been designated and qualifies as a foreign-currency hedge are recorded in either income or other comprehensive income, depending on whether the hedge transaction is a fair value hedge or a cash flow hedge.

The ineffective portion of the change in the fair value of a derivative instrument that qualifies as either a fair value hedge or a cash flow hedge is reported in the statement of income.

The Bank discontinues hedge accounting when it is determined that the derivative instrument is no longer effective in offsetting changes in the fair value or cash flows of the hedged item; the derivative expires, is sold, terminated, or exercised; the hedged asset or liability expires, is sold, terminated, or exercised; the derivative is not designated as a hedging instrument because it is unlikely that a forecasted transaction will occur; or management determines that 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, the Bank continues to carry the derivative on the balance sheet at its fair value and ceases to adjust 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 for cash flow hedges, any changes in fair value of the end-user derivative remain in accumulated other comprehensive income (loss) and are included in earnings of future periods when the hedged cash flows impact earnings.

When hedge accounting is discontinued because the hedged item no longer meets the definition of a firm commitment, the Bank 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 the statement of income.

(2) Summary of Significant Accounting Policies, continued

When hedge accounting is discontinued because it is probable that a forecasted transaction will not occur, the Bank continues to carry the derivative on the balance sheet at its fair value with subsequent changes in fair value included in the statement of income, and gains and losses that were accumulated in other comprehensive income are immediately recognized in the statement of income.

In all other situations in which hedge accounting is discontinued, the Bank continues to carry the derivative at its fair value on the balance sheet and recognizes any subsequent changes in its fair value in the statement of income.

In addition, the Bank also contracts derivatives that although being used as economic hedges of risk they do not qualify for hedge accounting in accordance with the guidelines of ASC 815 *"Accounting for Derivatives and Hedging Activities"*. Changes to the fair values of these derivatives are recorded as other operating income (expenses) in the statement of income.

The Bank may also enter into derivatives to manage its credit exposure, which includes selling hedges in circumstances in which the Bank may decide to incur additional exposure in a given country.

(o) Equity investments

Non-marketable investments in equity of other entities have been recorded mainly at cost. When the Bank has significant influence but not a controlling financial interest in another entity, the investment is accounted for under the equity method and the pro rata share in income (loss) is included in other operating income (expenses). When an investment is considered impaired, the investment balance is reduced and the amount of the impairment is recognized as other operating expenses.

(p) Donations received and contributions granted

Donations are recorded as other income when they are received, unless the donations are received with donor-imposed conditions, whereby they are recorded as a liability until the conditions have been satisfied in all material respects or the donor has explicitly waived the conditions.

Contributions granted to public and private sector institutions and funds or programs managed by CABEI are recorded as expenses for the period in which the Bank's Board of Directors authorizes the contributions and the related contracts are signed. These are presented as part of special contributions in the statement of income.

(2) Summary of Significant Accounting Policies, continued

(q) Endorsements and guarantees granted

The main objective of the endorsements and guarantees granted by the Bank is to support the regional banking systems, and the development and integration of the Central American region and to expand and diversify the banking services offered by CABEI in order that its customers may have access to a broad range of services and low financial costs in developing their projects.

In furtherance of this objective, the Bank grants two main types of endorsements and guarantees:

- Those that replace financing: generally long-term arrangements, such as bank endorsements or payment guarantees that support a financial document or credit contract which in itself secures compliance with obligations related to execution of a project. These endorsements and guarantees are granted taking into account the credit risk concentration limits to CABEI's borrowers.

- Those that do not replace financing: which are granted to support projects for the development of the Central American region and are generally short-term arrangements that are fully collateralized by liquid assets and are generally related to letters of credit and acquisitions of goods and services.

The Bank also estimates probable losses related to off-balance sheet commitments such as endorsements and guarantees granted and contractual commitments to disburse loans.

Off-balance sheet commitments are subject to individual reviews and are analyzed and segregated by risk according to the internal risk rating system of the Bank. These risk classifications, together with an analysis of current economic conditions, trends in performance and any other relevant information, result in the estimation of the allowance for off-balance sheet commitments.

(r) Use of estimates

To prepare its financial statements in conformity with US GAAP, the Bank's management relies on certain assumptions and estimates that have an impact on the amounts of assets and liabilities and the disclosure of contingencies. Actual results could differ from such estimates. Material estimates that are particularly susceptible to significant change in the near term relate mainly to the determination of the allowance for loan losses, valuation of securities and derivative financial instruments, valuation of foreclosed assets and the status of contingencies. The current economic environment has increased the degree of uncertainty associated with these estimates and assumptions.

(2) Summary of Significant Accounting Policies, continued

(s) Segment reporting

Management has determined that the Bank has only one reportable segment since it does not manage or report internally its operations to evaluate performance or allocate resources based on a determination of the contributions to net income of individual operations.

(t) Reclassifications

When necessary, certain reclassifications of prior period figures have been made to conform with current period presentation.

(3) Fair Value and Fair Value Option

The Bank's management has established a process for determining fair value. The fair value is primarily based on quoted market prices when available. If market prices or quotations are not available, fair value is determined based on internally developed models that primarily use as input, information independently obtained of market or market parameters, including but not limited to yield curves, interest rates, debt prices, foreign currency exchange rates and credit curves.

However, in situations where there is little or no activity in the market for the asset or liability at the measurement date, the fair value measurement reflects the Bank's own judgments about assumptions that market participants would use in pricing assets or liabilities. The assumptions are developed by the Bank based on the best information available in the circumstances, including expected cash flows, discount rates appropriately adjusted for risk and other observable and unobservable inputs.

The methods described above can generate fair value estimates that are not indicative of net realizable value or that do not reflect future values.

Furthermore, while the Bank believes that its valuation methods are appropriate and consistent with those used by other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in different estimates of fair value at the reporting date.

(Expressed in thousands of U.S. dollars)

(3) Fair Value and Fair Value Option, continued

The following tables present the assets and liabilities valued at their fair value on a recurring basis as of June 30, 2012 and December 31, 2011, classified according to the fair value hierarchy:

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Balance at June 30, 2012
Assets				
Securities available for sale	64,608	870,382	31,282	966,272
Derivative financial instruments	0	204,296	0	204,296
Liabilities				
Loans payable	0	89,613	0	89,613
Bonds payable	0	1,445,687	0	1,445,687
Derivative financial instruments	0	131,563	0	131,563

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Balance at December 31, 2011
Assets				
Securities available for sale	35,031	842,280	30,437	907,748
Derivative financial instruments	0	231,610	0	231,610
Liabilities				
Loans payable	0	80,919	0	80,919
Bonds payable	0	1,419,460	0	1,419,460
Derivative financial instruments	0	206,286	0	206,286

(i) Valuation techniques applied:

- Investments in securities: Fair value has been calculated on the basis of the prices as quoted in the market and, in their absence, they have been calculated based on discounted cash flows using the current yields of similar securities.

- Derivative financial instruments: Fair values have been determined on the basis of valuation models that use parameters constructed from market data, such as observable interest rate yield curves. Counterparty and the Bank's credit risks are considered depending on fair value of each derivative (see also note 18).

(Expressed in thousands of U.S. dollars)

(3) Fair Value and Fair Value Option, continued

- Loans and bonds payable: Fair values are determined through the use of valuation models based on interest rate yield curves constructed from market data. Those yield curves are adjusted to incorporate the Bank's credit risk spread.

The following tables present the valuation techniques and significant unobservable components used to determine the fair value of recurring and non-recurring assets and liabilities in the balance sheet classified as Level 3 as of June 30, 2012 and December 31, 2011:

	June 30, 2012			
Assets	**Fair value**	**Valuation technique**	**Unobservable Assumptions**	**Range**
Securities available for sale:				
Government owned bank	1,092	Discounted cash flows	Basis points (bp) spread	50 bp
Investment bank	30,190	Discounted cash flows	Credit Default Swaps (CDS) on El Salvador and Guatemala	Guatemala CDS: 79 bp (6 months) and 94 bp (1 year). El Salvador CDS: 260 bp (6 months) and 349 bp (1 year)
	31,282			

	December 31, 2011			
Assets	**Fair value**	**Valuation technique**	**Unobservable Assumptions**	**Range**
Securities available for sale:				
Government owned bank	1,072	Discounted cash flows	Basis points (bp) spread	50 bp
Investment bank	29,365	Discounted cash flows	Credit Default Swaps (CDS) on El Salvador and Guatemala	Guatemala CDS: 108 bp (6 months) and 133 bp (1 year). El Salvador CDS: 245 bp (6 months) and 344 bp (1 year)
	30,437			

(Expressed in thousands of U.S. dollars)

(3) Fair Value and Fair Value Option, continued

The Bank's accounting policies include the recognition of transfers between levels of the fair value hierarchy at the date of any event or change in circumstances that caused the transfer. During 2012 and 2011, there were no transfers between levels 1, 2 and 3.

