CABEI

CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

Financial Statements

December 31, 2012 and 2011

(With Independent Auditors' Report Thereon)

Table of Contents

CABEI

MANAGEMENT'S REPORT REGARDING THE EFFECTIVENESS OF INTERNAL CONTROL OVER FINANCIAL REPORTING

February 28, 2013

The Management of the Central American Bank for Economic Integration (the Bank) is responsible for establishing and maintaining effective internal control over financial reporting. Management has evaluated the Bank's internal control over financial reporting using the criteria for effective internal control established in the Internal Control-Integrated Framework used by the Committee of Sponsoring Organizations of the Treadway Commission (COSO criteria).

Management has assessed the effectiveness of the Bank's internal control over financial reporting as of December 31, 2012, defining internal control as a process designed by, or under the supervision of, the Bank's principal executive and principal financial officers, or persons performing similar functions, and effected by the Bank's Management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the United States of America. An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, at reasonably detailed level, accurately and fairly reflect the transactions and dispositions of the assets of the entity, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles in the United States of America, and that receipts and expenditures of the entity are being made only in accordance with the authorization of management and directors of the entity and (3) provide reasonable assurance regarding prevention or timely detection and correction of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements. Based on this assessment, Management believes that the Bank's internal control over financial reporting is effective as of December 31, 2012.

There are inherent limitations in the effectiveness of any internal control system, including the possibility of human error and the circumvention or overriding of established controls. Accordingly, even an effective internal control can provide only reasonable assurance with respect to financial statement preparation. Furthermore, because of changes in conditions, the effectiveness of internal control may vary over time.

The Bank's financial statements as of December 31, 2012 have been audited by KPMG in Panama, an independent registered public accounting firm. In addition, KPMG in Panama has issued an independent and favorable opinion on the Bank's internal control over financial reporting.

Dr. Nick Rischbieth
Executive President

Hernan Danery Alvarado
Chief Financial Officer

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INDEPENDENT AUDITORS' REPORT

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

We have audited the effectiveness of Central American Bank for Economic Integration's internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Central American Bank for Economic Integration's management is responsible for maintaining effective internal control over financial reporting, and for its assertion of the effectiveness of internal control over financial reporting, included in the accompanying Management´s Report Regarding The Effectiveness of Internal Control over Financial Reporting. Our responsibility is to express an opinion on Central American Bank for Economic Integration's internal control over financial reporting based on our audit.

We conducted our audit in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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

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

In our opinion, Central American Bank for Economic Integration maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with auditing standards generally accepted in the United States of America, the balance sheets of Central American Bank for Economic Integration as of December 31, 2012 and 2011, and the related statements of income, comprehensive income, changes in equity and cash flows for the years then ended and our report dated February 28, 2013 expressed an unqualified opinion on those financial statements.

KPMG

February 28, 2013
Panama, Republic of Panama

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying balance sheets of Central American Bank for Economic Integration (the "Bank") as of December 31, 2012 and 2011, and the related statements of income, comprehensive income, changes in equity and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Central American Bank for Economic Integration as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Other matters

We also have audited in accordance with attestation standards established by the American Institute of Certified Public Accountants, the Bank's internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated February 28, 2013, expressed an unqualified opinion on the effectiveness of the Bank's internal control over financial reporting.

KPMG

February 28, 2013
Panama, Republic of Panama

CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

Balance Sheets

As of December 31, 2012 and 2011

(Expressed in thousands of U.S. dollars)

	2012	2011
Assets		
Cash and due from banks (note 4)	36,800	22,717
Interest-bearing deposits with banks (note 5)	711,211	639,120
Securities available for sale (note 6)	1,024,986	907,748
Loans	5,483,783	5,165,599
Less: Allowance for loan losses	(168,351)	(178,291)
Net loans (note 7)	5,315,432	4,987,308
Accrued interest receivable (note 8)	58,439	55,539
Property and equipment, net (note 9)	35,230	33,494
Derivative financial instruments (note 19)	259,846	231,610
Equity investments (note 10)	42,048	39,546
Other assets (note 11)	21,721	35,729
Total assets	7,505,713	6,952,811
Liabilities		
Loans payable (103,142 in 2012 and 80,919 in 2011, measured at fair value) (note 12)	1,441,399	1,309,855
Bonds payable (1,629,083 in 2012 and 1,419,460 in 2011, measured at fair value) (note 13.a)	2,940,292	2,572,201
Commercial paper programs (note 13.b)	384,868	285,707
Certificates of deposit (note 14)	351,218	489,502
Certificates of investment	1,117	1,474
Accrued interest payable (note 15)	30,468	28,288
Derivative financial instruments (note 19)	178,399	206,286
Other liabilities (note 16)	36,289	31,247
Total liabilities	5,364,050	4,924,560
Equity		
Paid-in capital (note 17.a)	486,975	450,725
Special capital contributions (note 17.a)	7,250	7,250
Retained earnings	102,982	103,130
General reserve	1,543,037	1,471,157
Accumulated other comprehensive income (note 22)	1,419	(4,011)
Total equity	2,141,663	2,028,251
Total liabilities and equity	7,505,713	6,952,811

See accompanying notes to financial statements.

CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

Statements of Income

Years ended December 31, 2012 and 2011

(Expressed in thousands of U.S. dollars)

	December 31 2012	December 31 2011
Financial income		
Public sector loans	228,155	212,171
Private sector loans	69,408	55,676
Marketable securities	7,922	8,088
Due from banks	1,416	1,639
Realized gains on investment funds	12,142	4,463
Total financial income	319,043	282,037
Financial expenses		
Loans payable	39,914	42,449
Bonds payable	85,779	72,831
Commercial paper programs	3,775	5,443
Certificates of deposit and investment	13,222	15,373
Total financial expenses	142,690	136,096
Net financial income	176,353	145,941
Provision for loan losses (note 7)	743	14,989
Net financial income, after provision for loan losses	175,610	130,952
Other operating income (expenses)		
Management and other service fees	1,562	2,548
Supervision and audit fees	314	298
Dividends from equity investments	1,675	171
Gain on securities available for sale	18	332
(Loss) income on equity investments	(2,832)	2,649
Loss on foreclosed and other assets	(12,117)	(68)
Foreign exchange loss, net	(1,393)	(260)
Other operating income (loss)	308	(554)
Total other operating (expenses) income, net	(12,465)	5,116
Administrative expenses		
Salaries and employee benefits	24,330	21,921
Other administrative expenses	11,714	10,663
Depreciation	3,250	2,988
Other	1,411	354
Total administrative expenses	40,705	35,926
Income, before special contributions and valuation of derivative financial instruments	122,440	100,142
Special contributions and other (note 23)	17,063	3,667
Income, before valuation of derivative financial instruments	105,377	96,475
Valuation of derivative financial instruments	(2,395)	6,655
Net income	102,982	103,130

See accompanying notes to financial statements.

CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

Statements of Comprehensive Income

Years ended December 31, 2012 and 2011

(Expressed in thousands of U.S. dollars)

	December 31	
	2012	**2011**
Net income	102,982	103,130
Other comprehensive income (loss):		
Unrealized gain (loss) on securities available for sale, net	18,784	(423)
Reclassification adjustments for net realized gains included in earnings	(12,160)	(4,795)
Subtotal - securities available for sale	6,624	(5,218)
Unrealized gain (loss) from cash flow hedging derivatives	245	1,704
Reclassification adjustments for net realized losses (gains) included in earnings	359	(155)
Subtotal - cash flow hedging derivatives	604	1,549
Changes in Plan assets and benefit obligations under the Social Benefit Plan (note 21)	(1,798)	0
Other comprehensive income (loss)	5,430	(3,669)
Comprehensive income	108,412	99,461

See accompanying notes to financial statements.

CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

Statements of Changes in Equity

Years ended December 31, 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	103,130	0	0	103,130
Net unrealized change in:						
Securities available for sale	0	0	0	0	(5,218)	(5,218)
Cash flow hedging derivatives	0	0	0	0	1,549	1,549
Comprehensive income (loss)	0	0	103,130	0	(3,669)	99,461
Transfer to general reserve	0	0	(114,403)	114,403	0	0
Balance as of December 31, 2011	450,725	7,250	103,130	1,471,157	(4,011)	2,028,251
Net income	0	0	102,982	0	0	102,982
Net unrealized change in:						
Securities available for sale	0	0	0	0	6,624	6,624
Cash flow hedging derivatives	0	0	0	0	604	604
Plan assets and benefit obligations under the Social Benefit Plan (note 21)	0	0	0	0	(1,798)	(1,798)
Comprehensive income	0	0	102,982	0	5,430	108,412
Capital contributions, in cash	5,000	0	0	0	0	5,000
Capital payments through series "E" certificates (note 17.a)	31,250	0	0	(31,250)	0	0
Transfer to general reserve	0	0	(103,130)	103,130	0	0
Balance as of December 31, 2012	486,975	7,250	102,982	1,543,037	1,419	2,141,663

See accompanying notes to financial statements.

CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

Statements of Cash Flows

Years ended December 31, 2012 and 2011

(Expressed in thousands of U.S. dollars)

	December 31	
	2012	2011
Cash flows from operating activities		
Net income	102,982	103,130
Items to reconcile net income to net cash provided by operating activities:		
Depreciation	3,250	2,988
Provision for loan losses	743	14,989
Loss (income) on equity investments	2,832	(2,649)
Loss on foreclosed and other assets	12,117	68
Foreign exchange losses, net	1,393	260
Valuation of derivative financial instruments	2,395	(6,655)
(Increase) decrease in accrued interest receivable	(2,899)	2,743
Increase (decrease) in accrued interest payable	2,182	(4,167)
Net increase in other liabilities	3,845	1,658
Net cash provided by operating activities	128,840	112,365
Cash flows from investing activities		
Net (increase) decrease in interest-bearing deposits with banks	(72,067)	160,216
Purchase of securities available for sale	(1,109,439)	(749,857)
Proceeds from sales and redemptions of securities available for sale	997,928	503,509
Purchase of property and equipment	(4,987)	(8,998)
Net decrease in derivative financial instruments	29,740	4,898
Disbursements of loans receivable	(1,432,573)	(1,365,569)
Collections of loans receivable	1,101,296	985,427
Equity investments, net of capital returns	(5,334)	(11,093)
Net decrease in other assets	1,673	2,800
Net cash used in investing activities	(493,763)	(478,667)
Cash flows from financing activities		
Capital contributions	5,000	0
Proceeds from loans payable	572,135	422,970
Repayment of loans	(439,473)	(311,242)
Net increase in commercial paper programs	99,161	84,012
Proceeds from issuance of bonds	619,001	492,564
Repayment of bonds	(337,148)	(420,332)
Net (decrease) increase in certificates of deposit	(138,284)	91,084
Net decrease in certificates of investment	(357)	(19)
Net cash provided by financing activities	380,035	359,037
Effect of exchange rate fluctuations on cash held	(1,029)	65
Cash and due from banks at beginning of year	22,717	29,917
Cash and due from banks at end of year	36,800	22,717
Net decrease (increase) in cash and cash equivalents	14,083	(7,200)
Supplemental information		
Cash paid for interest during the year	140,508	139,506
Net unrealized changes in securities available for sale	6,624	(5,218)
Net unrealized changes in cash flow hedging derivatives	604	1,549
Changes in Plan assets and benefit obligations under the Social Benefit Plan (note 21)	(1,798)	0
Assets acquired in satisfaction of loans	0	27,917

See accompanying notes to financial statements.

(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), by the Special Fund for the Social Transformation of Central America (Fondo Especial para la Transformación Social en Centroamérica – FETS) and by the Social Benefit Fund (SBF). 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 notes 20 and 21.

Furthermore, as detailed in note 20, the Bank manages third-party cooperation funds, destined to finance programs agreed with each organization, which are in line with the Bank's policies and strategies.

(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).

A summary of significant accounting policies is as follows:

(a) *Comparative statements*

The financial statements as of and for the year ended December 31, 2012 are presented together with those corresponding to the year ended December 31, 2011, for comparison purposes.

(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).

(2) Summary of Significant Accounting Policies, continued

(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 measurements

For fair value measurements, the Bank uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible.

When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, and for other required disclosures, 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.

When considering the assumptions from market participants in fair value measurements, the hierarchy distinguishes between observable and unobservable assumptions, which are categorized in one of the following levels:

- 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.
- 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.

As stated in note 3, the Bank has the option of electing the fair value measurement of certain assets and liabilities which do not require such measurement.

(2) Summary of Significant Accounting Policies, continued

In May 2011, the FASB issued Accounting Standards Update (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. The adoption of ASU 2011-04 had no significant effects on the Bank's financial statements.

(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.

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.

(2) Summary of Significant Accounting Policies, continued

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 years ended December 31, 2012 and 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.

(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 countries 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 countries.

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.

(2) Summary of Significant Accounting Policies, continued

- 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 exposure. 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.

- 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

(2) Summary of Significant Accounting Policies, continued

(g) Loans and allowance for loan losses

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

The 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. It defines 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.

On December 14, 2011, the Board of Directors approved the new internal policy for the Allowance for 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.

(2) Summary of Significant Accounting Policies, continued

As of December 31, 2012 and 2011, under Accounting Standards Codification (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 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.

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 in loss if such deficiency is not corrected.

(2) Summary of Significant Accounting Policies, continued

When it is determined that a loan is impaired, it is measured for impairment under ASC 310-10-35, including the collateral's fair value, if applicable.

- 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, not probable and questionable. This level includes loans measured individually for impairment under ASC 310-10-35, including the collateral's fair value, if applicable.
- 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.

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.

(2) Summary of Significant Accounting Policies, continued

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 professionals or 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.

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.

(2) Summary of Significant Accounting Policies, continued

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.

(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.

With respect to troubled debt restructurings, 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 non-accrual loans for which the original conditions have been modified, are recorded on a cash basis until the debtor demonstrates for a reasonable period of time, its ability to repay the loan according to the contractual terms of the loan.

(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) Derivative financial 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, how the hedging instrument's effectiveness in offsetting the hedged risk will be assessed prospectively and retrospectively, 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 valuation of derivative financial instruments in the statement of income.

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.

(2) Summary of Significant Accounting Policies, continued

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.

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”*.

(2) Summary of Significant Accounting Policies, continued

Changes to the fair values of these derivatives are recorded as valuation of derivative financial instruments 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.

(k) 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.

(l) Foreclosed assets in satisfaction of loans

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).

(m) Social Benefit Plan

The funded status of the Bank's Social Benefit Plan (the Plan) is recognized on the balance sheet. The funded status is measured as the difference between the fair value of Plan assets and the projected benefit obligation. Overfunded benefit plans, with the fair value of Plan assets exceeding the projected benefit obligation, are aggregated and recorded as assets under the Social Benefit Plan while under-funded benefit plans, with the projected benefit obligation exceeding the fair value of Plan assets, are aggregated and recorded as liabilities under the Social Benefit Plan. Actuarial gains and losses are recognized as a component of other accumulated comprehensive income (loss), as a separate component of equity. The Bank recognizes the projected benefit obligation considering future service cost based on an actuarial study performed annually by an independent actuary.

(n) 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.

(2) Summary of Significant Accounting Policies, continued

(o) 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.

(p) 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.

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.

(q) 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

(r) 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.

