CABEI

CENTRAL AMERICAN BANK
FOR ECONOMIC INTEGRATION

Financial Statements
(Unaudited)

June 30, 2013

(With Independent Accountants' Report Thereon)

CABEI

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INDEPENDENT PUBLIC ACCOUNTANTS' REPORT

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

Report on the Financial Statements

We have reviewed the accompanying balance sheet of Central American Bank for Economic Integration (the Bank) as of June 30, 2013, and the related statements of income, comprehensive income, changes in equity and cash flows for the six-month periods ended June 30, 2013 and 2012.

Management's Responsibility

The Bank's management is responsible for the preparation and fair presentation of the interim financial information in accordance with accounting principles generally accepted in the United States of America; this responsibility includes the design, implementation, and maintenance of internal control sufficient to provide a reasonable basis for the preparation and fair presentation of interim financial information in accordance with accounting principles generally accepted in the United States of America.

Auditors' Responsibility

Our responsibility is to conduct our review in accordance with auditing standards generally accepted in the United States of America applicable to reviews of interim financial information. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial information. Accordingly, we do not express such an opinion.

Conclusion

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

Report on Balance Sheet as of December 31, 2012

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, as established by the Auditing Standards Board (United States), the balance sheet of the Bank as of December 31, 2012, and the related statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the year then ended (not presented herein); and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 28, 2013

KPMG

September 20, 2013
Panama, Republic of Panama

CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

Balance Sheets

As of June 30, 2013 and December 31, 2012

(Expressed in thousands of U.S. dollars)

	June 30, 2013 (Unaudited)	December 31, 2012 (Audited)
Assets		
Cash and due from banks (note 4)	15,285	36,800
Interest-bearing deposits with banks (note 5)	631,533	711,211
Securities available for sale (note 6)	1,234,095	1,024,986
Loans	5,300,487	5,483,783
Less: Allowance for loan losses	(157,106)	(168,351)
Net loans (note 7)	5,143,381	5,315,432
Accrued interest receivable (note 8)	56,215	58,439
Property and equipment, net (note 9)	34,205	35,230
Derivative financial instruments (note 18)	158,675	259,846
Equity investments	45,078	42,048
Other assets (note 10)	23,963	21,721
Total assets	7,342,430	7,505,713
Liabilities		
Loans payable (93,232 in 2013 and 103,142 in 2012, measured at fair value) (note 11)	1,216,772	1,441,399
Bonds payable (1,851,913 in 2013 and 1,629,083 in 2012, measured at fair value) (note 12.a)	2,864,015	2,940,292
Commercial paper programs (note 12.b)	441,871	384,868
Certificates of deposit (note 13)	403,342	351,218
Certificates of investment	1,068	1,117
Accrued interest payable (note 14)	28,528	30,468
Derivative financial instruments (note 18)	178,340	178,399
Other liabilities (note 15)	20,585	36,289
Total liabilities	5,154,521	5,364,050
Equity		
Paid-in capital (note 16.a)	486,975	486,975
Special capital contributions (note 16.b)	7,250	7,250
Retained earnings	64,020	102,982
General reserve	1,646,019	1,543,037
Accumulated other comprehensive (loss) income (note 21)	(16,355)	1,419
Total equity	2,187,909	2,141,663
Total liabilities and equity	7,342,430	7,505,713

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

CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

Statements of Income (Unaudited)

Six-month periods ended June 30, 2013 and 2012

(Expressed in thousands of U.S. dollars)

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	June 30	
	2013	**2012**
Financial income		
Public sector loans	121,693	110,046
Private sector loans	32,156	34,479
Marketable securities	4,388	3,787
Due from banks	662	743
Realized gains on investment funds	5,569	3,632
Total financial income	164,468	152,687
Financial expenses		
Loans payable	17,944	20,512
Bonds payable	43,111	41,522
Commercial paper programs	1,750	2,231
Certificates of deposit and investment	1,606	7,286
Total financial expenses	64,411	71,551
Net financial income	100,057	81,136
(Reversal of provision) provision for loan losses (note 7)	(7,589)	4,391
Net financial income, after provision for loan losses	107,646	76,745
Other operating income (expenses)		
Management and other service fees	667	857
Supervision and audit fees	255	167
Dividends from equity investments	0	1,676
Gain (loss) on securities available for sale	0	(32)
Loss on equity investments	(628)	(2,802)
Loss on foreclosed and other assets	(2)	(12,157)
Foreign exchange loss, net	(623)	(161)
Other operating income (loss)	36	(6)
Total other operating (expenses) income, net	(295)	(12,458)
Administrative expenses		
Salaries and employee benefits	12,116	11,605
Other administrative expenses	5,152	4,591
Depreciation	1,854	1,573
Other	504	348
Total administrative expenses	19,626	18,117
Income, before special contributions and valuation of derivative financial instruments	87,725	46,170
Special contributions and other (note 23)	(5,037)	(1,794)
Income, before valuation of derivative financial instruments	82,688	44,376
Valuation of derivative financial instruments	(18,668)	5,863
Net income	64,020	50,239

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

CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

Statements of Comprehensive Income (Unaudited)

Six-month periods ended June 30, 2013 and 2012

(Expressed in thousands of U.S. dollars)

	June 30	
	2013	**2012**
Net income	64,020	50,239
Other comprehensive income (loss):		
Unrealized gain (loss) on securities available for sale, net	(12,602)	10,498
Reclassification adjustments for net realized gains included in earnings	(5,569)	(3,600)
Subtotal - securities available for sale	(18,171)	6,898
Unrealized (loss) gain from cash flow hedging derivatives	(162)	638
Reclassification adjustments for net realized losses (gains) included in earnings	559	(793)
Subtotal - cash flow hedging derivatives	397	(155)
Other comprehensive income	(17,774)	6,743
Comprehensive income	46,246	56,982

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

CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

Statements of Changes in Equity (Unaudited)

Six-month periods ended June 30, 2013 and 2012

(Expressed in thousands of U.S. dollars)