The following tables present a roll-forward for the periods ended June 30, 2012 and December 31, 2011 (including changes in fair value) of financial instruments classified by the Bank within Level 3 of the fair value hierarchy. When an instrument is classified at Level 3, the decision is based on the importance of unobservable assumptions in determining the overall fair value.

However, Level 3 instruments usually include, in addition to unobservable or Level 3 components, observable components (i.e., components that are actively traded and can be validated by external sources); therefore, gains and losses in the tables below include changes in fair value caused in part by observable factors that are part of the valuation methodology.

Changes in fair values of the instruments classified in Level 3 that occurred during the periods ended June 30, 2012 and December 31, 2011 are as follows:

		Gains (losses) during the six-month period ended June 30, 2012				
	Balance at January 1, 2012	Included in net income	Included in other comprehensive income (loss)	Purchases, (sales), issuances or (settlements)	Transfers in and / or out of Level 3	Balance at June 30, 2012
Assets						
Securities available for sale	30,437	0	845	0	0	31,282

(Expressed in thousands of U.S. dollars)

(3) Fair Value and Fair Value Option, continued

	Balance at January 1, 2011	Gains (losses) during the year ended December 31, 2011: Included in net income	Gains (losses) during the year ended December 31, 2011: Included in other comprehensive income (loss)	Purchases, (sales), issuances or (settlements)	Transfers in and / or out of Level 3	Balance at December 31, 2011
Assets						
Securities available for sale	40,234	0	203	(10,000)	0	30,437

The changes in derivative financial instruments included in net income, are presented as valuation of swap transactions and other financial instruments.

Non-recurring Fair Value Measurements

The Bank holds non-financial assets that are measured at fair value. Some non-financial assets that are not measured at fair value on a recurring basis are subject to fair value adjustments in certain circumstances. These assets include those assets that are available for sale (at time of initial recognition or further deterioration), some loans that are reduced to fair value of collateral, when considering their present impairment; and other non-financial long-lived assets when determined to be impaired. Fair value for loans is estimated using the discounted cash flows method or the value of the collateral, when applicable.

The following table presents fair value measurements of assets that are measured at fair value on a nonrecurring basis at June 30, 2012 and December 31, 2011:

Level 3	June 30, 2012	December 31, 2011
Loans	64,727	55,346
Foreclosed assets	19,121	31,466
	83,848	86,812

(Expressed in thousands of U.S. dollars)

(3) Fair Value and Fair Value Option, continued

The increase (decrease) in fair value of assets recognized at June 30, 2012 and 2011, which are recognized at fair value on a non-recurring basis, for which the fair value adjustment has been included in the statement of income, is as follows:

Level 3	June 30, 2012	June 30, 2011
Loans	(3,860)	3,930
Foreclosed assets	(12,157)	3
	(16,017)	3,933

(ii) Fair value option

Guideline of ASC 825-10-25 refers to *Fair Value Option* which allows the option to choose to measure at fair value certain financial assets and liabilities that do not require such measurement. Once the option has been chosen it becomes irrevocable. The standard also requires that changes to the fair value of these financial assets and liabilities be recorded in the statement of income.

The Bank has elected to measure at fair value the financial liabilities in a currency other than the US dollar for which it has contracted a derivative for fair value hedging of foreign currency and interest rate fluctuations. For such liabilities up to December 31, 2007 the Bank had used hedge accounting. The principal purpose for applying ASC 825-10-25 is to reduce the volatility of the Bank's earnings generated by the use of hedge accounting, considering that both the financial liabilities and the related hedging instruments are generally maintained until maturity. Consequently, the Bank has discontinued the hedge accounting for these transactions. The Bank has also elected not to apply the option to measure at fair value other financial liabilities, as they do not produce volatility in the statement of income.

Changes in the fair value of financial liabilities result from changes in interest rates, foreign exchange rates and the Bank's credit risk spread.

The Bank's credit risk spread for periods ended June 30, 2012 and December 31, 2011 has not changed. Consequently, there has been no variation in the fair value due to such input.

The amounts recorded in the statement of income as a result of changes in fair values of financial liabilities, for which the fair value option was elected based on the methods stated in section (iii) of this note, for June 30, 2012 and 2011 are as follows:

(Expressed in thousands of U.S. dollars)

(3) Fair Value and Fair Value Option, continued

	June 30, 2012	
	Other operating income (expenses) – Fair value adjustment	Total
Loans payable	(3,079)	(3,079)
Bonds payable	7,935	7,935

	June 30, 2011	
	Other operating income (expenses) – Fair value adjustment	Total
Loans payable	2,243	2,243
Bonds payable	27	27

Interest and fees generated by these loans and bonds payable were calculated on an accrual basis in accordance with the contractual terms of each transaction and have been recorded as financial expenses in the statement of income.

The difference between the fair value of the instruments elected for application of ASC 825-10-25 and the unpaid principal balances of such instruments for the periods ended June 30, 2012 and December 31, 2011 is as follows:

	June 30, 2012		
	Fair value	Unpaid principal balances	Excess (Deficit)
Loans payable	89,613	98,895	(9,282)
Bonds payable	1,445,687	1,387,509	58,178

	December 31, 2011		
	Fair value	Unpaid principal balances	Excess (Deficit)
Loans payable	80,919	89,896	(8,977)
Bonds payable	1,419,460	1,406,340	13,120

(iii) Fair value of financial instruments

The Bank's management applies its best judgment to estimate the fair values of these financial instruments. Minor changes in the assumptions used might have a significant impact on the estimates of current values.

(3) Fair Value and Fair Value Option, continued

A significant portion of the Bank's assets and liabilities are short-term financial instruments, with maturity of less than one year, and/or with floating interest rates.

These short-term instruments and/or with floating rates are considered to have a fair value equivalent to their recorded value as of the date of the financial statements. The foregoing applies to cash and due from banks, interest-bearing deposits with banks, loans and bonds payable issued at floating interest rates and accrued interest receivable and payable.

For significant fixed-rate financial instruments with maturity greater than one year, for which fair value option has not been elected, the following methods and assumptions were used to determine their fair value:

- Loans, net: The fair values for fixed-rate performing loans are estimated on the basis of an analysis of discounted cash flows, using the Commercial Interest Reference Rate (CIRR) as a reference. CIRR is the official rate applied by Export Credit Agencies, as published by the Export-Import Bank of the United States of America, and is based on the rates accrued on U.S. Treasury bonds.

  The fair values of non-accrual loans are estimated on the basis of discounted cash flows or the value of collateral, where applicable.

  This fair value does not represent a current indicator of an exit price.

- Equity investments: The Bank's equity investments in other entities are non-marketable; hence, they do not have available market price quotations. The majority of these entities are special purpose entities or entities in which the Bank has no control or significant influence. Currently, it is impracticable to determine the fair value of these investments without incurring in excessive cost.

- Loans payable: The fair values for loans are estimated on the basis of an analysis of discounted cash flows, using the CIRR as a reference. This fair value does not represent a current indicator of an exit price.

- Bonds payable: The fair value is estimated on the basis of an analysis of discounted cash flows, based on current bank rates for multilateral organizations.

(Expressed in thousands of U.S. dollars)

(3) Fair Value and Fair Value Option, continued

- Commercial paper programs: The fair values are estimated on the basis of an analysis of discounted cash flows, using as a reference the rates of the most recent transactions agreed upon with the Bank prior to each year-end.

- Certificates of deposit: Fair values are estimated on the basis of an analysis of discounted cash flows, based on the rates of the most recent transactions agreed upon with the Bank prior to each year-end.