(s) 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

(t) 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.

(u) Reclassifications

When necessary, certain reclassifications of prior year figures have been made to conform with current year presentation. Since December 31, 2012, the valuation of derivative financial instruments, which is a part of the statement of income, is presented before net income.

(3) Fair Values and Fair Value Option

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 the availability of 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.

(i) Valuation techniques applied

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 receivable and payable and bonds payable issued at floating interest rates and accrued interest receivable and payable.

(3) Fair Values and Fair Value Option, continued

For assets and liabilities recognized, in a recurring or non-recurring basis (including those for which the fair value option has been elected), or disclosed at fair value, the Bank uses the following valuation techniques:

- 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.

- 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 (see note 10). Currently, it is impracticable to determine the fair value of these investments without incurring in excessive cost.

- 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 19).

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

  The fair values for loans payable are estimated on the basis of an analysis of discounted cash flows, using the CIRR as a reference.

  The fair values for bonds payable are estimated on the basis of an analysis of discounted cash flows, based on the 10 year swap rate reported by Bloomberg.

(Expressed in thousands of U.S. dollars)

(3) Fair Values and Fair Value Option, continued

- Commercial paper programs and certificates of deposit: 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.

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

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 December 31, 2012 and 2011:

	December 31, 2012			
Assets	**Fair value**	**Valuation technique**	**Unobservable assumptions**	**Range**
Securities available for sale:				
Corporate	889	Discounted cash flows	Basis points (bp) spread	50 bp
Corporate	20,213	Discounted cash flows	Credit Default Swaps (CDS)	180 bp (6 months) and 190 bp (1 year).
	21,102			

	December 31, 2011			
Assets	**Fair value**	**Valuation technique**	**Unobservable assumptions**	**Range**
Securities available for sale:				
Corporate	1,072	Discounted cash flows	Basis points (bp) spread	50 bp
Corporate	9,771	Discounted cash flows	Credit Default Swaps (CDS)	108 bp (6 months) and 133 bp (1 year)
Corporate	19,594	Discounted cash flows	Credit Default Swaps (CDS)	245 bp (6 months) and 344 bp (1 year)
	30,437			

(Expressed in thousands of U.S. dollars)

(3) Fair Values and Fair Value Option, continued

(ii) Recurring Fair Value Measurements

The following tables present the assets and liabilities valued at their fair value on a recurring basis as of December 31, 2012 and 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 as of December 31, 2012**
Assets				
Securities available for sale	75,046	928,838	21,102	1,024,986
Derivative financial instruments	0	259,846	0	259,846
Liabilities				
Loans payable	0	103,142	0	103,142
Bonds payable	0	1,629,083	0	1,629,083
Derivative financial instruments	0	178,399	0	178,399

	Quoted prices in active markets for identical assets (Level 1)	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Balance as of 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

(iii) Changes in Fair Value Level 3 Category

The following tables present a roll-forward for the years ended December 31, 2012 and 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 in 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.

(Expressed in thousands of U.S. dollars)

(3) Fair Values and Fair Value Option, continued

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

		Gains (losses) during the year ended December 31, 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 as of December 31, 2012
Assets						
Securities available for sale	30,437	0	665	(10,000)	0	21,102

		Gains (losses) during the year ended December 31, 2011				
	Balance at January 1, 2011	Included in net income	Included in other comprehensive income (loss)	Purchases, (sales), issuances or (settlements)	Transfers in and or out of Level 3	Balance as of 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 derivatives financial instruments.

(iv) Transfers between Fair Value Level 1 and Level 2 Categories

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 and 2.

(Expressed in thousands of U.S. dollars)

(3) Fair Values and Fair Value Option, continued

(v) 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 collateral, when applicable. The fair values of foreclosed assets are estimated using the collateral value of the impaired loan or the foreclosed asset, as appropriate.

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

Level 3	December 31, 2012	December 31, 2011
Loans	83,521	55,346
Foreclosed assets	18,652	31,466
	102,173	86,812

The increase (decrease) in fair value of assets recognized during the years ended December 31, 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	December 31, 2012	December 31, 2011
Loans	(1,054)	(21,218)
Foreclosed assets	(12,117)	(68)
	(13,171)	(21,286)

(vi) Fair value option

Guideline of ASC 825-10-25 refers to *"Fair Value Option"* which allows the option to elect measuring at fair value certain financial assets and liabilities that do not require such measurement. Once the option has been elected 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 or interest rate fluctuations.

(Expressed in thousands of U.S. dollars)

(3) Fair Values and Fair Value Option, continued

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 regularly reviews its credit risk spread, in every market where it operates.

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 (i) of this note, as of December 31, 2012 and 2011 are as follows:

	December 31, 2012	
	Valuation of derivative financial instruments	Total
Loans payable	(4,897)	(4,897)
Bonds payable	(2,455)	(2,455)

	December 31, 2011	
	Valuation of derivative financial instruments	Total
Loans payable	1,669	1,669
Bonds payable	368	368

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.

(Expressed in thousands of U.S. dollars)

(3) Fair Values and Fair Value Option, continued

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 as of December 31, 2012 and 2011 is as follows:

	December 31, 2012		
	Fair value	Unpaid principal balances	Excess (deficit)
Loans payable	103,142	109,246	(6,104)
Bonds payable	1,629,083	1,514,783	114,300

	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

(vii) 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.

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

	December 31, 2012		December 31, 2011	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Cash and due from banks	36,800	36,800	22,717	22,717
Interest-bearing deposits with banks	711,211	711,211	639,120	639,120
Securities available for sale	1,024,986	1,024,986	907,748	907,748
Loans, net	5,315,432	5,494,218	4,987,308	5,153,096
Accrued interest receivable	58,439	58,439	55,539	55,539
Derivative financial instruments	259,846	259,846	231,610	231,610
Liabilities				
Loans payable	1,441,399	1,479,079	1,309,855	1,349,469
Bonds payable	2,940,292	3,044,582	2,572,201	2,724,848
Commercial paper programs	384,868	385,361	285,707	284,960
Certificates of deposit	351,218	351,706	489,502	495,395
Certificates of investment	1,117	1,117	1,474	1,474
Accrued interest payable	30,468	30,468	28,288	28,288
Derivative financial instruments	178,399	178,399	206,286	206,286

As of December 31, 2012 and 2011, loans payable include 1,338,257 and 1,228,936, respectively, which are recognized at amortized cost, whose fair value has been estimated at 1,375,937 and 1,268,500, respectively. Likewise, as of the aforementioned dates, bonds payable include 1,311,209 and 1,152,741, respectively, which are recognized at amortized cost, whose fair value has been estimated at 1,415,499 and 1,305,388, respectively.

(Expressed in thousands of U.S. dollars)

(4) Cash and Due from Banks

As of December 31, 2012 and 2011, cash and due from banks is composed by currency as follows:

	December 31, 2012	December 31, 2011
Currencies of the founding countries	4,951	2,318
US dollar	30,130	19,806
Other currencies	1,719	593
	36,800	22,717

(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 December 31, 2012 and 2011, their carrying amounts are set in currencies other than those of the founding countries.

(6) Securities Available for Sale

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

	December 31, 2012				
Securities available for sale [1]	Amortized cost	Unrealized gross losses	Unrealized gross gains	Effect of hedging transactions	Estimated fair value
Sovereign	236,177	(110)	573	12,875	249,515
Supranational	53,451	0	158	0	53,609
Corporate	593,577	(3,800)	1,245	133	591,155
Investment funds	125,159	0	5,548	0	130,707
	1,008,364	(3,910)	7,524	13,008	1,024,986

	December 31, 2011				
Securities available for sale [1]	Amortized cost	Unrealized gross losses	Unrealized gross gains	Effect of hedging transactions	Estimated fair value
Sovereign	184,269	(2,473)	276	14,240	196,312
Supranational	88,864	(770)	96	0	88,190
Corporate	510,774	(6,811)	853	(336)	504,480
Investment funds	112,947	0	5,819	0	118,766
	896,854	(10,054)	7,044	13,904	907,748

[1] The entirety of securities available for sale as of December 31, 2012 and 2011 is denominated in US dollars.