	Paid-in Capital	Special Capital Contributions	Retained Earnings	General Reserve	Accumulated Other Comprehensive (Loss) Income	Total Equity
Balance as of December 31, 2011	450,725	7,250	103,130	1,471,157	(4,011)	2,028,251
Net income	0	0	50,239	0	0	50,239
Net unrealized change in:						
Securities available for sale	0	0	0	0	6,898	6,898
Cash flow hedging derivatives	0	0	0	0	(155)	(155)
Comprehensive income	0	0	50,239	0	6,743	56,982
Transfer to general reserve	0	0	(103,130)	103,130	0	0
Balance as of June 30, 2012	450,725	7,250	50,239	1,574,287	2,732	2,085,233
Balance as of December 31, 2012	486,975	7,250	102,982	1,543,037	1,419	2,141,663
Net income	0	0	64,020	0	0	64,020
Net unrealized change in:						
Securities available for sale	0	0	0	0	(18,171)	(18,171)
Cash flow hedging derivatives	0	0	0	0	397	397
Comprehensive income	0	0	64,020	0	(17,774)	46,246
Transfer to general reserve	0	0	(102,982)	102,982	0	0
Balance as of June 30, 2013	486,975	7,250	64,020	1,646,019	(16,355)	2,187,909

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

CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

Statements of Cash Flows (Unaudited)

Six-month periods ended June 30, 2013 and 2012

(Expressed in thousands of U.S. dollars)

	June 30	
	2013	**2012**
Cash flows from operating activities		
Net income	64,020	50,239
Items to reconcile net income to net cash provided by operating activities:		
Depreciation	1,854	1,573
(Reversal of provision) provision for loan losses	(7,589)	4,391
Loss on equity investments	628	2,802
Loss on foreclosed and other assets	2	12,157
Foreign exchange losses, net	623	161
Valuation of derivative financial instruments	18,668	(5,863)
Decrease (increase) in accrued interest receivable	2,224	(941)
(Decrease) increase in accrued interest payable	(1,940)	8,700
Net decrease in other liabilities	(15,703)	(2,628)
Net cash provided by operating activities	62,787	70,591
Cash flows from investing activities		
Net decrease (increase) in interest-bearing deposits with banks	79,608	(81,831)
Purchase of securities available for sale	(803,044)	(610,852)
Proceeds from sales and redemptions of securities available for sale	571,009	559,933
Purchase of property and equipment	(828)	(1,540)
Net (increase) decrease in derivative financial instruments	(59,035)	1,964
Disbursements of loans receivable	(716,790)	(803,090)
Collections of loans receivable	892,672	559,374
Equity investments, net of capital returns	(3,658)	(3,153)
Net (increase) decrease in other assets	(2,346)	853
Net cash used in investing activities	(42,412)	(378,342)
Cash flows from financing activities		
Proceeds from loans payable	87,391	260,667
Repayment of loans payable	(304,263)	(174,025)
Net increase (decrease) in commercial paper programs	57,003	(28,765)
Proceeds from issuance of bonds	389,169	392,188
Repayment of bonds payable	(323,167)	(346,214)
Net increase in certificates of deposit	52,123	215,416
Net decrease in certificates of investment	(49)	(70)
Net cash (used in) provided by financing activities	(41,793)	319,197
Effect of exchange rate fluctuations on cash held	(97)	(346)
Cash and due from banks at beginning of year	36,800	22,717
Cash and due from banks at end of year	15,285	33,817
Net (decrease) increase in cash and cash equivalents	(21,515)	11,100
Supplemental information		
Cash paid for interest during the year	66,352	62,852
Net unrealized changes in securities available for sale	(18,171)	6,898
Net unrealized changes in cash flow hedging derivatives	397	(155)

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

(1) Origin and Nature of the Bank

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

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

The activities of the Bank are complemented by the activities carried out by the Technical Cooperation Fund (Fondo de Cooperación Técnica – FONTEC), 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 19 and 20.

Furthermore, as detailed in note 19, 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), applicable to interim financial information.

The unaudited financial statements as of June 30, 2013 and for the six-month periods ended June 30, 2013 and 2012, include all adjustments, consisting of normal recurring accruals, that we considered necessary to fairly present the Bank's financial position, results of operations, and cash flows. Certain information and note disclosures normally included in annual financial statements prepared in accordance with US GAAP have been condensed or omitted in these interim financial statements, in accordance with accounting principles applicable to interim financial information; therefore, it is suggested that these financial statements be read in conjunction with the audited financial statements of the Bank and notes thereto at December 31, 2012 and for the year then ended.

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

(2) Summary of Significant Accounting Policies, continued

A summary of significant accounting policies is as follows:

(a) Comparative statements

For comparison purposes, the June 30, 2013 balance sheet is presented together with that corresponding to December 31, 2012. The related statements of income, comprehensive income, changes in equity and cash flows for the six-month period ended June 30, 2013 are presented together with those corresponding to the same period of the prior year.

(b) Functional and foreign currencies

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

(c) Cash and equivalents

For the purpose of the statements of cash flows, cash and cash equivalents represent the amounts included in cash and due from banks, which are due at the Bank's request.

(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.

(2) Summary of Significant Accounting Policies, continued

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, price quotations from markets 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.

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.

(2) Summary of Significant Accounting Policies, continued

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.

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

The Bank has not experienced other-than-temporary impairment during the periods ended June 30, 2013 and December 31, 2012.

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

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

(2) Summary of Significant Accounting Policies, continued

(f) Concentration of credit risk

In compliance with its objective and financial policies, the Bank grants loans and guarantees to individuals and companies, both public and private, established in the founding 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 described as follows, as revised in December 2012 to govern throughout 2013:

- 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 36% of total risk weighted assets.

- More than 65% of total loan portfolio must be held in the public sector.

- The risk weighted exposure in any of the founding countries must not exceed 100% of the Bank's equity or 30% of the Bank's total accumulated exposure. Exposure is defined as the aggregate risk weighted assets which the Bank concentrates in a country. Also, future exposure in one country should not represent more than 33% of total exposure.

- Exposure in each one of the regional non-founding and non-regional beneficiary countries, 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 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 those countries.

- Exposure to the public sector by country (with or without sovereign guarantee) shall not exceed 30% of the Bank's equity. Likewise, future exposure should not represent more than 33% of total exposure.

(2) Summary of Significant Accounting Policies, continued

- Exposure to a group of state-run banks or companies without sovereign guarantee shall not exceed 22% of the Bank's equity. Likewise, future exposure should not represent more than 24.2% of total exposure.