- Contingent commitments: The fair value of these financial instruments is based on the counterparty credit risk.

The estimated fair values of the Bank's financial instruments as of June 30, 2012 and December 31, 2011 are as follows:

	June 30, 2012		December 31, 2011	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Cash and due from banks	33,817	33,817	22,717	22,717
Interest-bearing deposits with banks	720,932	720,932	639,120	639,120
Securities available for sale	966,272	966,272	907,748	907,748
Loans, net	5,227,052	5,400,738	4,987,308	5,153,096
Accrued interest receivable	56,480	56,480	55,539	55,539
Derivative financial instruments	204,296	204,296	231,610	231,610
Liabilities				
Loans payable	1,392,490	1,420,006	1,309,855	1,349,469
Bonds payable	2,666,666	2,767,127	2,572,201	2,724,848
Commercial paper programs	256,942	255,847	285,707	284,960
Certificates of deposit	704,918	709,179	489,502	495,395
Certificates of investment	1,404	1,404	1,474	1,474
Accrued interest payable	36,988	36,988	28,288	28,288
Derivative financial instruments	131,563	131,563	206,286	206,286

(4) Cash and Due from Banks

At June 30, 2012 and December 31, 2011, cash and due from banks is composed as follows:

	June 30, 2012	December 31, 2011
Currencies of the founding members	10,223	2,318
US dollar	22,809	19,806
Other currencies	785	593
	33,817	22,717

(Expressed in thousands of U.S. dollars)

(5) Interest-bearing Deposits with Banks

Interest bearing deposits usually are time deposits with terms of up to three months, renewable with respect to the term and interest rate; accordingly, face value approximates market value. As of June 30, 2012 and December 31, 2011, their carrying amounts are set in currencies other than those of the founding member countries.

(6) Securities Available for Sale

The amortized cost, gross unrealized gains and losses, the effect of hedging transactions and estimated fair value of securities available for sale, as of June 30, 2012 and December 31, 2011 are as follows:

	June 30, 2012				
Securities available for sale	**Amortized cost**	**Unrealized gross losses**	**Unrealized gross gains**	**Effect of hedging transactions**	**Estimated fair value**
Marketable securities from founding members[1]	31,934	0	92	14,376	46,402
Private marketable securities[1]	799,229	(5,251)	1,670	235	795,883
Investment funds	116,610	0	7,377	0	123,987
	947,773	(5,251)	9,139	14,611	966,272

	December 31, 2011				
Securities available for sale	**Amortized cost**	**Unrealized gross losses**	**Unrealized gross gains**	**Effect of hedging transactions**	**Estimated fair value**
Marketable securities from founding members[1]	31,975	(29)	0	14,240	46,186
Private marketable securities[1]	751,932	(10,025)	1,225	(336)	742,796
Investment funds	112,947	0	5,819	0	118,766
	896,854	(10,054)	7,044	13,904	907,748

The effect of hedging transactions represents the portion of the unrealized gain or loss attributable to the risk covered in those securities by derivatives designated as fair value hedges. This effect is recognized in earnings.

For the six-month periods ended June 30, 2012 and 2011, the realized gross gain was 3,600 and 3,310, respectively. There was no realized gross loss during the six-month periods ended June 30, 2012 and 2011.

The gains and losses were realized by considering the unamortized cost of each fund or marketable security sold.

[1]The entirety of marketable securities as of June 30, 2012 and December 31, 2011 is denominated in US dollars.

(Expressed in thousands of U.S. dollars)

(6) Securities Available for Sale, continued

At June 30, 2012 and December 31, 2011, the estimated fair values and unrealized losses on securities available for sale that have been in continuous unrealized loss position are as follows:

	June 30, 2012				
	Less than 12 months		12 months or longer		
Securities available for sale:	**Estimated fair value**	**Unrealized gross losses**	**Estimated fair value**	**Unrealized gross losses**	**Total**
Marketable securities	296,346	(3,920)	19,062	(1,331)	(5,251)

	December 31, 2011				
	Less than 12 months		12 months or longer		
Securities available for sale:	**Estimated fair value**	**Unrealized gross losses**	**Estimated fair value**	**Unrealized gross losses**	**Total**
Marketable securities	318,018	(6,195)	81,311	(3,859)	(10,054)

At June 30, 2012, the Bank's management has no intention of selling the securities classified as available for sale, described in the previous table, and considers it is more likely than not, that the Bank will not have to sell the aforementioned securities before it recovers their cost. Management in conjunction with the Asset and Liability Committee (ALCO) monitors on a regular basis the situation and the evolution of securities available for sale, including those with unrealized losses. The Bank's management believes that the unrealized losses of such securities are substantially related to market interest rate fluctuations and not to deterioration in the creditworthiness of the issuer or guarantor. The fair value is expected to recover as the securities approach their maturity date. Therefore, at June 30, 2012, the Bank's management believes the impairments presented in the table above are temporary and no other than temporary impairment has been recorded in the statements of income.

The proceeds from sales, redemptions and amortizations of securities available for sale during the six-month periods ended June 30, 2012 and 2011 were 559,933 and 158,588, respectively.

As of June 30, 2012, investment securities are classified by contractual maturities in the following table. The expected maturities may differ from contractual maturities because issuers might have the right to redeem or prepay obligations without penalty in certain cases.

(Expressed in thousands of U.S. dollars)

(6) Securities Available for Sale, continued

	Amortized cost
Due within one year	408,974
After one but within five years	507,866
After five but within ten years	0
After ten years	30,933
	947,773

(7) Loans

Considering the financial policy described in note 2 (f), CABEI has no significant concentrations of credit risk with any individual borrower or groups of affiliated borrowers. A detail of loans, by sector and country as of June 30, 2012 and December 31, 2011, is as follows:

	June 30, 2012			December 31, 2011		
	Public sector	Private sector	Total	Public sector	Private sector	Total
Guatemala	1,016,821	236,220	1,253,041	1,030,110	212,800	1,242,910
El Salvador	764,042	94,451	858,493	747,005	96,204	843,209
Honduras	727,816	295,567	1,023,383	632,266	299,474	931,740
Nicaragua	253,704	259,215	512,919	230,885	259,511	490,396
Costa Rica	1,101,981	440,200	1,542,181	1,087,607	440,318	1,527,925
Dominican Republic	188,309	0	188,309	102,345	0	102,345
Panama	0	26,574	26,574	0	26,574	26,574
Belize	500	0	500	500	0	500
Subtotal	4,053,173	1,352,227	5,405,400	3,830,718	1,334,881	5,165,599
Allowance for loan losses	(108,141)	(70,207)	(178,348)	(101,935)	(76,356)	(178,291)
Loans, net	3,945,032	1,282,020	5,227,052	3,728,783	1,258,525	4,987,308

(Expressed in thousands of U.S. dollars)

(7) Loans, continued

A detail of loans, by economic activity segment, as of June 30, 2012 and December 31, 2011, is as follows:

	June 30, 2012	December 31, 2011
Infrastructure / construction	1,525,270	1,463,287
Electricity, gas and water supply	1,327,958	1,273,206
Monetary intermediation	932,518	863,949
Multi-sector	803,610	491,529
Transportation, storage and communications	218,395	224,828
Social and health services	155,361	144,608
Real estate activities	111,044	113,645
Hotels and restaurants	68,288	61,668
Manufacturing	66,230	68,261
Agro-industry	63,237	84,635
Wholesale and retail trade	37,729	27,690
Mining and quarrying	33,000	36,000
Social security	28,063	273,766
Education and training	28,007	29,557
Other social, community and personal services	6,509	6,980
Fisheries	181	1,990
	5,405,400	5,165,599

A detail of loans, by maturity, as of June 30, 2012, is as follows:

Past due	28,406
Up to one year	985,497
After one but within two years	556,541
After two but within three years	630,402
After three but within four years	396,272
After four but within five years	345,345
After five years	2,462,937
	5,405,400

A detail of loans, by currency, as of June 30, 2012 and December 31, 2011, is as follows:

	June 30, 2012	December 31, 2011
U.S. dollar	5,279,255	4,984,210
Currencies from Central American countries	119,176	173,186
Euro	6,969	7,260
Yen	0	943
	5,405,400	5,165,599

(Expressed in thousands of U.S. dollars)

(7) Loans, continued

For the six-month period ended June 30, 2012 and for the year ended as of December 31, 2011, the weighted average yield on loans, after considering swap contracts when applicable, was 5.49% and 5.49% per annum, respectively. Loans at fixed and floating rates are as follows:

	June 30, 2012	December 31, 2011
Loans at fixed rates	1,148,471	1,222,079
Loans at floating rates	4,256,929	3,943,520
	5,405,400	5,165,599

As of June 30, 2012 and December 31, 2011, in accordance with the Bank's policies, interest on non-accrual loans of 5,876 and 5,461, respectively, was not recorded as income because it had not been collected. As of June 30, 2012 and December 31, 2011, the principal of the loans that generated such interest corresponds to direct loans from the private sector and is as follows:

	June 30, 2012	December 31, 2011
Guatemala	3,112	0
El Salvador	2,553	2,553
Honduras	0	1,767
Costa Rica	21,834	25,623
	27,499	29,943

At June 30, 2012 and December 31, 2011 there are no intermediated loans from the private sector in non-accrual status.