(Expressed in thousands of U.S. dollars)

(6) Securities Available for Sale, continued

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 years ended December 31, 2012 and 2011, the realized gross gain was 12,160 and 4,795, respectively. There was no realized gross loss during the years ended December 31, 2012 and 2011.

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

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

	December 31, 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	165,222	(3,230)	63,002	(680)	(3,910)

	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)

As of December 31, 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. 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, as of December 31, 2012, 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.

(Expressed in thousands of U.S. dollars)

(6) Securities Available for Sale, continued

The proceeds from sales and redemptions of securities available for sale during the years ended December 31, 2012 and 2011 were 997,928 and 503,509, respectively.

As of December 31, 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.

	Amortized cost
Due within one year	413,554
After one but within five years	563,901
After five but within ten years	0
After ten years	30,909
	1,008,364

(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 December 31, 2012 and 2011, is as follows:

	December 31, 2012			December 31, 2011		
	Public sector	Private sector	Total	Public sector	Private sector	Total
Guatemala	1,020,377	233,893	1,254,270	1,030,110	212,800	1,242,910
El Salvador	790,437	76,351	866,788	747,005	96,204	843,209
Honduras	784,004	276,016	1,060,020	632,266	299,474	931,740
Nicaragua	261,480	285,322	546,802	230,885	259,511	490,396
Costa Rica	1,110,621	422,704	1,533,325	1,087,607	440,318	1,527,925
Dominican Republic	194,418	0	194,418	102,345	0	102,345
Panama	0	27,701	27,701	0	26,574	26,574
Belize	459	0	459	500	0	500
Subtotal	4,161,796	1,321,987	5,483,783	3,830,718	1,334,881	5,165,599
Allowance for loan losses	(110,774)	(57,577)	(168,351)	(101,935)	(76,356)	(178,291)
Loans, net	4,051,022	1,264,410	5,315,432	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 December 31, 2012 and 2011, is as follows:

	December 31, 2012	December 31, 2011
Infrastructure / construction	1,577,463	1,475,825
Electricity, gas and water supply	1,391,628	1,278,223
Multi-sector	838,221	764,495
Monetary intermediation	806,810	818,417
Transportation, storage and communications	198,585	232,929
Social and health services	165,202	144,608
Real estate and rental activities	117,220	113,131
Manufacturing	94,285	75,429
Wholesale and retail trade	79,543	37,341
Agro-industry	76,714	88,143
Hotels and restaurants	74,768	62,531
Mining and quarrying	29,995	36,000
Education and training	27,178	29,557
Other social, community and personal services	6,012	6,980
Fisheries	159	1,990
	5,483,783	5,165,599

A detail of loans, by maturity, as of December 31, 2012, is as follows:

Past due	17,062
Up to one year	976,023
After one but within two years	725,980
After two but within three years	473,545
After three but within four years	409,956
After four but within five years	356,371
After five years	2,524,846
	5,483,783

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

	December 31, 2012	December 31, 2011
U.S. dollar	5,344,902	4,984,210
Currencies from Central American countries	132,221	173,186
Euro	6,660	7,260
Yen	0	943
	5,483,783	5,165,599

(Expressed in thousands of U.S. dollars)

(7) Loans, continued

For the years ended as of December 31, 2012 and 2011, the weighted average yield on loans, after considering swap contracts when applicable, was 5.57% and 5.49% per annum, respectively. Loans at fixed and floating rates are as follows:

	December 31, 2012	December 31, 2011
Loans at fixed rates	1,289,470	1,222,079
Loans at floating rates	4,194,313	3,943,520
	5,483,783	5,165,599

As of December 31, 2012 and 2011, in accordance with the Bank's policies, interest on non-accrual loans of 5,079 and 5,461, respectively, was not recorded as income because it had not been collected. As of December 31, 2012 and 2011, the principal of the loans that generated such interest corresponds to direct loans from the private sector and is as follows:

	December 31, 2012	December 31, 2011
Guatemala	6,504	0
El Salvador	2,553	2,553
Honduras	0	1,767
Costa Rica	48,102	25,623
	57,159	29,943

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

As of December 31, 2012 and 2011, there are no installments from loans from the public sector in arrears.

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

	December 31, 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	292	619	911
El Salvador	0	0	0	2,553	2,553
Costa Rica	1,128	723	0	11,747	13,598
	1,128	723	292	14,919	17,062

(Expressed in thousands of U.S. dollars)

(7) Loans, continued

	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

As of December 31, 2012, the balance of installments in arrears from intermediated loans to the private sector, included in the figures presented above, is 1,112. All other installments in arrears consist of direct loans to the private sector. As of December 31, 2011, there are no installments in arrears from intermediated loans to the private sector.

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

	December 31, 2012					
Impaired Loans	Recorded investment	Overdue principal balance	Related allowance	Average recorded investment	Accumulated interest on impaired loans	Interest income recognized
With an allowance for loan losses						
Guatemala	29,344	911	3,568	28,689	262	236
El Salvador	2,553	2,553	819	2,553	1,049	0
Costa Rica	79,531	12,471	23,520	94,140	4,125	3,207
	111,428	15,935	27,907	125,382	5,436	3,443
Impaired loans with accrual status	54,269	0	9,189	59,904	357	1,861
Impaired loans with non-accrual status	57,159	15,935	18,718	65,478	5,079	1,582

(Expressed in thousands of U.S. dollars)

(7) Loans, continued

December 31, 2011						
Impaired Loans	**Recorded Investment**	**Overdue principal balance**	**Related allowance**	**Average recorded investment**	**Accumulated interest on impaired loans**	**Interest income recognized**
With an allowance for loan losses						
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	0
Nicaragua	68	0	7	85	1	6
Costa Rica	120,138	25,727	44,396	121,489	5,193	4,070
	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

As of December 31, 2012 and 2011, 1,633 and 4,106, respectively, included within impaired loans with an allowance for loan losses, do not require an allowance since the fair value of their collateral is greater than the balance due.

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		Payment default on financial commitments.

(Expressed in thousands of U.S. dollars)

(7) Loans, continued

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

	December 31, 2012			
Public Sector	**BB+ / BB / BB-**	**B+ / B / B-**	**CC / C / D**	**Total**
Guatemala	1,020,377	0	0	1,020,377
El Salvador	790,437	0	0	790,437
Honduras	0	784,004	0	784,004
Nicaragua	0	261,480	0	261,480
Costa Rica	1,110,621	0	0	1,110,621
Dominican Republic	0	194,418	0	194,418
Belize	0	0	459	459
	2,921,435	1,239,902	459	4,161,796

	December 31, 2011		
Public Sector	**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 December 31, 2012 and 2011, the balance of intermediated loans from the public sector with a rating of BB+/BB/BB-, included in the figures presented above, is 502,181 and 454,811, respectively. As of December 31, 2012, the balance of intermediated loans from the public sector with a rating of B+/B/B-, included in the figures presented above, is 21,856. 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.

(Expressed in thousands of U.S. dollars)

(7) Loans, continued

The credit quality of private sector loans based on risk ratings described in note 2 (g), as of December 31, 2012 and 2011 is the following:

December 31, 2012						
Private Sector	**Normal**	**Special Mention**	**Substandard**	**Doubtful**	**Loss**	**Total**
Guatemala	157,296	47,260	26,225	3,112	0	233,893
El Salvador	64,057	6,080	3,661	0	2,553	76,351
Honduras	254,746	21,270	0	0	0	276,016
Nicaragua	271,265	10,285	3,772	0	0	285,322
Costa Rica	343,211	0	37,033	31,395	11,065	422,704
Panama	1,210	26,491	0	0	0	27,701
	1,091,785	111,386	70,691	34,507	13,618	1,321,987

December 31, 2011						
Private Sector	**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.