- Exposure to a single public sector company or mixed institution with government majority ownership, without a sovereign guarantee, shall not exceed 20% of the Bank's equity. Likewise, future exposure shall not represent more than 22% of total exposure.

- Exposure to a state-run bank, with no sovereign guarantee, shall not exceed 12% of the Bank's equity. Likewise, future exposure shall not represent more than 13.2% of total exposure.

- Exposure to a private economic group with a holding company in one of the beneficiary countries or a regulated financial group, shall not exceed 10% of the Bank's equity. Future exposure shall not represent more than 11% of the total exposure.

- Exposure to a private economic group without a holding company in one of the beneficiary countries or a non-regulated financial group, shall not exceed 5% of the Bank's equity. Future exposure shall not represent more than 5.5% of the total exposure.

- Exposure to a single enterprise or private bank shall not exceed 5% of the Bank's equity. Future exposure shall not exceed 5.5% of the Bank's equity.

- Exposure to a single debtor or project shall not exceed 10% of the private sector loan portfolio. Likewise, the Bank's exposure to the five largest debtors or projects should not exceed 30% of the private sector loan portfolio.

- CABEI seeks to diversify its loan portfolio and does so through the following two diversification limits:

    - Debtor concentration limit: Maintain an adequate distribution among CABEI's debtors by taking their credit rating into account. The Debtor Concentration indicator for the total loan portfolio shall not exceed 11%.
    - Sectorial limit: The Hirschman Herfindahl index (HHI) must be less than 25.14% for the nine defined sectors that make up the loan portfolio without sovereign guarantee.

(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.

In accordance with the internal policy for the Allowance for Losses of Public Sector Loans, the allowance must be estimated based on net exposure, probability of default and severity of loss.

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 June 30, 2013 and December 31, 2012, under Accounting Standards Codification (ASC) 310, there were no individually impaired public sector loans.

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 policies and 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. 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.

(2) Summary of Significant Accounting Policies, continued

- 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 allowances 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)

ASU No. 2011-02 "*Receivables (Topic 310): A Creditor's Determination of whether a Restructuring is a Troubled Debt Restructuring*", clarifies the guidance for accounting for troubled debt restructurings. The ASU also clarifies 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.

(2) Summary of Significant Accounting Policies, continued

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

Loan losses are written off against the allowance when management confirms partial or full 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 as 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, except land.

(2) Summary of Significant Accounting Policies, continued

The estimated useful life of property and equipment 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

(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 that 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.

(2) Summary of Significant Accounting Policies, continued

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

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

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

The Bank discontinues hedge accounting when it is determined that the derivative instrument is no longer effective in offsetting changes in the fair value or cash flows of the hedged item; the derivative expires, is sold, terminated, or exercised; the hedged asset or liability expires, is sold, terminated, or exercised; the derivative is not designated as a hedging instrument because it is unlikely that a forecasted transaction will occur; or management determines that designation of the derivative as a hedging instrument is no longer appropriate.

When hedge accounting is discontinued because it is determined that the derivative no longer qualifies as an effective fair value hedge, the Bank continues to carry the derivative on the balance sheet at its fair value and ceases to adjust the hedged asset or liability for changes in fair value. The adjustment of the carrying amount of the hedged asset or liability is accounted for in the same manner as other components of the carrying amount of that asset or liability.

When hedge accounting is discontinued for cash flow hedges, any changes in fair value of the end-user derivative remain in accumulated other comprehensive income (loss) and are included in earnings of future periods when the hedged cash flows impact earnings.

When hedge accounting is discontinued because the hedged item no longer meets the definition of a firm commitment, the Bank continues to carry the derivative on the balance sheet at its fair value, removes any asset or liability that was recorded pursuant to recognition of the firm commitment from the balance sheet, and recognizes any gain or loss in the statement of income.

(2) Summary of Significant Accounting Policies, continued

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

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

In addition, the Bank also contracts derivatives that although being used as economic hedges of risk they do not qualify for hedge accounting in accordance with the guidelines of ASC 815 *"Derivatives and Hedging"*.

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).

(2) Summary of Significant Accounting Policies, continued

(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, where the fair value of Plan assets exceeds the projected benefit obligation, are aggregated and recorded as assets under the Social Benefit Plan while under-funded benefit plans, where the projected benefit obligation exceeds 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.

(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 and expense recognition

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

Fees related to loan syndication are recognized when the Bank has concluded all the required services.

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

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

(2) Summary of Significant Accounting Policies, continued

Incremental direct costs associated with originating loans are expensed as incurred as such amounts are immaterial to net earnings.

Issue costs for debt measured at fair value are expensed at the moment of issuance while those related to debt carried at amortized cost are deferred and amortized using the straight-line method (which approximates to the effective interest method) over the term of the respective debt instrument.

(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 contributions are presented as part of special contributions in the statement of income.

(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.

(2) Summary of Significant Accounting Policies, continued

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, valuation of recognized liabilities and the status of contingencies. The current economic environment has increased the degree of uncertainty associated with these estimates and assumptions.

(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 period figures have been made to conform with current period 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.

(3) Fair Values and Fair Value Option, continued

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

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.

(3) Fair Values and Fair Value Option, continued

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

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

- 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.

- 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.

(Expressed in thousands of U.S. dollars)

(3) Fair Values and Fair Value Option, continued

The following tables present the valuation techniques and significant unobservable components used to determine the fair value of recurring and non-recurring assets and liabilities in the balance sheet classified as Level 3 as of June 30, 2013 and December 31, 2012:

	June 30, 2013			
Assets	**Fair value**	**Valuation technique**	**Unobservable assumptions**	**Range**
Securities available for sale:				
Corporate	791	Discounted cash flows	Basis points (bp) spread	50 bp
	791			

	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			

(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 June 30, 2013 and 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 June 30, 2013
Assets				
Securities available for sale	75,059	1,158,245	791	1,234,095
Derivative financial instruments	0	158,675	0	158,675
Liabilities				
Loans payable	0	93,232	0	93,232
Bonds payable	0	1,851,913	0	1,851,913
Derivative financial instruments	0	178,340	0	178,340

	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

(iii) Changes in Fair Value Level 3 Category

The following tables present a roll-forward for the six-month period ended June 30, 2013 and the year ended December 31, 2012 (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.