At June 30, 2012 and December 31, 2011 there are no installments from loans from the public sector or intermediated loans from the private sector in arrears.

(Expressed in thousands of U.S. dollars)

(7) Loans, continued

The analysis of the age of the installments from direct loans from the private sector in arrears is as follows:

	June 30, 2012				
	01-30 days in arrears	31-60 days in arrears	61-90 days in arrears	More than 90 days in arrears	Total installments in arrears
Guatemala	0	0	295	115	410
El Salvador	0	0	0	2,553	2,553
Honduras	0	0	0	0	0
Nicaragua	30	0	0	0	30
Costa Rica	0	724	2,856	21,833	25,413
	30	724	3,151	24,501	28,406

	December 31, 2011				
	01-30 days in arrears	31-60 days in arrears	61-90 days in arrears	More than 90 days in arrears	Total installments in arrears
Guatemala	0	0	0	0	0
El Salvador	0	0	70	2,412	2,482
Honduras	0	0	113	912	1,025
Nicaragua	70	0	0	0	70
Costa Rica	139	1	2,845	22,880	25,865
	209	1	3,028	26,204	29,442

(Expressed in thousands of U.S. dollars)

(7) Loans, continued

The following tables present impaired loans related to direct loans from the private sector at June 30, 2012 and December 31, 2011:

	June 30, 2012					
Impaired Loans	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Recorded Investment**	**Accumulated Interest on Impaired Loans**	**Interest Income Recognized**
With an allowance for loan losses						
Guatemala	6,594	410	3,106	6,676	170	112
El Salvador	2,553	2,553	620	2,553	938	0
Costa Rica	96,778	25,413	37,472	100,035	5,716	1,526
	105,925	28,376	41,198	109,264	6,824	1,638
Without an allowance for loan losses						
Guatemala	22,238	0	0	21,456	6	0
	22,238	0	0	21,456	6	0
Total						
Guatemala	28,832	410	3,106	28,132	176	112
El Salvador	2,553	2,553	620	2,553	938	0
Costa Rica	96,778	25,413	37,472	100,035	5,716	1,526
	128,163	28,376	41,198	130,720	6,830	1,638
Impaired loans with accrual status	100,664	3,759	23,777	103,192	954	0
Impaired loans with non-accrual status	27,499	24,617	17,421	27,528	5,876	1,638

(Expressed in thousands of U.S. dollars)

(7) Loans, continued

	December 31, 2011					
Impaired Loans	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Recorded Investment**	**Accumulated Interest on Impaired Loans**	**Interest Income Recognized**
With an allowance for loan losses						
Guatemala	26,487	0	2,277	27,859	90	428
El Salvador	16,236	0	3,222	17,062	34	578
Honduras	1,767	1,025	941	1,767	229	6
Nicaragua	68	0	7	85	1	4,070
Costa Rica	120,138	25,727	44,396	121,489	5,193	0
	164,696	26,752	50,843	168,262	5,547	5,082
Without an allowance for loan losses						
Guatemala	1,554	0	0	1,268	0	0
El Salvador	2,553	2,482	0	2,553	828	0
	4,107	2,482	0	3,821	828	0
Total						
Guatemala	28,041	0	2,277	29,127	90	428
El Salvador	18,789	2,482	3,222	19,615	862	578
Honduras	1,767	1,025	941	1,767	229	6
Nicaragua	68	0	7	85	1	4,070
Costa Rica	120,138	25,727	44,396	121,489	5,193	0
	168,803	29,234	50,843	172,083	6,375	5,082
Impaired loans with accrual status	138,860	2,845	32,681	142,140	914	5,082
Impaired loans with non-accrual status	29,943	26,389	18,162	29,943	5,461	0

(Expressed in thousands of U.S. dollars)

(7) Loans, continued

The credit quality for public sector loans is assessed based on the country risk ratings levels provided by international credit rating agencies. These levels are the following:

Rating Level		Definition
AAA		Extremely strong capacity to meet financial commitments.
AA	+/-	Very strong capacity to meet financial commitments.
A	+/-	Strong capacity to meet financial commitments, but somewhat susceptible to adverse economic conditions.
BBB	+/-	Adequate capacity to meet financial commitments, but more subject to adverse economic conditions.
BB	+/-	Less vulnerable in the near-term but faces major ongoing uncertainties to adverse economic conditions.
B	+/-	More vulnerable to adverse economic conditions but currently has the capacity to meet financial commitments.
CCC	+/-	Currently vulnerable and dependent on favorable economic conditions to meet financial commitments.
CC		Currently highly vulnerable.
C		A bankruptcy petition has been filed or similar action taken, but payments of financial commitments are continued.
D		Payments default on financial commitments.

The credit quality of public sector loans based on risk ratings as of June 30, 2012 and December 31, 2011 is as follows:

	June 30, 2012			
Public Sector	**BB+ / BB / BB-**	**B+ / B / B-**	**CCC+ / CCC / CCC-**	**Total**
Guatemala	1,016,821	0	0	1,016,821
El Salvador	764,042	0	0	764,042
Honduras	0	727,816	0	727,816
Nicaragua	0	253,704	0	253,704
Costa Rica	1,101,981	0	0	1,101,981
Dominican Republic	0	188,309	0	188,309
Belize	0	0	500	500
	2,882,844	1,169,829	500	4,053,173

(Expressed in thousands of U.S. dollars)

(7) Loans, continued

Public Sector	December 31, 2011 BB+ / BB / BB-	B+ / B / B-	Total
Guatemala	1,030,110	0	1,030,110
El Salvador	747,005	0	747,005
Honduras	0	632,266	632,266
Nicaragua	0	230,885	230,885
Costa Rica	1,087,607	0	1,087,607
Dominican Republic	0	102,345	102,345
Belize	0	500	500
	2,864,722	965,996	3,830,718

As of June 30, 2012 and December 31, 2011, the balance of intermediated loans from the public sector with a rating of BB+/BB/BB-, included in the figures presented above, is 496,194 and 454,811, respectively. As of June 30, 2012, the balance of intermediated loans from the public sector with a rating of B+/B/B-, included in the figures presented above, is 10,568. As of December 31, 2011, there are no intermediated loans from the public sector with a rating of B+/B/B-. All other loans consist of direct loans from the public sector.

The credit quality of private sector loans according to risk ratings as of June 30, 2012 and December 31, 2011 is the following:

Private Sector	June 30, 2012 Normal	Special Mention	Substandard	Doubtful	Loss	Total
Guatemala	158,648	48,740	25,720	3,112	0	236,220
El Salvador	84,835	2,922	4,141	0	2,553	94,451
Honduras	266,887	28,680	0	0	0	295,567
Nicaragua	243,133	16,037	45	0	0	259,215
Costa Rica	343,422	0	74,944	0	21,834	440,200
Panama	0	26,574	0	0	0	26,574
	1,096,925	122,953	104,850	3,112	24,387	1,352,227

(Expressed in thousands of U.S. dollars)

(7) Loans, continued

Private Sector	December 31, 2011 Normal	Special Mention	Substandard	Doubtful	Loss	Total
Guatemala	184,172	587	24,929	3,112	0	212,800
El Salvador	73,411	4,004	16,236	0	2,553	96,204
Honduras	289,717	7,990	0	0	1,767	299,474
Nicaragua	242,130	17,313	68	0	0	259,511
Costa Rica	320,180	0	54,527	43,777	21,834	440,318
Panama	0	26,574	0	0	0	26,574
	1,109,610	56,468	95,760	46,889	26,154	1,334,881

Loans presented under the rating of loss have been presented at the fair value of their collateral.