As of December 31, 2012, the balances of intermediated loans from the private sector with ratings of normal, special mention, and substandard are 718,799, 97,151 and 275, respectively. As of 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. All other loans consist of direct loans to the private sector.

(Expressed in thousands of U.S. dollars)

(7) Loans, continued

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

	Year ended December 31, 2012			Year ended December 31, 2011		
	Sector			Sector		
	Public	Private	Total	Public	Private	Total
Balance, beginning of year	101,935	76,356	178,291	96,892	103,385	200,277
Provisions	8,839	(8,096)	743	5,043	9,946	14,989
Recoveries	0	5,662	5,662	0	1,484	1,484
Loan write-offs	0	(16,345)	(16,345)	0	(38,459)	(38,459)
Balance, end of year	110,774	57,577	168,351	101,935	76,356	178,291

The following table presents the allowance and recorded investment, by portfolio segment, as of December 31, 2012 and 2011:

	December 31, 2012		
	Public Sector	Private Sector	Total
Loans Measured Individually			
Specific allowance	0	27,907	27,907
Recorded investment	0	111,428	111,428
Loans Measured Collectively			
Generic allowance	110,774	29,670	140,444
Recorded investment	4,161,796	1,183,729	5,345,525
Loans without an allowance			
Recorded investment	0	26,830	26,830
Total			
Allowance	110,774	57,577	168,351
Recorded investment	4,161,796	1,321,987	5,483,783

(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 as of December 31, 2012 and 2011 fully corresponds to direct loans from the private sector and is as follows:

	December 31, 2012	December 31, 2011
Balance of troubled-debt restructurings	22,840	20,554
Partial write-offs	0	7,939

As of December 31, 2012 and 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 December 31, 2012 and 2011 is detailed as follows:

	December 31, 2012	December 31, 2011
On loans	54,279	51,791
On securities available for sale	4,065	3,639
On interest-bearing deposits with banks	95	109
	58,439	55,539

(9) Property and Equipment, Net

Property and equipment as of December 31, 2012 and 2011 are detailed as follows:

	December 31, 2012	December 31, 2011
Vehicles	1,793	1,881
Buildings	31,391	32,016
Computer equipment and software	23,137	22,556
Installations	12,051	9,704
Office furniture and equipment	5,756	5,385
	74,128	71,542
Less accumulated depreciation	(42,586)	(40,638)
	31,542	30,904
Land	3,688	2,590
	35,230	33,494

(10) Equity Investments

Equity investments as of December 31, 2012 and 2011 which do not have a market value are as follows:

Name	Equity Participation	Financial Statements	Equity	December 31, 2012	December 31, 2011
Shares					
Corporación Interamericana para el Financiamiento de Infraestructura, S. A.	9.26%	09/30/2012	84,045	5,000	5,000
Proba L.P.	38.06%	06/30/2012	29	11	1,546
Darby - Pro-Banco Fund II, L. P.	33.33%	09/30/2012	7,545	2,962	4,303
Garantías y Servicios, Sociedad de Garantía, S. A. de C. V.	26.79%	11/30/2012	6,698	1,145	1,145
Banco Popular Covelo, S. A.	19.56%	12/31/2012	19,325	3,780	3,914
Eólico Valle Central, S. A.[2]	60.00%	09/30/2012	26,130	15,473	12,554
Other				112	155
				28,483	28,617

[2]Given that the Bank has no control over Eólico Valle Central, S.A., the investment in this entity is not subject to consolidation.

(Expressed in thousands of U.S. dollars)

(10) Equity Investments, continued

Name	Equity Participation	Financial Statements	Equity	December 31, 2012	December 31, 2011
Participations					
Central American Mezzanine Infrastructure Fund L.P. (CAMIF)[3]	38.24%	09/30/2012	34,347	9,853	7,112
AIG – GE Capital Latin American Infrastructure Fund, L. P.	1.48%	09/30/2011	4,082	60	61
Central American Renewable Energy and Cleaner Production Facility (CAREC)[3]	41.67%	09/30/2012	8,765	3,652	3,756
				13,565	10,929
				42,048	39,546

(11) Other Assets

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

	December 31, 2012	December 31, 2011
Foreclosed assets	18,652	31,466
Accounts receivable	2,715	1,990
Other	230	236
Supplies	124	147
Pre-investment studies receivable	0	50
Prepaid expenses	0	1,840
	21,721	35,729

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

	December 31, 2012	December 31, 2011
Guatemala	23,645	23,645
Honduras	7,180	8,193
Nicaragua	5,258	5,508
El Salvador	4,677	4,677
Costa Rica	370	370
	41,130	42,393
Fair value adjustment	(22,478)	(10,927)
	18,652	31,466

[3] CAMIF and CAREC are carried at amortized cost due to the fact that the Bank has no significant influence over these entities.

(Expressed in thousands of U.S. dollars)

(12) Loans Payable

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

	December 31, 2012	December 31, 2011
Banco Nacional de Comercio Exterior, S.N.C. (Bancomext)	199,024	149,726
Kreditanstalt Für Wiederaufbau (K.F.W.)	196,893	190,418
Bank of China (BoC)	100,840	138,022
Standard Chartered Bank	87,000	10,000
Citibank, N.A.	85,000	30,000
European Investment Bank	84,278	45,566
Promotion et Participation pour la Coopération (PROPARCO)	67,060	67,060
Nordic Investment Bank	55,881	58,786
JP Morgan Chase Bank	49,960	50,000
Royal Bank of Scotland P.L.C.	44,800	16,875
Japan Bank for International Cooperation	42,100	30,000
Inter-American Development Bank (IDB)	41,356	48,883
HSBC Finance Corporation	40,000	0
Mizuho Corporate Bank, Ltd.	36,483	99,906
Mercantil Commercebank, N.A.	30,000	5,000
Instituto de Crédito Oficial de España	29,290	23,555
HSBC Bank USA, N.A.	25,000	25,000
Commerzbank AG	24,950	0
The OPEC Fund for International Development	22,554	4,412
BNP Paribas Fortis	21,711	0
Oesterreichische Entwicklungsbank AG (OeEB)	18,764	18,739
Nordea Bank	17,401	26,102
Deutsche Bank, A.G.	15,915	22,281
U.S. Agency for International Development (USAID)	15,334	17,507
The International and Development Cooperation Fund (Taiwan ICDF)	14,286	5,714
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	9,688	9,334
Loans guaranteed by USAID	8,432	13,691
Bank Leumi – Le Israel	8,241	12,561
Chang Hwa Commercial Bank, Ltd.	5,000	5,000
Land Bank of Taiwan	5,000	5,000
United Taiwan Bank, S.A.	5,000	5,000
Société Générale, New York	3,883	5,435
Danida-Unibank	203	406
Bank of America, N.A.	0	10,000
Bayerische Landesbank	0	80,000
HSBC Ltd., London	0	10,000
Sumitomo Mitsui Banking Corporation, New York	0	39,804
	1,441,399	1,309,855

(Expressed in thousands of U.S. dollars)

(12) Loans Payable, continued

Maturities of loans payable as of December 31, 2012 are as follows:

Up to one year	505,962
After one but within two years	138,552
After two but within three years	251,391
After three but within four years	76,341
After four but within five years	72,582
After five years	396,571
	1,441,399

For the years ended as of December 31, 2012 and 2011, the weighted average cost on loans payable, after considering swap contracts when applicable, was 3.03% and 3.65% per annum, respectively.