(Expressed in thousands of U.S. dollars)

(3) Fair Values and Fair Value Option, continued

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

Changes in fair values of the instruments classified in Level 3 that occurred during the periods ended June 30, 2013 and December 31, 2012 are as follows:

		Gains (losses) during the six-month period ended June 30, 2013				
	Balance at January 1, 2013	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 June 30, 2013
Assets						
Securities available for sale	21,102	0	(311)	(20,000)	0	791

		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

The changes in derivative financial instruments included in net income, are presented as valuation of derivative 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 the six-month period ended as of June 30, 2013 and the year the ended December 31, 2012, 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 impairment), 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 June 30, 2013 and December 31, 2012:

Level 3	June 30, 2013	December 31, 2012
Loans	77,810	83,521
Foreclosed assets	18,652	18,652
	96,462	102,173

The increase (decrease) in fair value of assets recognized during the six-month periods ended June 30, 2013 and 2012, which are recognized at fair value on a non-recurring basis, for which the fair value adjustment has been included in the statement of income, is as follows:

Level 3	June 30, 2013	June 30, 2012
Loans	(1,802)	(3,860)
Foreclosed assets	0	(12,157)
	(1,802)	(16,017)

(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.

(Expressed in thousands of U.S. dollars)

(3) Fair Values and Fair Value Option, continued

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.

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 June 30, 2013 and 2012 are as follows:

June 30, 2013	Valuation of derivative financial instruments	Total
Loans payable	1,331	1,331
Bonds payable	(19,203)	(19,203)

June 30, 2012	Valuation of derivative financial instruments	Total
Loans payable	(3,079)	(3,079)
Bonds payable	7,935	7,935

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 June 30, 2013 and December 31, 2012 is as follows:

	June 30, 2013		
	Fair value	Unpaid principal balances	Excess (deficit)
Loans payable	93,232	106,488	(13,256)
Bonds payable	1,851,913	1,825,172	26,741

	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

(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 June 30, 2013 and December 31, 2012 are as follows:

	June 30, 2013		December 31, 2012	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Cash and due from banks	15,285	15,285	36,800	36,800
Interest-bearing deposits with banks	631,533	631,533	711,211	711,211
Securities available for sale	1,234,095	1,234,095	1,024,986	1,024,986
Loans, net	5,143,381	5,298,285	5,315,432	5,494,218
Accrued interest receivable	56,215	56,215	58,439	58,439
Derivative financial instruments	158,675	158,675	259,846	259,846
Liabilities				
Loans payable	1,216,772	1,241,423	1,441,399	1,479,079
Bonds payable	2,864,015	2,900,435	2,940,292	3,044,582
Commercial paper programs	441,871	442,089	384,868	385,361
Certificates of deposit	403,342	403,938	351,218	351,706
Certificates of investment	1,068	1,068	1,117	1,117
Accrued interest payable	28,528	28,528	30,468	30,468
Derivative financial instruments	178,340	178,340	178,399	178,399

(Expressed in thousands of U.S. dollars)

(3) Fair Values and Fair Value Option, continued

As of June 30, 2013 and December 31, 2012, loans payable include 1,123,540 and 1,338,257, respectively, which are recognized at amortized cost, whose fair value has been estimated at 1,148,191 and 1,375,937, respectively. Likewise, as of the aforementioned dates, bonds payable include 1,012,102 and 1,311,209, respectively, which are recognized at amortized cost, whose fair value has been estimated at 1,048,522 and 1,415,499, respectively.

(4) Cash and Due from Banks

As of June 30, 2013 and December 31, 2012, cash and due from banks is composed by currency as follows:

	June 30, 2013	December 31, 2012
Currencies of the founding countries	8,826	4,951
US dollar	5,812	30,130
Other currencies	647	1,719
	15,285	36,800

(5) Interest-bearing Deposits with Banks

Interest bearing deposits usually are time deposits with terms of up to three months, renewable with respect to the term and interest rate; accordingly, face value approximates market value. As of June 30, 2013 and December 31, 2012, 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 fair value of securities available for sale, as of June 30, 2013 and December 31, 2012 are as follows:

	June 30, 2013				
Securities available for sale [1]	Amortized cost	Unrealized gross losses	Unrealized gross gains	Effect of hedging transactions	Fair value
Sovereign	277,066	(1,745)	271	8,253	283,845
Supranational	87,843	(402)	12	0	87,453
Corporate	745,029	(7,630)	794	0	738,193
Investment funds	130,461	(5,857)	0	0	124,604
	1,240,399	(15,634)	1,077	8,253	1,234,095

[1] The entirety of securities available for sale as of June 30, 2013 is denominated in US dollars.

(Expressed in thousands of U.S. dollars)

(6) Securities Available for Sale, continued

Securities available for sale [2]	December 31, 2012 Amortized cost	Unrealized gross losses	Unrealized gross gains	Effect of hedging transactions	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

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

For the six-month periods ended June 30, 2013 and 2012, the realized gross gain was 5,569 and 3,600, respectively. There was no realized gross loss during the six-month periods ended June 30, 2013 and 2012.

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

As of June 30, 2013 and December 31, 2012, the fair values and unrealized losses on securities available for sale that have been in continuous unrealized loss position are as follows:

	June 30, 2013				
	Less than 12 months		12 months or longer		
Securities available for sale:	Fair value	Unrealized gross losses	Fair value	Unrealized gross losses	Total
Sovereign	90,420	(1,697)	18,623	(48)	(1,745)
Supranational	50,386	(402)	10,005	0	(402)
Corporate	319,227	(7,301)	35,036	(329)	(7,630)
Investment funds	130,461	(5,857)	0	0	(5,857)
	590,494	(15,257)	63,664	(377)	(15,634)

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

(Expressed in thousands of U.S. dollars)

(6) Securities Available for Sale, continued

	December 31, 2012				
	Less than 12 months		12 months or longer		
Securities available for sale:	**Fair value**	**Unrealized gross losses**	**Fair value**	**Unrealized gross losses**	**Total**
Sovereign	11,964	(57)	25,261	(53)	(110)
Corporate	153,258	(3,173)	37,741	(627)	(3,800)
	165,222	(3,230)	63,002	(680)	(3,910)

As of June 30, 2013, 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 June 30, 2013, Bank's management believes the impairments presented in the table above are temporary and no other than temporary impairment has been recorded in the statements of income.