At June 30, 2012 the balances of intermediated loans from the private sector with ratings of normal, special mention, and substandard are 748,725, 54,740 and 346, respectively. At December 31, 2011 the balances of intermediated loans from the private sector with ratings of normal, special mention, and substandard are 635,417, 7,153, and 424, respectively. These amounts are included in the figures presented above.

The changes in the allowance for loan losses as of June 30, 2012 and December 31, 2011 are as follows:

	Six-month period ended June 30, 2012			Year ended December 31, 2011		
	Sector			Sector		
	Public	Private	Total	Public	Private	Total
Balance, beginning of period	101,935	76,356	178,291	96,892	103,385	200,277
Provisions	6,206	(1,815)	4,391	5,043	9,946	14,989
Recoveries	0	1,243	1,243	0	1,484	1,484
Loan write-offs	0	(5,577)	(5,577)	0	(38,459)	(38,459)
Balance, end of period	108,141	70,207	178,348	101,935	76,356	178,291

On December 14, 2011, the Board of Directors approved Resolution DI-156/2011 in which a new methodology was approved to determine the allowance for public sector loans. This change in methodology generated a provision of 753 for the month of December 2011; however, based on the previous methodology, the provision for that month would have been 4,908. This change in methodology provides a more precise calculation based on market information in order to standardize it with the Bank's internal risk rating system.

(Expressed in thousands of U.S. dollars)

(7) Loans, continued

The following table presents the allowance and recorded investment, by portfolio segment, at June 30, 2012 and December 31, 2011:

	June 30, 2012		
	Public Sector	Private Sector	Total
Loans Measured Individually			
Specific allowance	0	41,198	41,198
Recorded investment	0	105,925	105,925
Loans Measured Collectively			
Generic allowance	108,141	29,009	137,150
Recorded investment	4,053,173	1,197,376	5,250,549
Loans without an allowance			
Recorded investment	0	48,926	48,926
Total			
Allowance	108,141	70,207	178,348
Recorded investment	4,053,173	1,352,227	5,405,400

(Expressed in thousands of U.S. dollars)

(7) Loans, continued

	December 31, 2011		
	Public Sector	**Private Sector**	**Total**
Loans Measured Individually			
Specific allowance	0	34,968	34,968
Recorded investment	0	90,314	90,314
Loans Measured Collectively			
Generic allowance	101,935	41,388	143,323
Recorded investment	3,830,718	1,212,984	5,043,702
Loans without an allowance			
Recorded investment	0	31,583	31,583
Total			
Allowance	101,935	76,356	178,291
Recorded investment	3,830,718	1,334,881	5,165,599

Recorded investment means the loan exposure amount reported on the Bank's balance sheet, net of partial write-offs.

The balance of troubled debt restructurings at June 30, 2012 and December 31, 2011 corresponds to direct loans from the private sector and is as follows:

	June 30, 2012	**December 31, 2011**
Balance of troubled-debt restructurings	22,238	20,554
Partial write-offs	0	7,939

At June 30, 2012 and December 31, 2011, there are no installments in arrears from troubled debt restructurings, and there are no commitments to make additional disbursements to impaired loans or troubled debt restructurings.

(Expressed in thousands of U.S. dollars)

(8) Accrued Interest Receivable

Accrued interest receivable as of June 30, 2012 and December 31, 2011 is detailed as follows:

	June 30, 2012	December 31, 2011
On loans	52,660	51,791
On securities available for sale	3,729	3,639
On interest-bearing deposits with banks	91	109
	56,480	55,539

(9) Property and Equipment, Net

Property and equipment at June 30, 2012 and December 31, 2011 are detailed as follows:

	December 31, 2011	December 31, 2011
Vehicles	1,829	1,881
Buildings	32,840	32,016
Computer equipment	22,797	22,556
Installations	9,835	9,704
Office equipment and furniture	5,507	5,385
	72,808	71,542
Less accumulated depreciation	(41,938)	(40,638)
	30,870	30,904
Land	2,590	2,590
	33,460	33,494

(10) Other Assets

Other assets as of June 30, 2012 and December 31, 2011 are composed as follows:

	June 30, 2012	December 31, 2011
Foreclosed assets	19,121	31,466
Accounts receivable	3,129	1,990
Supplies	121	147
Prepaid expenses	9	1,840
Pre-investment studies receivable	0	50
Other	232	236
	22,612	35,729

(Expressed in thousands of U.S. dollars)

(10) Other Assets, continued

Foreclosed assets as of June 30, 2012 and December 31, 2011 are located in the following countries:

	June 30, 2012	December 31, 2011
Guatemala	23,645	23,645
Honduras	8,004	8,193
Nicaragua	5,508	5,508
El Salvador	4,677	4,677
Costa Rica	371	370
	42,205	42,393
Fair value adjustment	(23,084)	(10,927)
	19,121	31,466

(Expressed in thousands of U.S. dollars)

(11) Loans Payable

Loans payable as of June 30, 2012 and December 31, 2011 are as follows:

	June 30, 2012	December 31, 2011
Kreditanstalt Für Wiederaufbau (K.F.W.)	202,081	190,418
Banco Nacional de Comercio Exterior, S.N.C. (Bancomext)	157,985	149,726
Bank of China (BoC)	119,768	138,022
Mizuho Corporate Bank, Ltd.	99,025	99,906
European Investment Bank	84,651	45,566
Standard Chartered Bank	84,000	10,000
Promotion et Participation pour la Coopération (PROPARCO)	67,060	67,060
Citbank, N.A.	60,000	30,000
Nordic Investment Bank	57,333	58,786
JP Morgan Chase Bank	49,985	50,000
Inter-American Development Bank (IDB)	45,058	48,883
Sumitomo Mitsui Banking Corporation, New York	40,874	39,804
Japan Bank for International Cooperation	30,000	30,000
Instituto de Crédito Oficial de España	26,314	23,555
HSBC Bank USA, N.A.	25,000	25,000
The OPEC Fund for International Development	23,430	4,412
Royal Bank of Scotland P.L.C.	21,875	16,875
Nordea Bank	21,751	26,102
BNP Paribas Fortis	21,690	0
Deutsche Bank, A.G.	19,098	22,281
Oesterreichische Entwicklungsbank AG (OeEB)	18,751	18,739
U.S. Agency for International Development (USAID)	16,429	17,507
Banco Mercantil de Venezuela	15,000	5,000
Loans guaranteed by USAID	11,081	13,691
Bank Leumi – Le Israel	10,380	12,561
Nordea Bank (Funded Participation Agreement)	10,072	10,072
Bank of Taiwan, New York	10,000	10,000
The Export-Import Bank of the Republic of China (EXIM)	10,000	10,000
Fortis Bank SA/NV, Belgium	8,835	9,334
Chang Hwa Commercial Bank, Ltd.	5,000	5,000
Land Bank of Taiwan	5,000	5,000
The China Council for International Cooperation on Environment and Development	5,000	5,714
United Taiwan Bank, S.A.	5,000	5,000
Société Générale, New York	4,659	5,435
Danida-Unibank	305	406
Bank of America, N.A.	0	10,000
Bayerische Landesbank	0	80,000
HSBC Ltd., London	0	10,000
	1,392,490	1,309,855

(Expressed in thousands of U.S. dollars)

(11) Loans Payable, continued

Maturities of loans payable as of June 30, 2012 are as follows:

Up to one year	444,509
After one but within two years	145,457
After two but within three years	217,204
After three but within four years	137,953
After four but within five years	68,063
After five years	379,304
	1,392,490

For the six-month period ended June 30, 2012 and for the year ended as of December 31, 2011, the weighted average cost on loans payable, after considering swap contracts when applicable, was 3.11% and 3.65% per annum, respectively.