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

	December 31, 2012	December 31, 2011
Loans payable at fixed rates	572,894	629,131
Loans payable at floating rates	868,505	680,724
	1,441,399	1,309,855

(Expressed in thousands of U.S. dollars)

(13) Bonds Payable and Commercial Paper Programs

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

Currency	December 31, 2012	December 31, 2011
U.S. dollars	1,188,139	1,017,014
Mexican pesos	567,659	424,864
Colombian pesos	391,855	385,348
Thailand bahts	192,765	173,116
Swiss francs	167,655	162,349
Yen	127,822	128,477
Costa Rican colones	73,139	73,608
New Taiwan dollars	68,717	66,151
Uruguayan pesos	37,616	32,214
Reais	34,625	35,184
Euros	32,024	0
Quetzales	25,309	25,605
Dominican pesos	19,243	19,322
	2,926,568	2,543,252
Fair value adjustment	13,724	28,949
	2,940,292	2,572,201

Maturities of bonds payable as of December 31, 2012 are as follows:

Maturity	Amount
Up to one year	465,105
After one but within two years	805,894
After two but within three years	480,510
After three but within four years	204,168
After four but within five years	358,258
After five years	626,357
	2,940,292

For the years ended as of December 31, 2012 and 2011, the weighted average cost on bonds payable, after considering swap contracts when applicable, was 3.15% 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.

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.

(Expressed in thousands of U.S. dollars)

(13) Bonds Payable and Commercial Paper Programs, continued

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

	December 31, 2012		
	Amount issued	**Annual Average Cost**	**Contractual Maturity**
Commercial Paper – Global Program in USD	374,945	0.65%	Up to 3 months
Commercial Paper – Regional Program in Costa Rican colones (CRC)	9,923	8.61%	Up to 6 months
	384,868		

	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		

(14) Certificates of Deposit

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

	December 31, 2012	**December 31, 2011**
Central Banks	282,072	225,286
Social Benefit Fund (note 21)	0	139,363
Private financial institutions	43,006	78,876
Debt-Conversion Fund (Honduras-Spain)	5,009	23,221
Other government institutions	3,606	5,850
Other	17,525	16,906
	351,218	489,502

As of December 31, 2012, the contractual maturities are as follows:

Maturities	**Amount**
Up to six months	292,617
From six months to one year	44,375
After one but within two years	4,393
After two but within three years	5,759
After three but within four years	2,222
After four but within five years	1,852
	351,218

(Expressed in thousands of U.S. dollars)

(14) Certificates of Deposit, continued

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

	December 31, 2012	December 31, 2011
Deposits in U.S. dollars	0.56%	0.71%
Deposits in U.S. dollars - Social Benefit Fund	-	7.00%
Deposits in quetzales	2.81%	2.57%
Deposits in lempiras	6.00%	5.46%
Deposits in Costa Rican colones	9.25%	-

(15) Accrued Interest Payable

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

	December 31, 2012	December 31, 2011
On bonds payable	23,597	19,372
On loans payable	6,004	5,590
On certificates of deposit	762	1,868
On commercial paper	105	1,458
	30,468	28,288

(16) Other Liabilities

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

	December 31, 2012	December 31, 2011
FETS special contribution payable (note 23)	11,709	0
Other creditors	3,471	8,730
Financial cooperation to founding countries	6,872	11,645
Monetary deposits	1,616	1,940
Transitory deposits	2,690	2,717
Technical assistance	2,773	2,804
Bonuses and supplemental compensation	3,654	2,076
Other accruals	1,706	1,335
Actuarial deficit of Social Benefit Plan (note 21)	1,798	0
	36,289	31,247

(17) Equity

(a) Authorized, Subscribed, and Paid-in Capital

On September 15, 2012, some amendments to the Bank's Constitutive Agreement came into effect, which modified the Bank's capital structure and, since October 16, 2012, the Bank's authorized capital increased from 2,000,000 to 5,000,000, divided into 2,550,000 for founding countries and 2,450,000 for regional non-founding countries and non-regional countries. The issue of shares is structured into two series: Series "A" shares, which are available only to founding countries, composed of up to 255,000 shares, each with a face value of 10; and Series "B" shares, which are available only to regional non-founding countries and non-regional countries, composed of up to 245,000 shares, each with a face value of 10.

As of December 31, 2012, the founding countries have subscribed 2,550,000 from the total amount of shares into equal parts, and the regional non-founding countries and non-regional countries have subscribed 1,284,450; the remaining 1,165,550 is available to be subscribed.

The Bank's shares will not accrue interest or dividends and they may not be pledged or taxed.

Series "E" certificates also exist, issued to "A" and "B" shareholders, each with a face value of 10. They 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. These certificates do not grant voting rights and may not be transferred. 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.

(Expressed in thousands of U.S. dollars)

(17) Equity, continued

The Bank's authorized capital is divided into shares payable in cash capital and shares of callable capital. The equivalent to 1,250,000 corresponds to capital payable in cash and the equivalent to 3,750,000 corresponds to callable capital.

As of December 31, 2012, the subscribed/unsubscribed capital, callable subscribed capital, subscribed capital payable in cash and paid-in capital is detailed as follows:

	December 31, 2012			
	Capital			
Subscribed capital	**Subscribed/ Unsubscribed**	**Callable subscribed**	**Subscribed payable in cash**	**Paid-in**
Founding countries				
Guatemala	510,000	382,500	127,500	55,000
El Salvador	510,000	382,500	127,500	55,000
Honduras	510,000	382,500	127,500	73,125
Nicaragua	510,000	382,500	127,500	73,125
Costa Rica	510,000	382,500	127,500	55,000
Subtotal	2,550,000	1,912,500	637,500	311,250
Non-regional countries and regional non-founding countries				
Non-regional countries				
Republic of China, Taiwan	375,000	281,250	93,750	37,500
Mexico	306,250	229,687	76,563	30,625
Spain	200,000	150,000	50,000	50,000
Argentina	144,000	108,000	36,000	14,400
Colombia	144,000	108,000	36,000	14,400
	1,169,250	876,937	292,313	146,925
Regional non-founding countries				
Dominican Republic	57,600	43,200	14,400	14,400
Panama	57,600	43,200	14,400	14,400
	115,200	86,400	28,800	28,800
Subtotal	1,284,450	963,337	321,113	175,725
Subscribed capital and paid-in capital, subtotal	3,834,450	2,875,837	958,613	486,975
Unsubscribed capital				
Non-regional countries and regional non-founding countries	1,165,550			
	5,000,000			

(Expressed in thousands of U.S. dollars)

(17) Equity, continued

As a result of the new subscription of shares, for the year ended December 31, 2012, the founding countries, Honduras and Nicaragua, made capital payments of 36,250 as follows:

Capital payments	Cash	Series "E" certificates	Total
Honduras	2,500	15,625	18,125
Nicaragua	2,500	15,625	18,125
	5,000	31,250	36,250

As of December 31, 2012, the subscribed/unsubscribed capital, callable subscribed capital, subscribed capital payable in cash and paid-in capital is detailed as follows:

	December 31, 2011			
	Capital			
Subscribed capital	**Subscribed/ Unsubscribed**	**Callable subscribed**	**Subscribed payable in cash**	**Paid-in**
Founding countries				
Guatemala	204,000	153,000	51,000	55,000
El Salvador	204,000	153,000	51,000	55,000
Honduras	204,000	153,000	51,000	55,000
Nicaragua	204,000	153,000	51,000	55,000
Costa Rica	204,000	153,000	51,000	55,000
Sub-total	1,020,000	765,000	255,000	275,000
Non-regional countries and regional non-founding countries				
Non-regional countries				
Spain	200,000	150,000	50,000	50,000
Republic of China, Taiwan	150,000	112,500	37,500	37,500
Mexico	122,500	91,875	30,625	30,625
Argentina	57,600	43,200	14,400	14,400
Colombia	57,600	43,200	14,400	14,400
	587,700	440,775	146,925	146,925
Regional non-founding countries				
Dominican Republic	57,600	43,200	14,400	14,400
Panama	57,600	43,200	14,400	14,400
	115,200	86,400	28,800	28,800
Subtotal	702,900	527,715	175,725	175,725
Subscribed capital and paid-in capital, subtotal	1,722,900	1,292,715	430,725	450,725
Unsubscribed capital				
Non-regional countries and regional non-founding countries	277,100			
	2,000,000			

(Expressed in thousands of U.S. dollars)

(17) Equity, continued

(b) Special capital contributions

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

	December 31, 2012		December 31, 2011	
	Subscribed	**Paid**	**Subscribed**	**Paid**
Beneficiary countries with non-regional country status				
Argentina	1,000	250	1,000	250
Colombia	1,000	250	1,000	250
Subtotal	2,000	500	2,000	500
Beneficiary countries with regional non-founding country status				
Panama	1,000	250	1,000	250
Dominican Republic	1,000	250	1,000	250
Subtotal	2,000	500	2,000	500
Beneficiary countries				
Belize	25,000	6,250	25,000	6,250
	29,000	7,250	29,000	7,250

(18) Contingent Commitments

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

	December 31, 2012	December 31, 2011
Subscribed credit agreements (*)	1,907,813	1,516,362
Credit default swaps	25,000	50,000
Endorsements and guarantees granted	12,025	12,770
Letters of credit	34,508	53,797
	1,979,346	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 flows requirements.

(Expressed in thousands of U.S. dollars)

(18) Contingent Commitments, continued

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 241 and 140 as of December 31, 2012 and 2011, respectively. In addition, as of such dates, no material losses have been incurred, and neither are they expected to occur from those contracts.

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 December 31, 2012 and 2011, no significant losses have arisen, or were expected to arise, from these commitments.

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.

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

	December 31, 2012		
Maturity	Credit default swaps	Endorsements and guarantees granted	Letters of credit
2013	25,000	1,315	16,450
2014	0	0	18,058
2016	0	10,710	0
	25,000	12,025	34,508

	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

(19) 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.

(Expressed in thousands of U.S. dollars)

(19) Derivative Financial Instruments and Hedging Activities, continued

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 any of the counterparties to meet the terms of the derivative contract.

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 December 31, 2012 and 2011:

	December 31, 2012			
	Assets		Liabilities	
	Notional amount	Fair value	Notional amount	Fair value
Fair value hedges				
Interest rate contracts	445,953	59,486	256,426	68,324
Cash flow hedges				
Foreign currency contracts	68,871	10,183	59,247	551
Other risk management purposes				
Foreign currency contracts	1,120,839	180,126	613,469	62,576
Credit default swaps	25,000	241	0	0
Interest rate contracts	0	0	7,650	581
	1,145,839	180,367	621,119	63,157
Total derivative financial instruments, gross	1,660,663	250,036	936,792	132,032
Effect of paid/received margin calls	0	9,810	0	46,367
	1,660,663	259,846	936,792	178,399

(Expressed in thousands of U.S. dollars)

(19) 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 contracts	456,480	21,182	148,126	27,603
Cash flow hedges				
Foreign currency contracts	69,399	8,232	66,151	1,271
Other risk management purposes				
Foreign currency contracts	816,257	131,280	703,246	111,432
Credit default swaps	25,000[4]	317	115,000[4]	2,314
Interest rate contracts	165,952	70,599	107,141	63,666
	1,007,209	202,196	925,387	177,412
Total derivative financial instruments, gross	1,533,088	231,610	1,139,664	206,286
Effect of paid/received margin calls	0	0	0	0
	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 other comprehensive income (loss) for the years ended December 31, 2012 and 2011:

	2012			
	Income (loss)			
	Derivative instrument	Hedged financial instrument	Total	Other comprehensive income (loss)
Fair value hedges				
Interest rate contracts	(2,397)	2,397	0	0
Cash flow hedges				
Foreign currency contracts	2,671	(2,312)	359	604
			359	604

[4] 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)

(19) Derivative Financial Instruments and Hedging Activities, continued

	2011			
	Income (loss)			
	Derivative instrument	Hedged financial instrument	Total	Other comprehensive income (loss)
Fair value hedges				
Interest rate contracts	(10,491)	10,491	0	0
Cash flow hedges				
Foreign currency contracts	(12,828)	12,673	(155)	1,549
			(155)	1,549

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

The Bank maintains policies for the approval of counterparties and maximum concentration limits. To measure the exposure with counterparties, the Bank considers deposits, securities and derivative counterparties. This exposure is established as the maximum limit measured with respect to the Bank's equity, according to the counterparty's risk rating. As of December 31, 2012 and 2011, the Bank is in compliance with this policy.

(Expressed in thousands of U.S. dollars)

(20) 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 countries, the Bank manages the funds or programs described below:

	Equity	
Fund/Program	December 31, 2012 (Unaudited)	December 31, 2011 (Audited)
Special Fund for the Social Transformation of Central America – FETS	72,708	62,506
Debt-Conversion Fund (Honduras-Spain)	37,596	41,089
Technical Cooperation Fund – FONTEC	20,996	19,878
Investment Trust – Dwelling Mortgage Fund	16,699	15,854
Accelerating Fund investments in Renewable Energy in Central America (ARECA)	5,112	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)	1,997	3,533
Special Technical Cooperation Fund of Austria	1,385	1,381
Partial credit guarantees - Finland Resources	1,311	1,316
Taiwan International Cooperation and Development Fund (ICDF) - Fund for Consulting Service	1,008	1,005
Trust for Administration, Attention, Rehabilitation, Training, and Prevention of Burnt Children	484	479
Single Italian Cooperation Fund (FUIC)	392	1,106
Taiwan ICDF - Technical Assistance Fund, Credit Program for Education	181	181
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
Spanish Consulting Fund	(667)	173
	163,289	158,266

(21) Social Benefit Fund (SBF)

The Social Benefit Fund's (the Fund or SBF) 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, pension and life insurance plans are considered as defined benefit plans, whereas hospital-related medical benefit plan is considered a defined contribution plan.

On September 15, 2012, amendments to the Bank's Constitutive Agreement came into effect, upon approval by the Bank's Board of Governors on April 29, 2009, and establish the existence of the SBF 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.

(Expressed in thousands of U.S. dollars)

(21) Social Benefit Fun (SBF), continued

It also establishes that 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.

In addition, on August 29, 2012, the Bank 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 supplement to the yield generated by the Social Benefit Plan's investment securities portfolio in order to reach the established technical interest rate.

Although there is a periodic monitoring of SBF's Plan benefits, the date the Bank uses to measure this obligation is December 31 of each year. The following tables show the changes in projected benefit obligation, the changes in Plan assets and the Plan position as they arise from the most recent actuarial appraisal as of December 31, 2012 and in conformity with the criteria established by currently applicable standards.