The proceeds from sales and redemptions of securities available for sale during the six-month periods ended June 30, 2013 and 2012 were 571,009 and 559,933, respectively.

As of June 30, 2013, 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	401,639
After one but within five years	807,873
After five but within ten years	0
After ten years	30,887
	1,240,399

(Expressed in thousands of U.S. dollars)

(7) Loans

Considering the financial policy described in note 2 (f), CABEI has no significant concentrations of credit risk with any individual borrower or groups of affiliated borrowers. A detail of loans, by sector and country as of June 30, 2013 and December 31, 2012, is as follows:

	June 30, 2013			December 31, 2012		
	Public sector	Private sector	Total	Public sector	Private sector	Total
Guatemala	1,055,526	203,278	1,258,804	1,020,377	233,893	1,254,270
El Salvador	831,791	74,276	906,067	790,437	76,351	866,788
Honduras	838,572	265,921	1,104,493	784,004	276,016	1,060,020
Nicaragua	282,742	302,007	584,749	261,480	285,322	546,802
Costa Rica	824,077	397,342	1,221,419	1,110,621	422,704	1,533,325
Dominican Republic	189,007	0	189,007	194,418	0	194,418
Panama	0	34,145	34,145	0	27,701	27,701
Belize	1,803	0	1,803	459	0	459
Subtotal	4,023,518	1,276,969	5,300,487	4,161,796	1,321,987	5,483,783
Allowance for loan losses	(105,301)	(51,805)	(157,106)	(110,774)	(57,577)	(168,351)
Loans, net	3,918,217	1,225,164	5,143,381	4,051,022	1,264,410	5,315,432

A detail of loans, by economic activity segment, as of June 30, 2013 and December 31, 2012, is as follows:

	June 30, 2013	December 31, 2012
Infrastructure / construction	1,658,581	1,577,463
Electricity, gas and water supply	1,183,361	1,391,628
Multi-sector	880,809	838,221
Monetary intermediation	758,199	806,810
Transportation, storage and communications	160,904	198,585
Social and health services	160,568	165,202
Real estate and rental activities	129,498	117,220
Wholesale and retail trade	90,491	79,543
Manufacturing	84,145	94,285
Agro-industry	81,719	76,714
Hotels and restaurants	74,500	74,768
Education and training	28,892	27,178
Other social, community and personal services	4,958	6,012
Social security	3,724	0
Fisheries	138	159
Mining and quarrying	0	29,995
	5,300,487	5,483,783

(Expressed in thousands of U.S. dollars)

(7) Loans, continued

A detail of loans, by maturity, as of June 30, 2013, is as follows:

Past due	16,568
Up to one year	922,297
After one but within two years	700,991
After two but within three years	424,518
After three but within four years	377,506
After four but within five years	345,727
After five years	2,512,880
	5,300,487

A detail of loans, by currency, as of June 30, 2013 and December 31, 2012, is as follows:

	June 30, 2013	December 31, 2012
U.S. dollar	5,179,463	5,344,902
Currencies from Central American countries	114,453	132,221
Euro	6,571	6,660
	5,300,487	5,483,783

For the six-month period ended as of June 30, 2013 and the year ended as of December 31, 2012, the weighted average yield on loans, after considering swap contracts when applicable, was 5.63% and 5.57% per annum, respectively. Loans at fixed and floating rates are as follows:

	June 30, 2013	December 31, 2012
Loans at fixed rates	1,259,022	1,289,470
Loans at floating rates	4,041,465	4,194,313
	5,300,487	5,483,783

As of June 30, 2013 and December 31, 2012, in accordance with the Bank's policies, interest on non-accrual loans of 5,194 and 5,079, respectively, was not recorded as income because it had not been collected.

(Expressed in thousands of U.S. dollars)

(7) Loans, continued

As of June 30, 2013 and December 31, 2012, the principal of the loans that generated such interest corresponds to direct loans from the private sector and is as follows:

	June 30, 2013	December 31, 2012
Guatemala	4,134	6,504
El Salvador	2,553	2,553
Costa Rica	47,474	48,102
	54,161	57,159

As of June 30, 2013 and December 31, 2012, there are no intermediated loans from the private sector in non-accrual status.

As of June 30, 2013 and December 31, 2012, 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:

June 30, 2013

	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
El Salvador	0	0	0	2,553	2,553
Nicaragua	206	256	196	0	658
Costa Rica	0	791	0	12,566	13,357
	206	1,047	196	15,119	16,568

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

As of June 30, 2013, there are no installments in arrears from intermediated loans to the private sector. 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.

The following tables present impaired direct loans from the private sector as of June 30, 2013 and December 31, 2012:

	June 30, 2013					
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	25,191	0	747	25,948	199	519
El Salvador	2,553	2,553	766	2,553	1,158	0
Costa Rica	76,045	13,357	24,466	84,632	4,160	1,857
	103,789	15,910	25,979	113,133	5,517	2,376
Impaired loans with accrual status	49,628	0	7,752	54,239	323	1,037
Impaired loans with non-accrual status	54,161	15,910	18,227	58,894	5,194	1,339

(Expressed in thousands of U.S. dollars)

(7) Loans, continued

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

As of December 31, 2012, an amount of 1,633, included within impaired loans with an allowance for loan losses, does 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 June 30, 2013 and December 31, 2012 is as follows:

June 30, 2013					
Public Sector	**BBB+ / BBB / BBB-**	**BB+ / BB / BB-**	**B+ / B / B-**	**CCC+ / CCC / CCC-**	**Total**
Guatemala	0	1,055,526	0	0	1,055,526
El Salvador	0	831,791	0	0	831,791
Honduras	0	0	838,572	0	838,572
Nicaragua	0	0	282,742	0	282,742
Costa Rica	824,077	0	0	0	824,077
Dominican Republic	0	0	189,007	0	189,007
Belize	0	0	0	1,803	1,803
	824,077	1,887,317	1,310,321	1,803	4,023,518