Loans payable at fixed and floating rates as of June 30, 2012 and December 31, 2011 are as follows:

	June 30, 2012	December 31, 2011
Loans payable at fixed rates	636,483	629,131
Loans payable at floating rates	756,007	680,724
	1,392,490	1,309,855

(Expressed in thousands of U.S. dollars)

(12) Bonds Payable and Commercial Paper Programs

(a) Bonds payable as of June 30, 2012 and December 31, 2011, are as follows:

	Issuance Date	Maturity Date	June 30, 2012	December 31, 2011
MTN - USD issuance	2009	2014	498,917	500,000
COP issuance	2006	2015	250,650	248,714
MTN - USD issuance	2012	2017	247,131	0
MTN - USD issuance	2003	2013	199,762	199,888
MTN - CHF issuance	2010	2013	159,597	162,349
JPY issuance	2011	2023	129,788	128,477
MTN - MXN issuance	2011	2015	110,574	107,809
MTN - MXN issuance	2012	2015	110,574	0
MTN - MXN issuance	2007	2014	109,952	106,849
COP issuance	2009	2014	85,607	82,674
THB issuance	2007	2017	83,175	79,471
Regional issuance in USD	2011	2021	67,600	67,600
COP issuance	2009	2019	56,135	53,960
MTN - MXN issuance	2010	2020	53,641	55,423
NTD issuance	2009	2013	50,176	49,613
THB issuance	2011	2014	39,473	31,265
MTN - MXN issuance	2008	2020	35,027	30,030
MTN - BRL issuance	2011	2016	33,912	35,184
THB issuance	2011	2021	31,556	34,747
MTN - CRC issuance	2009	2014	31,383	30,546
MTN - UYU issuance	2011	2016	31,348	32,214
THB issuance	2011	2016	28,225	27,633
MTN - GTQ issuance	2010	2013	25,490	25,605
USD issuance	2010	2020	25,000	25,000
MTN - USD issuance	2009	2019	24,571	24,540
MTN - USD issuance	2012	2027	24,403	0
MTN - CRC issuance	2010	2017	22,568	22,362
MTN - CRC issuance	2009	2014	21,159	20,700
DOP issuance	2009	2014	18,776	19,322
NTD issuance	2009	2013	16,725	16,538
MTN - MXN issuance	2008	2018	9,674	9,580
MTN - MXN issuance	2008	2018	8,406	8,163
MTN - MXN issuance	2007	2012	0	53,548
MTN - MXN issuance	2007	2012	0	53,462
MTN - USD issuance	2005	2012	0	199,986
			2,640,975	2,543,252
Fair value adjustment			25,691	28,949
			2,666,666	2,572,201

For the six-month period ended June 30, 2012 and for the year ended as of December 31, 2011, the weighted average cost on bonds payable, after considering swap contracts when applicable, was 3.20% and 2.75% per annum, respectively.

(b) On May 14, 2009 CABEI launched a Global Commercial Paper Program (Global Program) with dealers from Europe and the United States. The Global Program size is 500,000, and the program was assigned A-1 and P-1 short-term ratings by Standard & Poor’s and Moody’s, respectively.

(Expressed in thousands of U.S. dollars)

(12) Bonds Payable and Commercial Paper Programs, continued

On September 4, 2009, CABEI launched a Regional Commercial Paper Program (Regional Program), registered at the National Securities Registry of Costa Rica. The Regional Program amounts to 100,000 and received a short-term rating of F-1+(cri) by Fitch Ratings Central America. Additionally, on May 27, 2011 the Program was authorized to be increased to 200,000.

The amounts issued, annual average costs and contractual maturities as of June 30, 2012 and December 31, 2011 are as follows:

	June 30, 2012		
	Amount issued	**Annual Average Cost**	**Contractual Maturity**
Commercial Paper – Global Program in USD	236,682	0.64%	Up to 3 months
Commercial Paper – Regional Program in Costa Rican colones (CRC)	20,260	8.35%	Up to 6 months
	256,942		

	December 31, 2011		
	Amount issued	**Annual Average Cost**	**Contractual Maturity**
Commercial Paper – Global Program in USD	206,554	0.46%	Up to 3 months
Commercial Paper – Regional Program in CRC	79,153	7.09%	Up to 6 months
	285,707		

(13) Certificates of Deposit

Certificates of deposit as of June 30, 2012 and December 31, 2011 are as follows:

	June 30, 2012	**December 31, 2011**
Central Banks	475,514	225,286
Social Benefit Fund (note 20)	138,824	139,363
Private financial institutions	40,789	78,876
Debt-Conversion Fund (Honduras-Spain)	27,822	23,221
Other government institutions	4,704	5,850
Other	17,265	16,906
	704,918	489,502

(Expressed in thousands of U.S. dollars)

(13) Certificates of Deposit, continued

At June 30, 2012, the contractual maturities are as follows:

Maturities	
Up to six-months	655,814
From six-months to one year	34,529
After one year to two years	3,814
After two years to three years	4,888
After three years to four years	4,013
After four years to five years	1,860
	704,918

For the periods ended June 30, 2012 and December 31, 2011, the weighted average costs on certificates of deposit are as follows:

	June 30, 2012	December 31, 2011
Deposits in US dollars	0.58%	0.71%
Deposits in US dollars - Social Benefit Fund	7.00%	7.00%
Deposits in quetzales	2.75%	2.57%
Deposits in lempiras	5.49%	5.46%
Deposits in Costa Rican colones	9.25%	-

(14) Accrued Interest Payable

Accrued interest payable as of June 30, 2012 and December 31, 2011 is as follows:

	June 30, 2012	December 31, 2011
On bonds payable	22,546	19,372
On loans payable	6,306	5,540
On certificates of deposit	8,136	3,376
	36,988	28,288

(Expressed in thousands of U.S. dollars)

(15) Other Liabilities

Other liabilities as of June 30, 2012 and December 31, 2011 are as follows:

	June 30, 2012	December 31, 2011
Other creditors	9,659	8,730
Financial cooperation to founding countries	5,898	11,645
Monetary deposits	3,532	1,940
Transitory deposits	2,859	2,717
Technical assistance	2,795	2,804
Bonuses and supplemental compensation	2,102	2,076
Other accruals	1,770	1,335
	28,615	31,247

(16) Equity

(a) Paid-in capital

The Bank's authorized capital is 2,000,000, consisting of 200,000 registered shares with a face value of 10 per share. Of this capital, the founding members have subscribed shares in equal parts for a total amount of 1,020,000, and the non-regional members may subscribe up to a total amount of 980,000, of which 702,900 has already been subscribed.

The Constitutive Agreement was modified under a protocol adopted in Managua, Nicaragua, by the Central American countries in 1989. It became effective on January 20, 1992, and was subsequently modified on February 6, 2003. The protocol authorized the inclusion of non-regional countries as members of the Bank and modified its capital structure.

On April 29, 2009, the Board of Governors approved the principles that will govern the Bank's capital structure:

- The authorized capital will be 5,000,000: each founding country will equally subscribe for 2,550,000, whereas 2,450,000 will be available to non-regional countries and non-founding regional countries;
- Composed of two series of stock: Series "A" reserved for founding countries, and Series "B" reserved for non-founding regional countries and non-regional countries;
- Series "E" certificates will be issued in the name of "A" and "B" shareholders, which shall evidence the retained earnings attributable to capital contributions made by the Banks' shareholders from time to time (see note 16.b). These certificates will not carry voting rights and will be non-transferable.

(Expressed in thousands of U.S. dollars)

(16) Equity, continued

For purposes of the capital increase approved on the aforementioned date, the Board of Governors approved the newly subscribed shares to be required from series "A" and "B" shares, a cash payment and its remainder through the use of series "E" certificates. Those partners who do not hold enough series "E" certificates to cover this payment may supplement it with additional cash funds.

On September 15, 2012, some amendments to the Bank's Constitutive Agreement came into effect; these include modifications to the Bank's capital structure which increased the Bank's authorized capital from 2,000,000 to 5,000,000. As of this date, the founding members have confirmed their subscription to the capital increase, while the other members have begun the process of confirmation of their subscription and it is expected to be complete during the current year (see note 24).