As of December 31, 2012, the changes in projected benefit obligation, the changes in Plan assets (as if Plan assets had qualified as such since January 1, 2012) and the Plan position are detailed as follows:

	Retirement and Pensions Plan	Life Insurance Plan	Hospital-related Medical Plan	Total
Changes in benefit obligation:				
Benefit obligation at beginning of year	124,375	7,941	12,235	144,551
Interest cost	8,706	556	0	9,262
Service cost	1,958	74	0	2,032
Paid benefits	(9,654)	(231)	(2,694)	(12,579)
Collected contributions	0	0	3,186	3,186
Actuarial gains	4,210	83	0	4,293
Benefit obligation at end of year	129,595	8,423	12,727	150,745
Changes in Plan assets:				
Fair value of Plan assets at beginning of year	114,745	24,312	12,235	151,292
Return on Plan assets	8,737	1,767	879	11,383
Employer contributions	1,978	355	1,411	3,744
Plan participants contributions	708	11	896	1,615
Paid benefits	(9,532)	(231)	(2,694)	(12,457)
Other income, net	42	0	0	42
Pensions revaluation	(299)	299	0	0
Change in fair value of securities	(2,193)	0	0	(2,193)
Fair value of Plan assets at end of year	114,186	26,513	12,727	153,426
Less assets from individual account balances	(4,479)	0	0	(4,479)
Available Plan assets at end of year	109,707	26,513	12,727	148,947
Net Plan position	(19,888)	18,090	0	(1,798)

(Expressed in thousands of U.S. dollars)

(21) Social Benefit Fund (SBF), continued

Net Plan position is recognized under other accumulated comprehensive income (loss), as a separate component of equity.

As of December 31, 2012, SBF's net Plan assets are as detailed as follows:

Net assets:	
Cash and due from banks	5,792
Securities available for sale	137,636
Loans	9,780
Accrued interest receivable	362
Other, net	(144)
	153,426

As of December 31, 2011, as stated in note 14, the Bank recorded a liability due to SBF under certificates of deposit for a total amount of 139,363, 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 9,705 for the year ended December 31, 2011. In November 2012, the Bank redeemed the certificates of deposit due to the implementation of the Plan's new asset allocation scheme.

Actuarial assumptions

The actuarial assumptions used are based on financial market interest rates, past experience and management's best estimate of future changes in benefits and economic conditions. Changes in these assumptions may have an impact on the cost of benefits and future obligations. At December 31, 2012, weighted averages of the actuarial assumptions used in the estimate of the projected benefit obligation were the following:

Discount rate	7 %
Salary increase rate	5 %
Estimated rate of return on assets, considering the special contributions granted by the Bank	7 %

Medical benefits have been considered as a defined contribution plan, for which the mathematical reserve is derived from the accumulated balance of the reserves recognized for accounting purposes corresponding to the medical benefit plan.

The treatment of medical benefits as a defined contribution plan is based on a resolution adopted by the Bank's Board of Directors, pursuant to which the scope of the benefit is restricted to the annual cash and due from banks of SBF.

Contributions

It is expected that the contributions from CABEI to SBF during fiscal year 2013 will equal approximately 3,481. All contributions will be paid in cash.

(Expressed in thousands of U.S. dollars)

(21) Social Benefit Fund (SBF), continued

Future payments of estimated benefits

The following table shows the benefits that are expected to be payable during each of the next five years, and the aggregate benefits that are expected to be payable during the subsequent five years, based upon the same assumptions that were used to determine the projected benefit obligation as of December 31, 2012:

Year	Benefits
2013	10,921
2014	13,320
2015	13,302
2016	12,674
2017	12,958
2018–2022	73,399

Plan Assets

The purpose of the Plan's Asset Allocation Investments Portfolio scheme is to maintain a diversified portfolio of asset classes in order to preserve the assets and generate income, and to achieve an appropriate growth level, based on a return adjusted by the determined risk tolerance, with the intention of attaining the technical rate necessary to meet the Social Benefit Plan's obligations. SBF's investment policies specify the appropriate asset classes for the Plan, asset allocation guides, and the procedures for monitoring investment performance. The Plan's resources must be invested in securities from money and capital markets, in accordance to SBF's Charter, the Bank's Investment Policies and other applicable regulations.

The Administration Board is in charge of the administration of the Fund's resources, and it has delegated the allocation and monitoring of the Fund's investments in securities to the Investments Executive Committee (Comité Ejecutivo de Inversiones – CEI). On a monthly basis, CEI reports to the Administration Board the composition and performance of the investment securities portfolio, market conditions and any other required matters.

Asset Allocation Objectives

	Maximum allowed	Composition at December 31, 2012
Cash and due from banks	5%	4%
Investment securities:		
US Treasury bonds and/or bonds issued by US Federal Government Agencies	100%	34%
Securities issued by CABEI	100%	34%
Central America Eurobonds and/or shares in DB-CABEI Fund	20%	10%
Corporate bonds with credit rating "A" or better	50%	18%

(Expressed in thousands of U.S. dollars)

(21) Social Benefit Fund (SBF), continued

Plan assets are recognized at fair value. Within the three level categories of the fair value hierarchy, the Fund's assets are classified as follows:

- Level 1 assets include investment securities for which an identical instrument is traded on an active exchange. Assets classified as Level 1 include US Treasury bonds.

- Level 2 assets consist of fixed income investment securities whose fair value is determined by applying valuation models that use observable market assumptions, such as interest rates, currency exchange rates, quoted prices for similar instruments and yield curves for similar bonds. Assets classified as Level 2 include corporate bonds and shares in investment funds. Investment securities held in investment funds are measured using a unit price per share or the net asset value (NAV) based on the instruments within the fund.

- Level 3 assets include investment securities 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.

The following table presents the assets valued at their fair value on a recurring basis as of December 31, 2012, 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 as of December 31, 2012
Assets				
Cash and due from banks	5,792	0	0	5,792
Fixed income bonds:				
US Treasury bonds	48,999	0	0	48,999
Securities issued by CABEI	0	48,893	0	48,893
Corporate bonds	0	25,714	0	25,714
Shares in investment funds:				
DB-CABEI Fund	0	14,030	0	14,030
	54,791	88,637	0	143,428

(Expressed in thousands of U.S. dollars)

(22) Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss) during the years ended December 31, 2012 and 2011, is as follows:

	December 31, 2012			
	Securities available for sale	Cash flow hedging activities	Changes in Plan assets and benefit obligations under the Social Benefits Plan	Accumulated other comprehensive income (loss)
At beginning of year	(3,010)	(1,001)	0	(4,011)
Changes for the year	6,624	604	(1,798)	5,430
At end of year	3,614	(397)	(1,798)	1,419

	December 31, 2011		
	Securities available for sale	Cash flow hedging activities	Accumulated other comprehensive income (loss)
At beginning of year	2,208	(2,550)	(342)
Changes for the year	(5,218)	1,549	(3,669)
At end of year	(3,010)	(1,001)	(4,011)

(23) Special contributions and other

Special contributions for the years ended December 31, 2012 and 2011, are detailed as follows:

	December 31, 2012	December 31, 2011
FETS special contribution (note 16)	11,709	0
Financial cooperations	2,017	2,812
FONTEC special contribution	1,621	0
SBF special contribution	668	0
Provisions for technical assistance	572	308
Institutional promotion and social responsibility	476	547
	17,063	3,667

On December 12, 2012, the Bank agreed to assign and transfer a special contribution to the Special Fund for the Social Transformation of Central America (FETS) equivalent to 10% of income before valuation of derivative financial instruments.

(Expressed in thousands of U.S. dollars)

(24) 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.

(25) Related Party Transactions

The Bank, in its normal course of business, enters into transactions with related parties, including the Social Benefit Fund, officials and employees. 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 December 31, 2012 and 2011 and for the years then ended:

	2012	2011
Assets		
Loans	15,353	17,173
Accrued interest receivable	3	23
Liabilities		
Bonds payable	50,000	0
Certificates of deposit	3,254	142,243
Accrued interest payable	344	1,050
Results of operations		
Interest income and other income	411	447
Interest expense and other operating expenses	9,010	9,766

(26) Subsequent Events

The Bank has evaluated subsequent events as of the date of the balance sheet up to February 28, 2013, date on which the financial statements were ready for their issuance, and determined that there are no additional disclosures required on other matters.