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

As of June 30, 2013 and December 31, 2012, the balance of intermediated loans from the public sector with a rating of BBB+/BBB/BBB-, included in the figures presented above, is 269,829 and 0, respectively. As of June 30, 2013 and December 31, 2012, the balance of intermediated loans from the public sector with a rating of BB+/BB/BB-, included in the figures presented above, is 262,903 and 502,181, respectively. As of June 30, 2013 and 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 for both dates. 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 June 30, 2013 and December 31, 2012 is the following:

June 30, 2013

Private Sector	Normal	Special Mention	Substandard	Doubtful	Loss	Total
Guatemala	178,076	11	25,191	0	0	203,278
El Salvador	66,312	5,200	211	0	2,553	74,276
Honduras	248,760	17,161	0	0	0	265,921
Nicaragua	289,610	7,925	4,472	0	0	302,007
Costa Rica	321,297	0	36,409	28,571	11,065	397,342
Panama	7,650	26,495	0	0	0	34,145
	1,111,705	56,792	66,283	28,571	13,618	1,276,969

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

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

As of June 30, 2013, the balances of intermediated loans from the private sector with ratings of normal, special mention, and substandard are 740,934, 45,611 and 211, respectively. 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. 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 June 30, 2013 and December 31, 2012 are as follows:

	Six-month period ended June 30, 2013			Year ended December 31, 2012		
	Sector			Sector		
	Public	Private	Total	Public	Private	Total
Balance, beginning of period	110,774	57,577	168,351	101,935	76,356	178,291
Provisions	(5,473)	(2,116)	(7,589)	8,839	(8,096)	743
Recoveries	0	74	74	0	5,662	5,662
Loan write-offs	0	(3,730)	(3,730)	0	(16,345)	(16,345)
Balance, end of period	105,301	51,805	157,106	110,774	57,577	168,351

The following table presents the allowance and recorded investment, by portfolio segment, as of June 30, 2013 and December 31, 2012:

	June 30, 2013		
	Public Sector	Private Sector	Total
Loans Measured Individually			
Specific allowance	0	25,979	25,979
Recorded investment	0	103,789	103,789
Loans Measured Collectively			
Generic allowance	105,301	25,826	131,127
Recorded investment	4,023,518	1,145,525	5,169,043
Loans without an allowance			
Recorded investment	0	27,655	27,655
Total			
Allowance	105,301	51,805	157,106
Recorded investment	4,023,518	1,276,969	5,300,487

(Expressed in thousands of U.S. dollars)

(7) Loans, continued

	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

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 June 30, 2013 and December 31, 2012 fully corresponds to direct loans from the private sector and is as follows:

	June 30, 2013	December 31, 2012
Balance of troubled-debt restructurings	25,191	22,840
Partial write-offs	617	0

As of June 30, 2013 and December 31, 2012, there are no installments in arrears from troubled debt restructurings, and there are no commitments to make additional disbursements to impaired loans or troubled debt restructurings.

(Expressed in thousands of U.S. dollars)

(8) Accrued Interest Receivable

Accrued interest receivable as of June 30, 2013 and December 31, 2012 is detailed as follows:

	June 30, 2013	December 31, 2012
On loans	50,801	54,279
On securities available for sale	5,333	4,065
On interest-bearing deposits with banks	81	95
	56,215	58,439

(9) Property and Equipment, Net

Property and equipment as of June 30, 2013 and December 31, 2012 are detailed as follows:

	June 30, 2013	December 31, 2012
Vehicles	1,780	1,793
Buildings	29,911	31,391
Computer equipment and software	23,570	23,137
Installations	13,686	12,051
Office furniture and equipment	5,824	5,756
	74,771	74,128
Less accumulated depreciation	(44,263)	(42,586)
	30,508	31,542
Land	3,697	3,688
	34,205	35,230

(10) Other Assets

Other assets as of June 30, 2013 and December 31, 2012 are detailed as follows:

	June 30, 2013	December 31, 2012
Foreclosed assets	18,652	18,652
Accounts receivable	5,017	2,715
Supplies	56	124
Pre-investment studies receivable	228	0
Other	10	230
	23,963	21,721

(Expressed in thousands of U.S. dollars)

(10) Other Assets, continued

Foreclosed assets as of June 30, 2013 and December 31, 2012 are located in the following countries:

	June 30, 2013	December 31, 2012
Guatemala	23,645	23,645
Honduras	7,180	7,180
Nicaragua	5,258	5,258
El Salvador	4,677	4,677
Costa Rica	370	370
	41,130	41,130
Fair value adjustment	(22,478)	(22,478)
	18,652	18,652

(Expressed in thousands of U.S. dollars)

(11) Loans Payable

Loans payable as of June 30, 2013 and December 31, 2012 are as follows:

	June 30, 2013	December 31, 2012
Banco Nacional de Comercio Exterior, S.N.C. (Bancomext)	200,253	199,024
Kreditanstalt Für Wiederaufbau (K.F.W.)	184,519	196,893
European Investment Bank	95,709	84,278
Bank of China (BoC)	81,206	100,840
Promotion et Participation pour la Coopération (PROPARCO)	67,060	67,060
Japan Bank for International Cooperation	59,600	42,100
Nordic Investment Bank	52,554	55,881
JP Morgan Chase Bank	49,994	49,960
Commerzbank AG	38,410	24,950
Inter-American Development Bank (IDB)	37,517	41,356
Instituto de Crédito Oficial de España	31,941	29,290
Mizuho Corporate Bank, Ltd.	31,331	36,483
Citbank, N.A.	30,000	85,000
Royal Bank of Scotland P.L.C.	29,800	44,800
HSBC Bank USA, N.A.	25,000	25,000
BNP Paribas Fortis	21,711	21,711
The OPEC Fund for International Development	21,678	22,554
Oesterreichische Entwicklungsbank AG (OeEB)	18,777	18,764
Mercantil Commercebank, N.A.	15,000	30,000
U.S. Agency for International Development (USAID)	14,223	15,334
The International Cooperation and Development Fund (TaiwanICDF)	13,571	14,286
Nordea Bank	12,943	17,401
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
Deutsche Bank, A.G.	9,655	15,915
Fortis Bank SA/NV, Bélgica	8,859	9,688
Loans guaranteed by USAID	7,246	8,432
Bank Leumi – Le Israel	6,086	8,241
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
Bank of America, N.A.	3,850	0
Société Générale, New York	3,106	3,883
Danida-Unibank	101	203
Standard Chartered Bank	0	87,000
HSBC Finance Corporation	0	40,000
	1,216,772	1,441,399

(Expressed in thousands of U.S. dollars)

(11) Loans Payable, continued

Maturities of loans payable as of June 30, 2013 are as follows:

Maturity	Amount
Up to one year	317,441
After one but within two years	215,077
After two but within three years	146,735
After three but within four years	78,307
After four but within five years	70,817
After five years	388,395
	1,216,772

For the six-month period ended as of June 30, 2013 and the year ended as of December 31, 2012, the weighted average cost on loans payable, after considering swap contracts when applicable, was 2.64% and 3.03% per annum, respectively.