As of June 30, 2012 and December 31, 2011, the nominal value of the Bank's capital is as follows:

	June 30, 2012		December 31, 2011	
	Shares		Shares	
Subscribed shares of	**Subscribed/ Unsubscribed**	**Paid**	**Subscribed/ Unsubscribed**	**Paid**
Founding countries				
Guatemala	204,000	55,000	204,000	55,000
El Salvador	204,000	55,000	204,000	55,000
Honduras	204,000	55,000	204,000	55,000
Nicaragua	204,000	55,000	204,000	55,000
Costa Rica	204,000	55,000	204,000	55,000
Sub-total	1,020,000	275,000	1,020,000	275,000
Non-regional countries				
Spain	200,000	50,000	200,000	50,000
Republic of China, Taiwan	150,000	37,500	150,000	37,500
Mexico	122,500	30,625	122,500	30,625
Argentina	57,600	14,400	57,600	14,400
Colombia	57,600	14,400	57,600	14,400
Dominican Republic	57,600	14,400	57,600	14,400
Panama	57,600	14,400	57,600	14,400
Sub-total	702,900	175,725	702,900	175,725
	1,722,900	450,725	1,722,900	450,725
Unsubscribed shares				
Non-regional countries	277,100	0	277,100	0
	2,000,000	450,725	2,000,000	450,725

(Expressed in thousands of U.S. dollars)

(16) Equity, continued

As long as there is available authorized capital to be subscribed by non-regional members, the Bank may accept the inclusion of countries with double status as beneficiary country and, at the same time, non-regional member.

CABEI's Constitutive Agreement also considers the incorporation of non-founding beneficiary countries. Those countries are linked to the Bank through subscription of an association agreement and through special capital contributions, and may be entitled to receive loans, guarantees and any other operations from the Bank.

As of June 30, 2012 and December 31, 2011, the Bank's special capital contributions are as follows:

	June 30, 2012		December 31, 2011	
	Subscribed	**Paid**	**Subscribed**	**Paid**
Beneficiary countries with non-regional member status				
Argentina	1,000	250	1,000	250
Colombia	1,000	250	1,000	250
Panama	1,000	250	1,000	250
Dominican Republic	1,000	250	1,000	250
	4,000	1,000	4,000	1,000
Beneficiary countries				
Belize	25,000	6,250	25,000	6,250
	29,000	7,250	29,000	7,250

(b) Issuance of Series "E" certificates

On September 8, 2005, the Board of Governors approved the accounting method for retained earnings, which consists of the issuance of general reserve certificates in order to recognize the excess of each member country's share of the Bank's equity over such member country's paid-in capital and the earnings generated through the passage of time over the capital paid in by each member. Under Resolution AG 8/2009 adopted by the Board of Governors, such Certificates are to be converted into Series "E" Certificates.

The issue of Series "E" Certificates is based on the average number of shares held by each member every year, weighted by their holding time and amount thereof. The cut-off date for allocating the Series "E" certificates was December 31, 2007.

(Expressed in thousands of U.S. dollars)

(16) Equity, continued

Series “E” certificates may be used by the members who are holders of “A” and “B” shares in order to pay, either completely or partially, the subscription of new shares of the unsubscribed authorized capital stock made available by the Bank.

Series “E” certificates not used to subscribe for new shares of stock will become part of the Bank’s general reserve.

(17) Contingent Commitments

As of June 30, 2012 and December 31, 2011, balances of contingent commitments are as follows:

	June 30, 2012	December 31, 2011
Subscribed credit agreements (*)	1,930,350	1,516,362
Credit default swaps	25,000	50,000
Endorsements and guarantees granted	11,838	12,770
Letters of credit	40,071	53,797
	2,007,259	1,632,929

(*) Includes approved and deeded agreements

Credit agreements represent commitments to grant loans to customers at a future date. Such agreements are recorded as commitments until the date of disbursement. These agreements have fixed expiration dates and, in some cases, expire without any disbursements having been made. Therefore, the total committed amount does not necessarily represent future cash requirements.

Credit default swaps represent a contingent commitment assumed by the Bank with a client, for payments to be honored by a third party, with respect to credit compliance of a specific underlying. These derivatives have been included as part of derivative financial instruments and they are carried at their fair value. Fair value for such derivative instruments amounted to 123 and 140 as of June 30, 2012 and December 31, 2011, respectively. In addition, as of such dates, no material losses have been incurred, and neither are they expected to occur.

Endorsements and guarantees granted are contingent commitments assumed by the Bank to guarantee compliance by its customers with commitments to a third party. The credit risk implied in these commitments is essentially the same as that implied in granting loan facilities to clients. The Bank’s management has analyzed each commitment assumed on a case-by-case basis, based on current information and events. As of June 30, 2012 and December 31, 2011, no significant losses have arisen, or were expected to arise, from these commitments.

(Expressed in thousands of U.S. dollars)

(17) Contingent Commitments, continued

Letters of credit represent contingent commitments assumed by the Bank; in the event of nonpayment to exporters by importers (CABEI customers), the Bank assumes the payment commitment.

At June 30, 2012 and December 31, 2011, the maturities of the credit default swaps, endorsements and guarantees granted, and letters of credit are as follows:

	June 30, 2012		
Maturity	Credit default swaps	Endorsements and Guarantees granted	Letters of credit
2012	0	752	4,071
2013	25,000	376	17,942
2014	0	0	18,058
2016	0	10,710	0
	25,000	11,838	40,071

	December 31, 2011		
Maturity	Credit default swaps	Endorsements and Guarantees granted	Letters of credit
2012	25,000	1,684	19,955
2013	25,000	376	15,784
2014	0	0	18,058
2016	0	10,710	0
	50,000	12,770	53,797

(18) Derivative Financial Instruments and Hedging Activities

The Bank's primary objective in using derivative instruments is to reduce its risk exposure to changes in interest rates, foreign exchange rates and credit risks. The Bank does not use derivative instruments for trading or speculative purposes.

By using derivative financial instruments to hedge exposures to changes in interest rates and foreign exchange rates, the Bank exposes itself to credit and market risks.

Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative instrument is positive, the counterparty owes the Bank, which creates credit risk for the Bank. When the fair value of a derivative instrument is negative, the Bank owes the counterparty and, therefore, it does not have a related credit risk.

(Expressed in thousands of U.S. dollars)

(18) Derivative Financial Instruments and Hedging Activities, continued

The Bank minimizes the credit risk in derivative instruments by entering into transactions with high-quality counterparties whose credit rating is "A" (or its equivalent) or better.

Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates or foreign exchange rates.

The Bank enters into derivative instruments based on its expectations that they will vary in a manner such that they will compensate the change in the value of the instrument to be hedged.

The following table presents the notional amount and the fair value of derivative instruments as of June 30, 2012 and December 31, 2011:

	June 30, 2012			
	Assets		Liabilities	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Fair value hedges				
Interest rate agreements	276,578	15,493	139,980	27,284
Cash flow hedges				
Foreign currency agreements	66,901	6,990	66,901	1,085
	343,479	22,483	206,881	28,369
Other risk management purposes				
Foreign currency agreements	950,595	148,192	607,614	79,063
Credit default swaps	25,000[2]	123	90,000[2]	965
Interest rate agreements	165,952	33,498	98,692	23,166
	1,141,547	181,813	796,306	103,194
	1,485,026	204,296	1,003,187	131,563

[2] As of June 30, 2012, out of all credit default swaps, 90,000 are swaps on behalf of the Bank and 25,000 are swaps that represent commitments of the Bank. These swaps had a net fair value effect of 842.