Loans payable at fixed and floating rates as of June 30, 2013 and December 31, 2012 are as follows:

	June 30, 2013	December 31, 2012
Loans payable at fixed rates	542,924	572,894
Loans payable at floating rates	673,848	868,505
	1,216,772	1,441,399

(Expressed in thousands of U.S. dollars)

(12) Bonds Payable and Commercial Paper Programs

(a) Bonds payable as of June 30, 2013 and December 31, 2012, are as follows:

Currency	June 30, 2013	December 31, 2012
U.S. dollars	1,008,829	1,188,139
Mexican pesos	568,465	567,659
Colombian pesos	372,986	391,855
Swiss francs	317,494	167,655
Thailand bahts	182,132	192,765
Yen	105,027	127,822
Euros	85,351	32,024
Yuan	79,089	0
Costa Rican colones	72,574	73,139
Uruguayan pesos	36,411	37,616
Reais	29,634	34,625
Dominican pesos	18,142	19,243
New Taiwan dollars	0	68,717
Quetzales	0	25,309
	2,876,134	2,926,568
Fair value adjustment	(12,119)	13,724
	2,864,015	2,940,292

Maturities of bonds payable as of June 30, 2013 are as follows:

Maturity	Amount
Up to one year	440,892
After one but within two years	751,065
After two but within three years	340,241
After three but within four years	418,018
After four but within five years	121,430
After five years	792,369
	2,864,015

For the six-month period ended as of June 30, 2013 and the year ended as of December 31, 2012, the weighted average cost on bonds payable, after considering swap contracts when applicable, was 2.90% and 3.15% 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 200,000 and received a short-term rating of F-1+(cri) by Fitch Ratings Central America.

(Expressed in thousands of U.S. dollars)

(12) Bonds Payable and Commercial Paper Programs, continued

The amounts issued, annual average costs and contractual maturities as of June 30, 2013 and December 31, 2012 are as follows:

	June 30, 2013		
	Amount issued	**Annual Average Cost**	**Contractual Maturity**
Commercial Paper – Global Program in USD	431,717	0.60%	Up to 3 months
Commercial Paper – Regional Program in Costa Rican colones (CRC)	10,154	9.66%	Up to 6 months
	441,871		

	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		

(13) Certificates of Deposit

Certificates of deposit as of June 30, 2013 and December 31, 2012 are as follows:

	June 30, 2013	**December 31, 2012**
Central Banks	343,979	282,072
Private financial institutions	32,906	43,006
Public financial institutions	5,066	0
Other government institutions	3,185	3,606
Debt-Conversion Fund (Honduras-Spain)	0	5,009
Other	18,206	17,525
	403,342	351,218

As of June 30, 2013, the contractual maturities are as follows:

Maturities	**Amount**
Up to six months	333,515
From six months to one year	57,543
After one but within two years	4,821
After two but within three years	3,915
After three but within four years	1,425
After four but within five years	2,123
	403,342

(Expressed in thousands of U.S. dollars)

(14) Certificates of Deposit, continued

For the six-month period ended as of June 30, 2013 and the year ended December 31, 2012, the weighted average costs on certificates of deposit are as follows:

	June 30, 2013	December 31, 2012
Deposits in U.S. dollars	0.60%	0.56%
Deposits in quetzales	3.04%	2.81%
Deposits in lempiras	8.30%	6.00%
Deposits in Costa Rican colones	8.73%	9.25%

(14) Accrued Interest Payable

Accrued interest payable as of June 30, 2013 and December 31, 2012 is as follows:

	June 30, 2013	December 31, 2012
On bonds payable	21,863	23,597
On loans payable	5,919	6,004
On certificates of deposit	671	762
On commercial paper	75	105
	28,528	30,468

(15) Other Liabilities

Other liabilities as of June 30, 2013 and December 31, 2012 are as follows:

	June 30, 2013	December 31, 2012
Other creditors	6,723	3,471
Financial cooperation to founding countries	4,819	6,872
Technical assistance	2,756	2,773
Bonuses and supplemental compensation	2,343	3,654
Actuarial deficit of Social Benefit Plan (note 20)	1,798	1,798
Monetary deposits	1,307	1,616
Transitory deposits	564	2,690
Other accruals	275	1,706
FETS special contribution payable (note 22)	0	11,709
	20,585	36,289

(16) 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 June 30, 2013, 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 1,409,450; the remaining 1,040,550 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)

(16) 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 June 30, 2013, the subscribed/unsubscribed capital, callable subscribed capital, subscribed capital payable in cash and paid-in capital is detailed as follows:

	June 30, 2013			
	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	500,000	375,000	125,000	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
	1,294,250	970,687	323,563	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	1,409,450	1,057,087	352,363	175,725
Subscribed capital and paid-in capital, subtotal	3,959,450	2,969,587	989,863	486,975
Unsubscribed capital				
Non-regional countries and regional non-founding countries	1,040,550			
	5,000,000			

(Expressed in thousands of U.S. dollars)

(16) Equity, continued

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)

(16) 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

(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 June 30, 2013 and December 31, 2012, the Bank's special capital contributions are as follows:

	June 30, 2013		December 31, 2012	
	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

(Expressed in thousands of U.S. dollars)

(17) Contingent Commitments

As of June 30, 2013 and December 31, 2012, balances of contingent commitments are as follows:

	June 30, 2013	December 31, 2012
Subscribed credit agreements (*)	1,953,119	1,907,813
Credit default swaps	0	25,000
Endorsements and guarantees granted	11,283	12,025
Letters of credit	29,803	34,508
	1,994,205	1,979,346

(*) 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.

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 0 and 241 as of June 30, 2013 and December 31, 2012, 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 June 30, 2013 and December 31, 2012, 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.

(Expressed in thousands of U.S. dollars)

(17) Contingent Commitments

As of June 30, 2013, the maturities of endorsements and guarantees granted, and letters of credit are as follows:

Maturity	Endorsements and guarantees granted	Letters of credit
2013	197	10,195
2014	0	19,608
2015	376	0
2016	10,710	0
	11,283	29,803

(18) Derivative Financial Instruments and Hedging Activities

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

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

Credit risk is the failure of 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.

(Expressed in thousands of U.S. dollars)

(18) Derivative Financial Instruments and Hedging Activities, continued

The following table presents the notional amount and the fair value of derivative instruments as of June 30, 2013 and December 31, 2012:

	June 30, 2013			
	Assets		Liabilities	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Fair value hedges				
Interest rate contracts	154,204	36,362	348,840	64,815
Other risk management purposes				
Foreign currency contracts	1,017,733	112,602	949,077	107,852
Interest rate contracts	0	0	6,000	378
	1,017,733	112,602	955,077	108,230
Total derivative financial instruments, gross	1,171,937	148,964	1,303,917	173,045
Effect of paid/received margin calls	0	9,270	0	4,840
Credit risk valuation adjustment for counterparties under netting agreements	0	441	0	455
	1,171,937	158,675	1,303,917	178,340

	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)

(18) Derivative Financial Instruments and Hedging Activities, continued

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 six-month periods ended June 30, 2013 and 2012:

	2013 Income (loss)			
	Derivative instrument	Hedged financial instrument	Total	Other comprehensive income (loss)
Fair value hedges				
Interest rate contracts	(6,900)	6,900	0	0
Cash flow hedges				
Foreign currency contracts	9,632	(9,073)	559	397
			559	397

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

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 June 30, 2013 and December 31, 2012, the Bank is in compliance with this policy.

(Expressed in thousands of U.S. dollars)

(19) Funds and Programs managed by CABEI

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

	Equity	
Fund/Program	**June 30, 2013 (Unaudited)**	**December 31, 2012 (Audited)**
Special Fund for the Social Transformation of Central America – FETS	72,848	72,708
Debt-Conversion Fund (Honduras-Spain)	38,536	37,596
Technical Cooperation Fund – FONTEC	21,014	20,996
Investment Trust – Dwelling Mortgage Fund	17,382	16,699
Accelerating Fund investments in Renewable Energy in Central America (ARECA)	4,995	5,155
Program for Development of the Border Areas in Central America (former FOEXCA)	4,033	4,033
Partial credit guarantees - Finland Resources	2,610	1,311
Regional Project Fund of Central American Markets for the Biodiversity- (CAMBio)	2,074	2,083
Special Technical Cooperation Fund of Austria	1,387	1,385
Taiwan International Cooperation and Development Fund (ICDF) - Fund for Consulting Service	1,010	1,008
Trust for Administration, Attention, Rehabilitation, Training, and Prevention of Burnt Children	455	484
Taiwan ICDF - Technical Assistance Fund, Credit Program for Education	164	181
Single Italian Cooperation Fund (FUIC)	159	392
Spanish Consulting Fund	96	98
Trust for Management of funds donated by the Republic of China, Taiwan to the Ministry of Housing of Costa Rica	54	54
	166,817	164,183

(20) 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 are to be held and managed separately from the other assets of the Bank, as a pension fund, and shall 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 SBF'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 net periodic benefit cost for the six-month period ended as of June 30, 2013 and the year ended as of December 31, 2012 in conformity with the criteria established by currently applicable standards:

	June 30, 2013
Net periodic benefit cost components	
Interest cost	4,831
Service cost	1,112
Return on Plan assets	(1,585)
Net periodic benefit cost	4,358

	December 31, 2012
Net periodic benefit cost components	
Interest cost	9,262
Service cost	2,032
Return on Plan assets	(11,383)
Net periodic benefit cost	(89)

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. For the six-month period ended as of June 30, 2013, the Bank has recorded 1,680 in ordinary contributions and 4,434 in special contributions to complement the actuarial technical interest rate of 7%. The aforementioned contributions are included in administrative expenses and special contributions, respectively.

(Expressed in thousands of U.S. dollars)

(21) Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss) during the six-month periods ended June 30, 2013 and 2012, is as follows:

	June 30, 2013			
	Securities available for sale	**Cash flow hedging activities**	**Changes in Plan assets and benefit obligations under the Social Benefits Plan**	**Accumulated other comprehensive (loss) income**
At beginning of period	3,614	(397)	(1,798)	1,419
Changes for the period	(18,171)	397	0	(17,774)
At end of period	(14,557)	0	(1,798)	(16,355)

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

The reclassifications from other comprehensive income (loss) to earnings during the six-month periods ended June 30, 2013 and 2012, are as follows:

	June 30, 2013	**June 30, 2012**	**Line in statement of income affected**
Securities available for sale	(5,569)	(3,632)	Realized gains on investment funds
Securities available for sale	0	32	Gain (loss) on securities available for sale
Cash flow hedging activities	559	(793)	Valuation of derivative financial instruments
	(5,010)	(4,393)	

(Expressed in thousands of U.S. dollars)

(22) Special contributions and other

Special contributions for the six-month periods ended June 30, 2013 and 2012, are detailed as follows:

	June 30, 2013	June 30, 2012
Financial cooperations	285	1,518
SBF special contribution	4,434	0
Provisions for technical assistance	180	155
Institutional promotion and social responsibility	138	121
	5,037	1,794

(23) 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.

(24) 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 June 30, 2013 and 202 and for the six-month periods then ended:

	2013	2012
Assets		
Loans	16,083	14,986
Accrued interest receivable	3	4
Liabilities		
Bonds payable	50,000	0
Certificates of deposit	3,471	141,913
Accrued interest payable	178	5,879
Results of operations		
Interest income and other income	213	207
Interest expense and other operating expenses	1,110	4,939

(25) Subsequent Events

The Bank has evaluated subsequent events as of the date of the balance sheet up to September 20, 2013, date on which the financial statements were ready for their issuance, and determined that there are no additional disclosures required on other matters.