(Expressed in thousands of U.S. dollars)

(18) Derivative Financial Instruments and Hedging Activities, continued

	December 31, 2011			
	Assets		Liabilities	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Fair value hedges				
Interest rate agreements	456,480	21,182	148,126	27,603
Cash flow hedges				
Foreign currency agreements	69,399	8,232	66,151	1,271
	525,879	29,414	214,277	28,874
Other risk management purposes				
Foreign currency agreements	816,257	131,280	703,246	111,432
Credit default swaps	25,000[3]	317	115,000[3]	2,314
Interest rate agreements	165,952	70,599	107,141	63,666
	1,007,209	202,196	925,387	177,412
	1,533,088	231,610	1,139,664	206,286

Income (loss) from derivative instruments used as hedges under ASC 815 has been recorded together with the income (loss) of the respective hedged financial instruments. The following chart shows such income (loss) and the other comprehensive income (loss) for the six-month periods ended June 30, 2012 and 2011:

	2012			
	Income (loss) for the period			
	Derivative instrument	Hedged financial instrument	Total	Other comprehensive income / (loss)
Fair value hedges				
Interest rate agreements	(3,766)	3,766	0	0
Cash flow hedges				
Foreign currency agreements	(1,057)	264	(793)	(155)
			(793)	(155)

[3] As of December 31, 2011, out of all credit default swaps, 90,000 are swaps on behalf of the Bank and 50,000 are swaps that represent commitments of the Bank. These swaps had a net fair value effect of 1,997.

(Expressed in thousands of U.S. dollars)

(18) Derivative Financial Instruments and Hedging Activities, continued

	2011			
	Income (loss) for the period			
	Derivative instrument	Hedged financial instrument	Total	Other comprehensive income / (loss)
Fair value hedges				
Interest rate agreements	(5,074)	5,074	0	0
Cash flow hedges				
Foreign currency agreements	(8,490)	6,190	(2,300)	2,025
			(2,300)	2,025

The gains (losses) recognized in the statement of income are presented as valuation of swap transactions and other financial instruments. That gain (loss) corresponds to the ineffective portion of the change in the fair value of the derivative instrument designated for hedging.

(Expressed in thousands of U.S. dollars)

(19) Funds and Programs managed by CABEI

In its role as a multilateral financial institution and promoter of both the economic integration and balanced economic and social development of the founding members, the Bank manages the funds or programs described below:

	Equity	
Fund/Program	**June 30, 2012 (Unaudited)**	**December 31, 2011 (Audited)**
Special Fund for the Social Transformation of Central America – FETS	60,433	62,506
Debt-Conversion Fund (Honduras-Spain)	37,612	41,089
Technical Cooperation Fund – FONTEC	21,491	19,878
Investment Trust – Dwelling Mortgage Fund	16,312	15,854
Accelerating Fund investments in Renewable Energy in Central America (ARECA)	5,277	5,268
Program for Development of the Border Areas in Central America (former FOEXCA)	4,033	4,033
Regional Project Fund of Central American Markets for the Biodiversity-(CAMBio)	2,458	3,533
Special Technical Cooperation Fund of Austria	1,383	1,381
Partial credit guarantees - Finland Resources	1,268	1,316
Single Italian Cooperation Fund (FUIC)	1,065	1,106
Taiwan International Cooperation and Development Fund (ICDF) - Fund for Consulting Service	1,007	1,005
Trust for Administration, Attention, Rehabilitation, Training, and Prevention of Burnt Children	465	479
Taiwan ICDF - Technical Assistance Fund, Credit Program for Education	181	181
Spanish Consulting Fund	104	173
Trust for Management of funds donated by the Republic of China, Taiwan to the Ministry of Housing of Costa Rica	54	54
Administration Trust for the execution of the Energy Efficiency Program in the industrial and commercial areas in Honduras (PESIC)	0	410
	153,143	158,266

(20) Social Benefit Fund (SBF)

The SBF operates in accordance with the regulations issued by CABEI's Board of Directors. Its objective is to provide the Bank's personnel with benefits for retirement and disability pensions, voluntary retirement, compensation based on years of service, life insurance in the event of disability and death, and hospital medical benefits. The SBF is financed by contributions from beneficiaries and the Bank in accordance with the provisions of the Plan. Retirement plan, pension plan and life insurance are considered as a defined benefit plan, whereas hospital-related medical benefit plan is considered a defined contribution plan.

(Expressed in thousands of U.S. dollars)

(20) Social Benefit Fund (SBF), continued

All the contributions made by the Bank and all assets and income of the SBF are property of the Bank; according to the SBF's bylaws, they are not segregated from the Bank's assets and liabilities even though they are to be used solely to pay benefits. Nevertheless, since the SBF's assets are not adequately restricted, they may not be recorded as off-balance sheet items. However, for practical purposes its assets are not consolidated on CABEI's balance sheet because the assets of the SBF, represented by certificates of deposit issued by the Bank, would be offset against the Bank's liability in the same amount, which in turn, is not significantly different from the projected benefit obligation.

On April 29, 2009, CABEI's Board of Governors decided to amend its Constitutive Agreement (see effective date in note 16 and subsequent event in note 24) to ratify that the Bank will have a Social Benefit Fund as an independent equity separate from the Bank's general equity. The SBF is created with the exclusive purpose of granting to the Bank's personnel the benefits set forth in the charter and supplementary regulations currently existing or to be issued to such effect by the Bank. The SBF's assets will be held and managed separately from the other assets of the Bank, as a pension fund, and will be exclusively used to pay the benefits and expenses under the various benefit plans granted by the SBF.

As of June 30, 2012 and December 31, 2011, as stated in note 13, the Bank recorded a liability due to the SBF under certificates of deposit for a total amount of 138,824 and 139,363, respectively, mainly representing the projected benefit obligation. These funds were placed in certificates issued by the SBF bearing 7% per annum. Interest expense on certificates of deposit amounted to approximately 4,875 and 4,853 during the six-month periods ended June 30, 2012 and 2011, respectively.

(21) Accumulated Other Comprehensive Income

Accumulated other comprehensive income at June 30, 2012 and 2011, is as follows:

	June 30, 2012		
	Securities available for sale	**Cash flow hedging activities**	**Accumulated other comprehensive income (loss)**
At beginning of period	(3,010)	(1,001)	(4,011)
Changes for the period	6,898	(155)	6,743
At end of period	3,888	(1,156)	2,732

(Expressed in thousands of U.S. dollars)

(21) Accumulated Other Comprehensive Income, continued

	June 30, 2011		
	Securities available for sale	Cash flow hedging activities	Accumulated other comprehensive income (loss)
At beginning of period	2,208	(2,550)	(342)
Changes for the period	556	2,025	2,581
At end of period	2,764	(525)	2,239

(22) Litigation

The Bank is involved in claims and legal actions derived from its normal course of business. According to the Bank's management's best knowledge, the final outcome of those events will not originate an adverse material effect on its financial position, results of operations or liquidity.

(23) Related Party Transactions

The Bank, in its normal course of business, enters into transactions with related parties, including principal officers and directors. In addition to the loans granted to the public sector as described in note 7, the following table sets forth balances and transactions with related parties as of June 30, 2012 and 2011 and for the six-month periods then ended:

	2012	2011
Assets		
Loans	14,986	15,580
Accrued interest receivable	4	11
Liabilities		
Certificates of deposit	3,089	3,079
Accrued interest payable	0	0
Results of operations		
Interest income and other income	207	235
Interest expense and other operating expenses	64	64

(24) Subsequent Events

The Bank has evaluated subsequent events as of the date of the balance sheet up to October 11, 2012, date on which the financial statements were ready for their issuance, and determined that there were additional disclosures required on the following matters:

Amendments to the Bank's Constitutive Agreement

On September 15, 2012, some amendments to the Bank's Constitutive Agreement came into effect; these include modifications to the Bank's capital structure which increased the Bank's authorized capital from 2,000,000 to 5,000,000. As of this date, the founding members have confirmed their subscription to the capital increase, while the other members have begun the process of confirmation of their subscription and it is expected to be complete during the current year.

Amendments to the Social Benefit Plan of the Social Benefit Fund (SBF)

During 2012, the amendments to the Bank's Constitutive Agreement establish the existence of the SBF with the purpose of providing the Bank's personnel with benefits established in the SBF's Charter and in complementary regulations issued by the Bank. Furthermore, the Fund's equity is held and managed separately from the other assets of the Bank, as a pension fund. On August 29, 2012, through Resolution DI-93/2012, the Bank's Board of Directors approved the proposed Asset Allocation Portfolio for Investments by SBF's Social Benefit Plan and authorized a special contribution to SBF as a compensation mechanism or complement to the yield generated by the Social Benefit Plan's investment portfolio in order to reach the established technical interest rate.